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SIMPLIFYING THE TAXATION OF OFFSHORE INTEREST - RESPONSE BY THE ASSOCIATION OF TAXATION TECHNICIANS

1 Introduction

1.1 The Association of Taxation Technicians (ATT) is pleased to have the opportunity to respond to the HMRC consultation document *Simplifying the Taxation of Offshore Interest*[1] ('the Consultation') issued on 30 October 2024.

1.2 The primary charitable objective of the ATT is to promote education and the study of tax administration and practice. We place a strong emphasis on the practicalities of the tax system. Our work in this area draws heavily on the experience of our members who assist thousands of businesses and individuals to comply with their taxation obligations. This response is written with that background.

1.3 Whilst we have endeavoured to obtain as much input from members as possible in responding to this Consultation, the timing has coincided with the peak of the Self-Assessment (SA) season, which is the busiest time of year for many of our members. As such, securing the appropriate quantity and diversity of feedback has proven challenging. We would welcome the deadline for future consultations not falling in January.

2 Executive summary

2.1 The aim of simplifying the taxation of offshore interest is admirable, and the ATT is supportive of practical and well considered efforts to simplify the UK tax system.

2.2 However, the proposed solution has its own complexities – primarily, it would result in different reporting periods applying to offshore interest and UK interest, and potentially between offshore interest and other types of offshore income.

2.3 There is also the complication of overseas jurisdictions which don't use a 31 December year end, and how many of those supply data under Automatic Exchange of Information (AEOI) based on their own fiscal years. If the number of jurisdictions providing AEOI data based on their own fiscal year is significant, this will reduce the benefit of the proposal to HMRC and taxpayers, and would make switching to a calendar year reporting method

[1] https://www.gov.uk/government/consultations/simplifying-the-taxation-of-offshore-interest/simplifying-the-taxation-of-offshore-interest

for income arising in these territories confusing and illogical. Further work should be undertaken to determine the potential scale of this issue.

2.4 The proposal should represent simplification for some taxpayers - particularly those in receipt of offshore income reported solely based on a 31 December year end both to the investor and under AEOI. However, taxpayers with overseas income reported to any other date will see less benefit, or potentially none at all.

In the case of income arising in jurisdictions with non-calendar fiscal year ends, the potential benefits of the proposal would not be realised for HMRC either, as they would still not be able to readily use AEOI data for their compliance activities.

2.5 We acknowledge pre-population of PAYE codes to collect tax due on offshore interest could save affected individuals from having to file SA returns, which should make tax compliance simpler for them.

However, extending that method of collecting tax is concerning when current digital services do not allow taxpayers or agents to verify in detail the PAYE coding adjustments made, and agents lack the ability to digitally update PAYE codes.

2.6 The Consultation considers whether to apply the potential change of reporting basis to offshore interest only, or to all offshore income.

Trialling this change with interest 'in the first instance' (paragraph 3.4 of the Consultation) is likely to create confusion, which will be added to if the calendar year basis were later extended to other types of foreign income.

The change of reporting basis should be considered upfront for all overseas income types, with a balanced decision made as a one-off exercise, rather than introducing piecemeal changes.

Restricting the potential change to offshore interest only seems to offer benefits to HMRC in facilitating better use of AEOI data, but falls short of extending the potential simplification upsides for taxpayers in receipt of other (non-interest) sources of offshore income.

2.7 True simplification would see all income types reported based on the same reporting period. If that needs to align with the calendar year to better match other jurisdictions and facilitate international data comparison and pre-population, then moving to a year end of 31 December for the tax year as a whole would be more effective.

2.8 However, the Office of Tax Simplification drew out some of the challenges of changing the UK tax year in its 2021 report[3]. With Basis Period Reform (BPR) currently in the process of switching tax reporting for unincorporated businesses to a tax year basis, changing the tax year to match the calendar year seems even less feasible than it was in 2021.

3 Question 1: Do you agree with the issues caused by the mismatch as set out above?

3.1 We agree that the mismatch arising due to most overseas countries reporting investment income by calendar years, and the UK taxation of that income being based on amount arising in the UK tax year causes confusion, complicates HMRC's compliance activities both upstream and downstream, and prevents accurate pre-population of offshore income in SA or PAYE services.

3.2 Our understanding is that the potential benefits of taxing offshore interest based on the amount arising during the calendar year ending in a tax year could include :

i. Enabling HMRC to pre-populate PAYE codes to collect tax due on offshore interest.
ii. Enabling HMRC to pre-populate SA returns with amounts of offshore interest.
iii. Making AEOI data more relevant to HMRC's upstream compliance activities, such as 'nudge techniques' including 'One-To-Many' campaigns.
iv. Aligning offshore interest reported on tax returns with data available to HMRC via AEOI, to better target downstream compliance activity, including avoiding unnecessary compliance checks.

3.3 The Office of Tax Simplification's 2021 report[2] *The UK tax year end date: exploring the potential for change'* stated at page four that:

"A move to 31 December would have the tangible benefit of helping HMRC make considerably better use of internationally exchanged tax-related data in supporting taxpayers in fulfilling their obligations (through making that data visible to them for use in tax returns) and in their compliance work.

This data includes data shared under the Common Reporting Standard in respect of financial accounts and the forthcoming platform reporting arrangements, both of which work to the calendar year."

Whilst that report was in the much broader context of moving away from a 5 April tax year end altogether, the benefits quoted above mirror those that might result on a smaller scale from aligning the taxation of offshore interest with the calendar year. We therefore agree that the proposal to align the taxation of offshore interest with the calendar year ending in a tax year has merit, but there are several issues to consider, which we have outlined below.

3.4 In particular, consideration needs to be given to jurisdictions which do not report based on the calendar year, and we have drawn out some relevant implications of this as part of our response to Question 6.

4 Question 2: Are there any other issues this mismatch causes?

4.1 The taxation of offshore income (interest or otherwise) inevitably requires conversion from local currencies to GBP. The mismatch issues identified in the Consultation make conversion at an appropriate exchange rate more complex, as the income data has to undergo two adjustments: to the UK tax year, and to GBP. The order in which these two adjustments are carried out, and the exchange rates used can materially impact the resulting taxable figure.

4.2 Exchange rates are not mentioned in the Consultation, but exacerbate the issues discussed in our response to Question 1 as they affect the amounts taxpayers report to HMRC, and make HMRC's compliance activities and pre-population objectives both more difficult and less effective.

5 Question 3: How would you mitigate these issues?

5.1 The further complications relating to exchange rates identified in Question 2 could be mitigated by using official published exchange rates each year.

[2] https://assets.publishing.service.gov.uk/media/613b6e9cd3bf7f05b2ac1ff4/Tax_year_end_date_report___web_copy_.pdf

5.2 For instance, if offshore interest were taxed based on the amount arising during the calendar year ending in a tax year, there could be a legislative requirement to convert that amount at HMRC's official average exchange rate for the relevant calendar year[3]. A clear, consistent position regarding exchange rates would help taxpayers remain compliant and reduce the need for unnecessary work by HMRC to investigate the exchange rates used in SA returns. This would need further exploration, as there may be instances where taxpayers would prefer to deviate from the 'normal' exchange rates – for instance to use a spot rate for a one-off interest receipt.

5.3 Any pre-population of foreign income into SA records or PAYE codes would require a clear statement of the exchange rates used so that taxpayers and agents could check the pre-populated amounts. Again, a consistent policy would have benefits here.

6 Question 4: Which changes could be prioritised to drive improvements in the taxpayer experience?

6.1 The Consultation refers to the ability to pre-populate PAYE codes with offshore interest data as a potential benefit of aligning the taxation of offshore interest with calendar year data reported to HMRC under AEOI. This would enable HMRC to collect the tax payable in respect of overseas interest income from individuals who otherwise have no obligation to file SA returns, meaning they would not need to be in SA.

6.2 The proposal mirrors how HMRC currently collects tax payable on UK-source bank interest from individuals outside SA whose interest receipts total £10,000 or less in a tax year.

6.3 We have concerns about any proposals to extend this collection mechanism based on current experience with the matching of UK source interest.

Members report that the current system for UK bank interest does not always operate reliably and effectively, with issues experienced where bank accounts are not correctly matched to the appropriate individual. Most importantly, taxpayers and agents lack digital access to check the interest income reported to HMRC by banks on an account-by-account basis and are therefore unable to check the resulting adjustments in their PAYE codes without telephoning HMRC to ask for a breakdown of the bank interest data used.

6.4 Similar concerns would apply if bank interest data were prepopulated into SA returns as one summary figure. As a matter of principle, where HMRC is pre-populating data, taxpayers and their agents should be able to easily check the figures which have been used and make any corrections needed.

6.5 At the same time, where taxpayers correct any pre-populated data in PAYE codes, appropriate safeguards and checks will need to be in place to prevent inappropriate adjustments in the event that individuals misunderstand the entries in their tax code. The consequences of making any adjustments which turn out to be incorrect will need to be made clear.

These considerations apply to taxpayers more than to agents, as the latter should, as a rule, have greater expertise and experience in the operation of PAYE codes.

[3] https://www.trade-tariff.service.gov.uk/exchange_rates/average

7 Question 5: Is it right to focus on offshore interest only at this stage or should all offshore investment income be considered at the same time?

7.1 The Consultation recognises that the data mismatch applies to all types of foreign income reported via AEOI, but that offshore interest is one of the main areas that causes problems, giving rise to large numbers of low value disclosures (paragraphs 2.11 and 2.12).

7.2 The Consultation's focus on offshore interest is therefore understandable, but changing the taxation of offshore interest in isolation could lead to confusion, as individuals with offshore interest may have other income-generating assets overseas which would then have a different reporting period for tax.

For instance, the UK resident holder of an interest-earning Spanish bank account might primarily have that account to receive rental payments from their Spanish holiday villa. Taxing the Spanish bank interest on a calendar year basis, but the holiday villa profits based on the UK tax year would be confusing.

Equally, a UK resident individual might hold foreign unit trust investments, some of which pay returns in the form of interest, whilst others pay out as dividends. Taxing the foreign interest based on a different period to the foreign dividends would also be confusing.

7.3 If HMRC receive details of other offshore income types via AEOI (as well as interest) now or in the future, changing the taxation of offshore interest in isolation would only partially solve the mismatch issues addressed by this Consultation.

7.4 UK residents with offshore assets may also have tax obligations in the country where their overseas income arises – for instance the landlord of the Spanish villa above is likely to also have Spanish tax liabilities on their rental profits. Spain has a 31 December fiscal year end, meaning the individual should already be reporting income and expenses based on the calendar year in Spain. It can be difficult to time-apportion that data to match the UK tax year, requiring parallel records of the same income and expenses.

7.5 There are practical difficulties and costs in obtaining income and expense details aligned with the UK tax year for overseas investment assets. These problems may lead to taxpayers using the figures reported to the overseas tax authorities when completing their UK tax returns, regardless of the fact that those figures relate to the overseas fiscal year rather than the UK tax year.

Aligning the taxation of all foreign income with the calendar year ending in the UK tax year would therefore have merit, rather than restricting that treatment to offshore interest only.

7.6 Future considerations

We understand that data reported to HMRC by digital platforms for both cryptoassets and online marketplaces etc will operate based on the calendar year, so there will be similar issues relating to these income sources, both for taxpayers and for HMRC's compliance activities and ability to pre-populate data in PAYE & SA.

8 Question 6: Do you think the idea of aligning taxation of offshore interest to a calendar year has merit?

8.1 Taxing overseas interest based on the calendar year ending within a UK tax year would alleviate the mismatch issues addressed in the Consultation and our response to Question 1 for jurisdictions with a fiscal year ending in December.

8.2 However, issues may persist in respect of income from countries which do not report to 31 December. The Consultation mentions New Zealand and South Africa in this context, but we understand there are several other jurisdictions with non-calendar financial years, including Australia, Hong Kong and India.

8.3 The Consultation states that New Zealand's fiscal year runs to 28/29 February and South Africa's to 31 March. We believe these two year ends may have been confused, so for the purposes of this response we will refer to South Africa as having a 28/29 February year end and New Zealand a 31 March year end.

8.4 For offshore interest arising in jurisdictions with non-calendar fiscal years, basing UK tax liability on the amount arising in the calendar year ending in a UK tax year may not solve the 'mismatch' issues addressed by this consultation, and could create an illogical basis of taxation.

8.5 We understand that AEOI (incorporating both the Common Reporting Standard (CRS) and the United States Foreign Account Tax Compliance Act (FATCA)) imposes reporting requirements based on calendar years[4].

As such, income data from countries covered by AEOI agreements is presumably submitted to HMRC based on the calendar year. However, countries whose fiscal year differs to the calendar year are likely to provide taxpayers with income summaries based on their own fiscal year ends – for instance 28/29 February in the case of South Africa. It therefore appears there could be a conflict between data reported to HMRC under AEOI (ie data to 31 December) and that provided to individuals (which tends to be summarised to the country's fiscal year end).

However, we note that the Consultation says at paragraph 2.4 that AEOI data is 'not always' reported based on the calendar year. It is not clear to us how many jurisdictions report under AEOI on a *non*-calendar year basis, so we cannot be sure of the extent of the potential conflict identified above.

8.6 Current 'informal' practice

We suspect that some taxpayers may already be declaring offshore interest based directly on the fiscal year information provided to them by offshore institutions, without adjusting it to the UK tax year. We have received reports that this treatment, even where disclosed on the face of the tax return, appears to go unchallenged by HMRC.

8.7 One reason for using this method could be to avoid the last-minute rush to file tax returns once offshore income records covering 1 January - 5 April become available. One member reports a client's experience with their previous advisers:

"I took on a client earlier this year … with a few hundred pounds every year of investment income from Germany. She has been with two other accountants in less than 5 years, who have struggled and let her down with filing her return, because they have filed in mid to late January, after waiting for the reports to be produced for the recently ended calendar year and pro-rating the income for the UK tax year.

In my opinion rushing to do this on a spreadsheet in January, is likely to give rise to errors in the reporting."

[4] https://www.legislation.gov.uk/uksi/2015/878/regulation/6

9 Question 7: Do you agree the issues identified with this solution are the right ones?

9.1 We agree that the proposed idea would alleviate the mismatch issues identified in respect of overseas interest from jurisdictions which use a 31 December year end. This would facilitate compliance activity by HMRC and pre-population of data based on AEOI information into PAYE and SA records.

9.2 However, as discussed above, taxpayers in receipt of interest from jurisdictions using non-31 December year ends would still have to adjust the interest summaries available to them to reflect the calendar year, just as they currently should to reflect the UK tax year. The potential for errors and mismatch with data available to HMRC therefore increases, which could create the type of unnecessary compliance activity and costs referred to in paragraph 2.6 of the Consultation.

9.3 We agree the definition of 'offshore interest' will need to be clear. For instance, this could include: bank interest, other deposit taker interest (eg investment brokers' deposit accounts, solicitors' client accounts), unit trust interest, corporate and government loan stock interest, and interest on peer-to-peer and informal private loans.

10 Question 8: Are there other issues that have not been covered?

10.1 The exchange rate complications outlined in our response to Question 2 would remain, albeit the alignment of AEOI data available to HMRC and the calendar year reporting period for tax purposes would make the use of a calendar year average exchange rate suggested in response to Question 3 less contentious, at least in the context of regular/ongoing interest receipts.

10.2 Alongside creating different reporting periods for overseas interest income compared with other types of overseas income, the proposed idea would also create different reporting periods for UK interest income compared with overseas interest. This is likely to cause confusion. At the simplest level, a SA taxpayer might have a UK account and an overseas account with the same bank, but would need to report the interest arising on these accounts based on two different periods.

10.3 Paragraph 2.8 of the Consultation states that CRS data for a calendar year arrives with HMRC by 30 September the following year. Pre-population of SA returns will therefore not be possible for those filing before that date, which reduces the potential value of the proposed idea for anyone filing earlier than 30 September.

10.4 The September deadline for AEOI data being made available to HMRC would also impact the timeliness of collecting tax payable on offshore interest via PAYE.

10.5 The value of completing a self-assessment return as a reconciliation process to ensure PAYE adjustments have operated correctly should not be overlooked, particularly in the context of interest receipts which can fluctuate significantly between years. Whilst adjusting PAYE codes to collect tax on foreign income should help more timely collection of tax on overseas income, it may nevertheless be beneficial to retain the current requirement for recipients of taxable foreign income to complete a tax return as a way of retaining this year-end reconciliation.

11 Question 9: How would you deal with the transitional year?

11.1 A transitional year is inevitable and our experience with Basis Period Reform suggests it is likely to cause confusion and potentially error.

11.2 In the context of offshore interest, HMRC should avoid additional income being brought into account in any one year (as it is with Basis Period Reform). A possible solution could be that in the transitional year, only interest arising from 6 April to 31 December is taxable.

For instance, if 2025/26 were the transitional year, the interest taxable would be that arising as follows:

- 2024/25: 6 April 2024 to 5 April 2025
- 2025/26: 6 April 2025 to 31 December 2025
- 2026/27 onwards: 1 January 2026 to 31 December 2026

11.3 In terms of tax yield, a change to taxing offshore interest based on the calendar year ending in a tax year would largely result in timing differences only if done during a period where tax rates and allowances are constant (other than for taxpayers whose income fluctuates significantly between the relevant years). As such, the current freeze in tax rates, bands and the personal allowance until 5 April 2028 presents an opportunity to alter the basis of taxation for offshore interest whilst minimising the impact on tax yield.

11.4 Guidance would need to be published dealing with the transition to the new basis of taxation for offshore interest. As noted under Question 6, some taxpayers may already be declaring offshore interest on a calendar year basis, and this situation would need to be acknowledged in guidance to prevent unnecessary adjustments during the transitional year.

11.5 Digital nudges could be used in both HMRC's own online filing system and third-party software to remind taxpayers and agents which interest periods should be reported in which tax year, at least during the transitional period, and possibly whilst the calendar year basis of taxation becomes established.

12 Question 10: Do you receive tax information from your Financial Institute on a calendar basis?

12.1 ATT members report mixed experiences – offshore banks, investment brokers and other investment institutions commonly report income summaries based on that jurisdiction's fiscal year, which may differ to the calendar year. Some also produce monthly or quarterly reports, which are easier to apportion to the UK tax year.

12.2 We understand UK-based brokers generally summarise foreign income by UK tax year.

12.3 If the reporting basis for overseas interest (and potentially other income) were to be changed to the calendar year, financial institutions might need time to alter their reporting systems accordingly.

13 Question 11: How often is tax deducted at source on payments of offshore interest?

13.1 Feedback from ATT members indicates mixed experiences, depending on the type of interest and the source country.

14 Question 12: Should the proposed solution be mandatory if it did go ahead?

14.1 We agree that making any change mandatory would reduce confusion (at least in the long-term) by creating a clear 'start point' from when the new basis of taxation applies to all taxpayers.

14.2 However, a mandatory change in respect of offshore interest only would create confusion over the different bases of taxation applying across different types of offshore income, and compared with UK-source interest income. This applies equally to those in SA and to pre-populating PAYE coding adjustments.

14.3 An alternative could be to emulate the current treatment of cash or accruals basis for trading income, by making calendar year reporting the default, but with an option for SA taxpayers to opt-out of that treatment, and continue reporting offshore interest based on amounts arising in the tax year.

A 'tick box' on the tax return could be used to make HMRC aware that the offshore interest reported was based on the tax year rather than calendar year basis, to avoid unnecessary compliance activity by HMRC prompted by the figures reported by the taxpayer differing to AEOI data.

14.4 This could create inconsistencies between how two otherwise identical SA taxpayers paid tax on their overseas interest, and would mean those in SA would have choices which weren't available to PAYE-only taxpayers. However, both concerns are arguably outweighed by the wider potential benefits.

14.5 We question the potential risk flagged at paragraph 3.7 of the Consultation that an optional change might *"give opportunities for taxpayers to move from one method to another to postpone tax or attempt to avoid it altogether"*.

We are not aware that ATT members frequently switch their self-employed clients between the cash and accruals bases in order to postpone or avoid tax due to the additional work involved. For those receiving interest statements on a calendar year basis, there would be little benefit in opting out as they would lose the simplification benefit.

Further analysis should be undertaken by HMRC to inform the decision as to whether providing a choice of reporting basis for offshore interest could incentivise manipulation of tax liabilities. Alternatively, those opting out of the default method could be prohibited from moving back to it for a period of time to prevent frequent switching.

15 Question 13: Do you think this measure could cause issues for financial Institutions, agents and taxpayers when considered alongside basis period reform?

15.1 We have no significant concerns regarding a link between the proposed measure and BPR.

Firstly, BPR affects trading and notional business income only (eg property income), not savings income, even where an unincorporated business receives interest as part of its taxable profits.

Secondly, 2023/24 was the transition year for BPR, with 2024/25 the first year where unincorporated businesses will be taxable on profits arising in the tax year. Even if the proposed measure for offshore interest is introduced for 2025/26, we see very little interaction between the two issues.

15.2 Putting BPR aside, our comments on the likely impact on financial institutions, agents and members are as follows.

15.3 Financial institutions are not where the majority of ATT members work, so we have limited insight here. However, members report that income summaries supplied by overseas financial institutions are often based on the overseas fiscal year anyway, not the UK tax year. This suggest they would be largely unaffected by the proposed measure as their income summaries would presumably continue to be based on their domestic fiscal year.

Complications may arise for UK based investment portfolios, which commonly report based on the UK tax year. Our members report that some overseas investment managers also report on the UK tax year basis for UK resident clients. Introducing calendar year basis reporting for offshore interest but not other types of offshore income would complicate matters for these institutions, and risks confusing the summaries they provide to their clients if interest and dividends were reported differently.

15.4 Agents are likely to broadly welcome the measure. As noted in response to Question 8, we suspect that some taxpayers are already reporting on a calendar year basis for offshore interest where there are small amounts involved as a purely pragmatic approach. The proposal would therefore formalise that existing approach. For agents who correctly report on a tax year basis, the proposal would reduce the pressures referred to by the member feedback in paragraph 8.7.

15.5 Taxpayers may struggle with the proposal. Whilst it would remove the need to apportion interest income from statements provided by offshore investment institutions to fit the UK tax year, it would create an inconsistent reporting and taxation basis for offshore interest compared with other types of overseas income, and compared with UK-source interest income. This could increase the risk of accidental errors in other areas, such as taxpayers reporting offshore property income by calendar year if they confuse the differing bases of taxation.

16 Question 14: Do you have any ideas on how reporting requirements can be further simplified for individuals with offshore income?

16.1 We have commented at Question 5 on the potential benefits of aligning the reporting requirements for other types of foreign income with the calendar year, if offshore interest were to be taxed on that basis.

16.2 Alternative idea

An alternative proposal would be to tax offshore interest based on the overseas fiscal year ending in a UK tax year.

On the understanding that most countries have a 31 December fiscal year end, in the majority of cases the outcome would be identical to that which would result from the proposal in the Consultation.

16.3 However, for income arising in jurisdictions with non-calendar year ends, the amount taxable in the UK would be the interest arising to the year end for that jurisdiction which falls within the UK tax year.

For instance, the South African interest income taxable in the UK during 2024/25 would be the amount received during the South African fiscal year ended 28 February 2025.

Taxpayers could therefore use the interest summaries provided to them by institutions in jurisdictions with non-calendar year ends without needing to adjust them either to 5 April or to 31 December year ends when declaring income on their SA returns. We understand the relevant overseas reporting period is made clear to recipients on these summary documents.

16.4 The Foreign pages of the tax return already require a country or territory code, so HMRC should be able to identify interest amounts relating to jurisdictions which report on a non-calendar year basis.

16.5 However, the potential conflict outlined in paragraph 8.5 would remain for a small number of countries. In the example in paragraph 16.3 above, the interest reported to account holders would be based on the South African year end, whereas the interest data available to HMRC via AEOI records would, by default, be to 31 December (unless South Africa has chosen to submit AEOI reports based on its own fiscal year rather than the calendar year).

We understand most jurisdictions use a 31 December year end, in which case this risk should apply only to a small proportion of offshore interest sources.

16.6 A more significant limitation with this proposal is that any pre-population of offshore interest data into PAYE codes and SA returns would be based on AEOI data available to HMRC, which we understand is reported on a calendar year basis for most jurisdictions (although not all).

A possible solution could be to exclude from Self-Assessment pre-population any interest relating to jurisdictions with non-31 December fiscal years, but which report under AEOI based on the calendar year. In these cases, the taxpayer would need to enter interest summaries for the overseas fiscal year based on the summaries provided to them by overseas investment institutions. The taxpayer would need to be made aware which jurisdictions' data is and is not prepopulated – for instance in the tax return notes and potentially via software nudges/prompts.

For pre-population of PAYE codes, the offshore interest basis period used is of less concern as long as taxpayers and their agents are able to review and correct it if needed. For PAYE only taxpayers, prepopulating PAYE codes with offshore interest figures based on AEOI data should be workable as long as the basis period used for any pre-populated data was visible to taxpayers and their agents, along with the relevant exchange rate applied.

16.7 This proposal could also be applied to other sources of overseas income, for instance rental property profits. Taxpayers in receipt of such income are likely to have local tax compliance obligations in the country where the overseas asset is located, so should already be compiling records based on that country's fiscal year.

Aligning their UK reporting obligations with the overseas jurisdiction's year would enable taxpayers to maintain records based on one assessable period only.

16.8 Aligning the taxation of <u>all</u> sources of foreign income with the relevant overseas fiscal year would simplify the process of claiming double tax relief, as income and taxes paid would more directly correlate between the UK and the overseas jurisdiction.

17 Question 15: Are there any other challenges you have with reporting requirements for offshore income?

17.1 Any change to the reporting requirements for offshore income would have to be widely publicised.

17.2 Appropriate lead-in time would be needed to allow financial institutions to update their reporting systems if needed, and to enable taxpayers, software developers and agents to be made aware of the changes and prepare as necessary. We would also like to see HMRC build and launch an appropriate system of nudges and prompts into their SA filing service, as well as extending that functionality to third party software, including MTD year-end filing services. We suggest a minimum of one complete tax year.

17.3 Any changes to the taxation of offshore income would complicate late submissions and disclosures for those with overseas income whose tax affairs are in arrears. For instance, a disclosure might be needed covering tax years either side of any change, which would need to encompass the current rules, a transitional year, and the new rules.

This would require HMRC's disclosure services and tax calculators to be able to accommodate all three reporting methods, along with comprehensive accompanying guidance for taxpayers.

17.4 If the basis of taxation for overseas property income were also moved to the calendar year ending in a tax year, the change would add significant complexity to quarterly reporting requirements under Making Tax Digital for Income Tax (MTD) for landlords of overseas properties.

As a minimum, this would require educational campaigns to reach those affected, and sufficient lead-in time to allow them to time to prepare for the additional compliance obligations of MTD. Time would also be needed for HMRC and software houses to implement the reporting change in their systems. It may also be necessary to reconsider the MTD mandation date for landlords of overseas properties.

17.5 Subject to the current Finance Bill[5] attaining Royal Assent, the interaction between the Foreign Income and Gains (FIG) regime for individuals during their first four years of UK tax residency and any new reporting requirements for foreign income will need to be considered.

Would claims for relief under the FIG regime be linked to the calendar year, or the tax year?

For instance, assume:

- Foreign interest is taxable based on the calendar year ending in the tax year
- An individual receives foreign interest in January 2028
- They are eligible for the FIG regime for both 2027/28 and 2028/29

The interest is received in calendar year ending 31 December 2028, so would be reportable in the 2028/29 tax year. However, the interest was *received* during the 2027/28 tax year. If the individual wishes to claim FIG relief on the interest, would they do so via their 2027/28 tax return (based on the date of receipt), or via their 2028/29 return (based on the year the interest would be taxable in the absence of a claim for FIG relief)?

[5] https://publications.parliament.uk/pa/bills/cbill/59-01/0125/240125.pdf

18 Other comments

18.1 The proposal to align the taxation of offshore interest (and potentially other foreign income) with the calendar year is intended to facilitate better pre-population of SA returns and PAYE codes.

In order to maximise the potential benefit of these changes, HMRC would need to be confident that they could support better pre-population across all their relevant IT platforms (including CESA and ETMP), and into third party software for tax return preparation and MTD compliance.

18.2 If pre-population of PAYE codes is to be expanded to cover foreign interest, and potentially other overseas income sources, the need for agents to be able to digitally amend clients' tax codes will become even more important. One of the ATT's long standing requests is for agents to have the ability to make amendments to client's PAYE codes online. Based on the difficulties members continue to report in contacting HMRC to update clients' PAYE codes, access to a digital service needs to be in place and proven before any pre-population of tax codes for foreign income begins.

19 Summary and conclusions

19.1 Without knowing how much AEOI data HMRC receive based on non-calendar year ends, it is difficult to recommend a course of action.

If all overseas interest data were supplied both to investors and, via AEOI, to HMRC based on the calendar year, the proposal would make good sense. However, given some jurisdictions report to individuals and, we believe, also via AEOI based on their own fiscal years, aligning the taxation of such income with the calendar year would be illogical. It would also create additional work for taxpayers in apportioning the income to the chosen reporting period, and for HMRC in attempting to 'translate' AEOI data to match that reporting period.

For instance, taxpayers in receipt of New Zealand interest might receive interest summaries based on New Zealand's 31 March year end. They currently do not need to adjust the data, so mandating calendar-year reporting would create additional complexities for this group.

19.2 Consideration should be given to our suggestion under Question 14 to tax overseas interest (and potentially other overseas income types) based on the relevant overseas fiscal year ending in the tax year. In many cases, we understand this would be 31 December anyway, but this suggestion would avoid complications for taxpayers who receive interest details summarised to a non-calendar year end – for instance the New Zealand data referred to above.

This could be combined with our suggestion under Question 12 to offer an 'opt out' via a tick box on the Self-Assessment return for taxpayers wanting to depart from the default basis of reporting – for instance for those choosing to continue reporting offshore income based on the UK tax year. This opt out could work on a source-by-source basis, but with a requirement to use the chosen reporting basis consistently, as suggested in paragraph 14.5.

20 Contact details

20.1 We would be pleased to join in any discussion relating to this consultation. Should you wish to discuss any aspect of this response, please contact our technical team via atttechnical@att.org.uk.

21 Notes

21.1 The Association is a charity and the leading professional body for those providing UK tax compliance services. Our primary charitable objective is to promote education and the study of tax administration and practice. One of our key aims is to provide an appropriate qualification for individuals who undertake tax compliance work. Drawing on our members' practical experience and knowledge, we contribute to consultations on the development of the UK tax system and seek to ensure that, for the general public, it is workable and as fair as possible.

Our members are qualified by examination and practical experience. They commit to the highest standards of professional conduct and ensure that their tax knowledge is constantly kept up to date. Members may be found in private practice, commerce and industry, government and academia.

The Association has more than 10,000 members and Fellows together with over 7,000 students. Members and Fellows use the practising title of 'Taxation Technician' or 'Taxation Technician (Fellow)' and the designatory letters 'ATT' and 'ATT (Fellow)' respectively.