Remittance basis

This helpsheet is for individuals who pay tax on the remittance basis. It provides information to help them complete the *Foreign* pages of their tax return and must be read together with the *Foreign notes*.

What is the remittance basis?

The remittance basis is an alternative tax treatment that is available to those people who are resident in the UK and who are:
- not domiciled in the UK, or
- not ordinarily resident in the UK.

Individuals who are taxable on the remittance basis are liable to UK tax in the normal way on their UK source income and gains. But they are only liable to UK tax on any amounts of foreign income and gains that they remit to the UK (see below for what is meant by 'remitted to the UK'). The amounts remitted to the UK are called remittances. If you choose to be taxed on the remittance basis you must include these remittances on your tax return. The supplementary pages that you complete will depend on what it is that you have remitted. For example, you may need the *Capital gains summary* pages, the *Employment* pages or the *Foreign* pages.

You are strongly recommended to read booklet HMRC6 before you make any decision about claiming the remittance basis of taxation.

Please note you can claim to be taxed on the remittance basis on your foreign gains only if you are resident but not domiciled in the UK. Information about residence, domicile and the remittance basis of taxation can be found in booklet HMRC6 *Residence, Domicile and the Remittance Basis* which is available at **www.hmrc.gov.uk/cnr/hmrc6.pdf**

Claiming the remittance basis

If you decide to claim the remittance basis for 2010–11, you will need to complete the *Residence, remittance basis etc.* pages. You can get these from **www.hmrc.gov.uk** or the SA Orderline.

The remittance basis does not apply to chargeable event gains under a policy of life insurance, life annuity or on a capital redemption policy. These are taxable on the full amount arising in the year, irrespective of whether they are remitted or not.

Meaning of 'remitted to the UK'

Commonly foreign income and gains are 'remitted to the UK' if:
- they (or something deriving from them) are brought to, or received in, or used in the UK **by** you or another relevant person, or
- they (or something deriving from them) are brought to, or received in, or used in the UK **for** your benefit or that of another relevant person, or
- they (or something deriving from them) are used to pay for a service provided in the UK to you or another relevant person, or
- they (or something deriving from them) are used to pay for a service provided in the UK for your benefit or that of another relevant person, or
- they (or something deriving from them) are used outside of the UK in respect of a relevant debt in the UK.

Need help?

Go to our website at
www.hmrc.gov.uk

Phone
The number printed on your tax return

SA Helpline
0845 9000 444

SA Orderline
0845 9000 404

A remittance will not only occur if the actual or original foreign income and gains are remitted to the UK. There may also be a remittance if something that derives from them is remitted to the UK.

Example 1

Jules buys a painting outside of the UK using his foreign income. He subsequently brings the painting to his home in the UK. This is a remittance by Jules. The painting derives from or comprises Jules' foreign income.

Example 2

Jules buys a villa outside of the UK using his foreign income. He subsequently sells the villa and buys a country retreat in the UK using the total proceeds of the sale. This is a remittance by Jules of the foreign income he used to buy the villa and of any chargeable capital gain that accrued on the sale of the villa.

Whilst the monies (apart from the amount relating to the capital gain which is an original gain) brought to the UK to acquire the country retreat are not Jules' original foreign income they originate or derive from them.

What is a relevant person?

A relevant person includes:

- you
- your spouse or civil partner
- a person with whom you live as though you are their spouse or civil partner
- your children or grandchildren who are under 18 years of age
- any child or grandchild of your spouse, civil partner or the person with whom you live.

Please note that the term 'relevant person' can also include the trustees of a settlement, a body connected with such a settlement, close companies and their subsidiaries and non-resident companies and their subsidiaries.

Most remittances to the UK will be under the general rules described above but there are additional rules under which an individual's foreign income and gains may be remitted to the UK.

If an individual gifts his foreign income or gains or something deriving from them to a person other than a relevant person – a gift recipient – it is still possible for there to be a remittance by the individual if they are used in such a way that it benefits a relevant person.

Money or property does not have to be physically imported from overseas for a remittance to occur. It may, for example, be money that is received in the UK from another UK resident, in return for money or assets representing your foreign income or gains, being transferred to them abroad – a connected operation.

You can find much more information about the remittance basis of taxation and the meaning of terms such as 'remitted to the UK' and 'relevant person' in booklet HMRC6 *Residence, Domicile and the Remittance Basis* which is available at **www.hmrc.gov.uk/cnr/hmrc6.pdf**

Deciding what you have remitted

If you make a remittance to the UK from an account containing a single source of income for a single year, say employment income, you can easily identify what it is that you have remitted. But if you do not have funds segregated in this way your remittance may be from a mixed fund.

Remittances from a 'mixed fund'

A mixed fund is a fund of money and/or other property which contains or consists of more than one type of income or capital (including 'foreign chargeable gains') and/or income or capital from more than one tax year. A typical example is a bank account into which different types of income, such as bank interest, dividends and earnings, or capital have been paid.

If you purchase an asset outside the UK, for example a car, the car may also be a mixed fund. That will be the case where money from more than one source or from more than one year is used to buy the car.

There are strict statutory ordering rules that must be applied to identify which amounts of income and foreign chargeable gains within a mixed fund have been remitted.

Detailed guidance on the treatment of remittances from mixed funds is in booklet HMRC6 *Residence, Domicile and the Remittance Basis* which is available at **www.hmrc.gov.uk/cnr/hmrc6.pdf**

Completing the *Foreign* pages

Box 1 *Unremittable income*

If you are taxable on the remittance basis do not complete box 1. The amount of foreign income on which you are taxable is the amount you remit. Any amount that cannot be remitted – perhaps, for example, because of exchange control regulations in another country is not shown in your return.

Box 2 *Foreign Tax Credit Relief*

If you have already paid tax in another country on any amounts of foreign income that you have remitted to the UK, the rules for allowing credit for foreign tax paid are the same as for any other UK taxpayer. The *Foreign notes* pages FN 3 and FN 4 explain the rules.

However, if you only remit part of a particular amount of foreign income, you can only claim credit for the same part (the proportionate share) of any admissible foreign tax that may have been deducted from that income.

Example 3

Jenny is taxable on the remittance basis and is liable to UK tax at the rate of 40%. Interest of £9,000 is paid into her foreign bank account after deduction of tax in the 'other' country at the rate of 10% which is available as a credit against UK tax on that income. Jenny decides to remit £4,500 of this interest to the UK.

As Jenny has remitted half of the net amount of the interest she was paid, she is able to claim half of the admissible foreign tax as a credit against UK tax on the income. Jenny must pay UK tax as follows:

Gross income	£10,000	
Foreign tax	£1,000	
Net amount	£9,000	
Remitted amount		£4,500
Available Foreign Tax Credit Relief (FTCR) (half the income has been remitted and so half the foreign tax is available as a credit against UK tax)		£500
Taxable amount		£5,000
UK tax (40%)	£2,000	
minus FTCR	£500	
Amount to pay	£1,500	

If Jenny does not claim Foreign Tax Credit Relief but instead claims a deduction for the foreign tax paid she is liable to UK tax on the amount remitted of £4,500 x 40% = £1,800.

Special Withholding Tax (SWT)

Special Withholding Tax (SWT) is an amount of tax withheld on certain payments to UK residents by some European Member States and other related and third party territories under the terms of the European Savings Directive and equivalent third party agreements. This tax will be in addition to any foreign tax deducted by the country of origin of the payment. The countries that may deduct SWT are:

Andorra	Liechtenstein
Austria	Luxembourg
British Virgin Islands	Monaco
Gibraltar	Netherland Antilles
Guernsey	San Marino
Isle of Man	Switzerland
Jersey	Turks and Caicos Islands

Where SWT is deducted you are treated as having paid an equivalent amount of Income Tax in the UK which can be set against your UK liability or repaid to you if the amount exceeds that liability.

If the remittance basis applies to you and you set an amount of SWT against your Income Tax liability, or claim a repayment if the SWT exceeds your liability, the amount set off or repaid is treated as a remittance of the income at the time it is set off or repaid.

Example 4

Grace received £8,000 of interest from a Liechtenstein account after deduction of SWT of £2,000. Grace is non-domiciled in the UK and claims for her foreign income to be taxed on the remittance basis. Grace did not remit any of the money from her Liechtenstein account but includes an equivalent amount of Income Tax in her return for the SWT to set against other UK tax liability.

Enter on page F 2/F 3 of the *Foreign* pages:

Country or territory code (page F 2 column A)	LIE
Amount of income received (page F 2 column B)	£0
SWT (page F 3 column D)	£2,000

Setting off the SWT against Income Tax liability will mean that part of the interest income is remitted to the UK and will be a taxable amount at that time. Normally the 'set-off' will be regarded as having been at 31 January following the tax year. In this example that would be 31 January 2012. Grace will therefore have to enter taxable income of £2,500 on her next return (remittance £2,000 increased by the rate of SWT (20%) £500 total £2,500), she will not be entitled to any relief for SWT for that year as the full amount has been relieved in this tax year).

If you claim for your foreign income to be taxed on the remittance basis and you remit part of the amount after SWT deducted then the amount of your income remitted is calculated by including the appropriate proportion of the SWT.

You are still able to claim the whole amount of SWT deducted in the year at column D.

Example 5

Adam received interest of £800 from Jersey after deduction of SWT of £200. Adam is non-domiciled in the UK and claims for his foreign income to be taxed on the remittance basis. £400 of the interest was remitted to the UK.

Interest received in UK	£400
SWT	£100
	£500

Enter on page F 2/F 3 of the *Foreign* pages:

Country or territory code (page F 2 column A)	JEY
Amount of income received (page F 2 column B)	£500
SWT (page F 3 column D)	£200

As in Example 4, the £200 set-off will be a further remittance at the date it is set off and subject to the same calculation until the total of the income £1,000 is taxed. In this example £250 of income should be included on the tax return of the year when the SWT £200 is set off - normally that would be the 2011-12 tax year for this example.

Income from overseas sources

All entries on pages F 2 and F 3 should be in UK sterling, not foreign currency.

Any foreign currency amounts that were 'remitted to the UK' should be converted to sterling at the rate of exchange that applied on the date of remittance. If that remitted amount was credited to a sterling bank account you can use the same rate of exchange that was used by your bank.

If you are not sure of the exchange rate to be applied, ask your tax adviser or go to **www.hmrc.gov.uk**

Box 5 and 6 ***Dividends from foreign companies***

If you are taxable on the remittance basis you are liable to UK tax on dividends paid by foreign companies that are 'remitted to the UK' at the normal tax rates (currently 20%, 40% and 50%) and not at the special rates applicable to dividends (currently 10%, 32.5% and 42.5%).

Dividends 'remitted to the UK' in 2010–11 (including dividends of an earlier tax year in which you also paid tax on the remittance basis) should be shown on pages F 2 and F 3 of the *Foreign* pages in the rows headed 'Dividends from foreign companies'.

The notes on pages FN 6 to FN 9 explain when UK residents who receive dividends from foreign companies are entitled to a tax credit equal to ⅑ of the dividend. If any part of the amount you have included in box 6 does not qualify for the UK tax credit enter the amount in box 7.

The ⅑ tax credit is only due for foreign dividends paid after 5 April 2008. If you remitted foreign dividend income that arose before 6 April 2008 in 2010–11 add it to any dividend that arose after 5 April 2008 that you remitted in 2010-11 that does not qualify for the ⅑ tax credit and enter the total amount in box 7.

It is important to note that if you are taxable on the 'arising basis' in 2010-11 you are also taxable on any remittances of income or gains that you make in 2010–11 that arose or accrued in a year for which you were taxed on the remittance basis. If you remitted foreign dividend income please follow the instructions on page FN 7 of the *Foreign notes* under the heading 'Remittance basis applied for earlier years'.

Foreign pensions

If you are taxable on the remittance basis you do not qualify for the 10% reduction in the chargeable amount of a foreign pension. Instead, you are taxable on the amount of your pension that is 'remitted to the UK'.

It is possible that you have a pension that is not taxable in the UK because of the terms of a double taxation treaty. To claim that your foreign pension is not taxable in the UK, please provide full details in the 'Any other information' box on your tax return (or on a separate sheet) of the payer of the pension and identify the relevant double taxation treaty on which you are relying. See the *DT Digest* at **www.hmrc.gov.uk** for information about the terms of Double Taxation Agreements (DTAs) entered into by the UK.

Boxes 14 to 24 *Income from land and property abroad*

If you choose to be taxed on the remittance basis you are only taxable on the amount of overseas property income that you bring into the UK. You are not able to reduce the amount of income on which you are liable to UK tax to take account of any losses you may have suffered.

Do not fill in boxes 14 to 24 or boxes 26, 31 or 32. Instead, you should complete columns A to F and boxes 25 and 27 to 30 in the 'Summary' section – see page FN 15 of the *Foreign notes* – entering the amount you brought into the UK.

As explained earlier in this helpsheet, if you have paid any foreign tax and you have not remitted all the income to the UK, you will have to apportion the foreign tax accordingly.

Example 6

Richard's overseas rents are £10,000, on which foreign tax of £2,000 was paid to the overseas tax authority. If Richard brings £6,000 of the income to the UK, the foreign tax attributable to that amount is:

6,000/8,000 x 2,000 = £1,500

Richard should enter £7,500 (that is, £6,000 plus £1,500) in column B and £1,500 in column C.