

21 January 2025



Simplifying the Taxation of Offshore Interest

Response from ICAS

Simplifying the Taxation of Offshore Interest

1. The Institute of Chartered Accountants of Scotland ('ICAS') is the world's oldest professional body of accountants. We represent over 24,000 members working across the UK and internationally. Our members work in the public and not for profit sectors, business and private practice. Approximately 11,500 of our members are based in Scotland and 10,000 in England and Wales.
2. The following submission has been prepared by the ICAS Tax Board. The Tax Board, with its five technical Committees, is responsible for putting forward the views of the ICAS tax community; it does this with the active input and support of over 60 committee members.
3. ICAS has a public interest remit, a duty to act not solely for its members but for the wider good. From a public interest perspective, our role is to share insights from ICAS members into the many complex issues and decisions involved in tax and regulatory system design, and to point out operational practicalities.

General comments

4. We welcome the opportunity to respond to the consultation – [Simplifying the Taxation of Offshore Interest](#). We appreciated the opportunity to discuss the consultation with HMRC at a stakeholder meeting.

Specific Questions

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

5. Yes, we agree with the issues identified in the consultation. Members report that nudge letters from HMRC to clients (based on AEOI data) often prove to be misdirected, as all the income has been correctly reported but HMRC has been unable to identify that this is the case. This wastes time for agents, taxpayers and HMRC, and means that taxpayers incur additional costs dealing with unnecessary HMRC interventions.

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

6. We understand that in practice, some taxpayers already report overseas interest (and other investment income) on the calendar year basis in their UK tax returns; we are not aware that this is usually challenged by HMRC. In some cases, this may be happening because unrepresented taxpayers do not understand the correct basis for reporting. It would be preferable to have a statutory basis for this approach to ensure that it is adopted consistently.

Question 3: How would you mitigate these issues?

7. Changing the UK tax year to a calendar year basis would mitigate the issues highlighted in the consultation but this appears to have been ruled out following the Office of Tax Simplification's 2021 review "Exploring a change to the UK tax year end date". As the OTS identified, changing the tax year would have much wider consequences (including significant financial and opportunity costs).
8. The consultation suggests that coding out or pre-population might be used if HMRC could resolve the mismatch issues. We agree that both these options could potentially be helpful, if HMRC could successfully match information to the right tax years and to the right taxpayers.
9. For pre-population it would be essential for taxpayers to have the right to override any pre-populated information, without first needing to liaise with HMRC or the provider of the data. It would also need to be made clear to taxpayers that submitting a correct tax return remains their responsibility, so they will need to check any pre-populated data, rather than assuming it is correct.

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

10. We are broadly supportive of the proposal in the consultation to permit the reporting of overseas investment income on the calendar year basis, but we believe this would need to cover other types of income in addition to overseas interest. See our response to Question 5.
11. Consideration would also need to be given to jurisdictions with year ends other than the calendar year, although we understand from the discussion with HMRC that this may not be a significant issue: HMRC suggested that only New Zealand and South Africa apparently report Common Reporting Standard (CRS) data to dates other than 31 December (and South Africa uses 31 March).

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?

12. We understand that reports from wealth/investment managers, brokers and financial institutions to investors usually include interest, dividends and chargeable gains (or losses) – and that all of these are covered by the automatic exchange of information (AEOI) arrangements. If the rules are only amended to allow interest to be reported on a calendar year basis, this will limit the benefits for many taxpayers. It is also likely to be confusing for unrepresented taxpayers.
13. It would be preferable to consider all types of offshore investment income typically reported together to investors.

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

14. Yes, but we do not think alignment should be restricted to the taxation of offshore interest – see our response to Question 5.

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

15. Yes, we agree with the issues identified. A clear definition of the income in scope would be essential.

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

16. As discussed at the stakeholder meeting, it will be important to ensure that all interest received is taxed, where sources cease or a taxpayer's residence status changes.
17. Where a source ceases in the three months to 31 March, it is likely to be simplest to provide that the income received in these three months should be assessed in the following tax year.
18. Further consideration would need to be given to the appropriate approach for changes of residence status.

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

19. We agree with the approach proposed in the consultation. This is the simplest way to achieve the transition and would affect the minimum number of years. There are unlikely to be major changes or variations across this relatively short transitional period.
20. We understand that reports to investors normally give the dates when income is received, so computing the actual interest should be possible.

21. We appreciate that there could be presentational and political issues arising from the drop in income taxed in the transitional year, but this needs to be set against the expected benefits of the change, including improved compliance (increasing tax revenues) and reduced costs for HMRC (and taxpayers). Any tax neutral way of changing the basis of assessment is likely to involve considerable complexity and administrative burdens and costs.

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

22. We understand that most information is received on a calendar year basis. Anecdotally, we have received feedback that one individual investment manager provides UK clients with a pack reporting to 5 April, but that seems to be unusual. We assume that most investment managers, brokers etc produce calendar year reports for AEOI purposes.

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

23. We have no comments on this question.

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

24. There would be scope for manipulation and abuse if individuals could switch between the new basis and the old basis from one year to the next. The ability to switch would also mean that simplification would be undermined.
25. However, some taxpayers might prefer to continue to report using the current basis (ie reporting the income received in the UK tax year), particularly if the proposed new basis only applies to bank interest. As set out in our response to Question 5, we understand that reports from wealth/investment managers, brokers and financial institutions usually include interest, dividends and chargeable gains (or losses), so if the change to the new basis only applies to bank interest some taxpayers would find it simpler not to adopt it.
26. This could be addressed by permitting an 'opt in' approach to the new basis. Taxpayers would be able to choose whether to opt in, but once they had chosen to do so, it would be irrevocable. This would prevent any abuse, but we appreciate that the mismatch issues would remain for taxpayers who chose not to opt in. We discuss this further in our response to Question 14 – increased transparency and information sharing by HMRC could help to address mismatch issues.

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

27. Our comments only relate to agents and taxpayers.
28. While the proposed change of basis might seem counter-intuitive (given that basis period reform means that the treatment of trading and rental income is moving in the opposite direction) it would address the problems identified in the consultation. We do not envisage it presenting any issues for agents. It is also unlikely to cause any issues for taxpayers who are unaffected by basis period reform.
29. There is the potential for some confusion for unrepresented taxpayers who do have other income sources that are affected by basis period reform. Clear guidance and explanation would be essential in the notes to the tax return.

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

30. The ICAS response to the original 2021 discussion document about helping taxpayers to deal with offshore tax, supported greater sharing of the information HMRC has received via AEOI with taxpayers and agents. The discussion document considered both 'upstream' sharing, ie before returns are submitted and 'downstream' sharing, for example providing details of the information HMRC holds when it initiates compliance interventions like nudge letters.

31. We supported a subsequent HMRC pilot where data was shared with nudge letters. The current unhelpfully vague letters only prompt agents to call HMRC to request more information and increase costs for clients (often in cases where the returns are correct, but HMRC has failed to match the data or has matched it incorrectly). We understand that HMRC responses to calls from agents range from a willingness to provide precise amounts reported for foreign accounts, to much less helpful comments ('something from France', for example). Simply providing the information with nudge letters would help agents and taxpayers but would also assist HMRC.
32. Regardless of any decision on the proposals in the present consultation, HMRC should take steps to improve transparency and information sharing – both in 'downstream' interventions but also before returns are filed, to assist agents/taxpayers filing correct returns in the first place.
33. Sharing the data would require improved digital channels for sharing information securely, but as we have indicated in various stakeholder meetings and in other consultation responses, putting those channels in place is essential to allow for improvements and increased efficiency in a range of other areas of tax administration. We hope that the promised digital roadmap will set out timeframes for implementation.
34. As noted earlier in our response, the reports provided to investors usually gives the dates when income is received but this information is not provided to HMRC (and other revenue authorities) under AEOI. If HMRC had this information, it would make it easier to reconcile the data it receives with information in tax returns. This could be something to consider when international reporting requirements are reviewed, although we appreciate that the necessary reporting system changes might be onerous to implement.

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

35. We have no comments on this question.



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