

The Requirement to Correct – do you need to bring your tax affairs up to date?

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Under new legislation called the Requirement to Correct, UK taxpayers have to make sure that they declare all foreign income and gains to HM Revenue & Customs (HMRC), where there might be UK tax to pay, before 30 September 2018. From 1 October 2018, new, significantly higher penalties will apply to UK taxpayers who have failed to pay all the UK tax due on their foreign income and gains. This article outlines who is affected, what action to take and how and why UK taxpayers should act now.

If you have not always declared all of your foreign income and gains to HMRC, then you should take this opportunity to bring your tax affairs up to date before 30 September 2018. It is often a good idea to seek [professional advice](#) before telling HMRC about income and gains that you have not previously declared, particularly if you deliberately avoided tax by not declaring them to HMRC when they arose. But, equally, you could come within the scope of the new rules even if you genuinely believed that you were not obliged to declare your foreign income or gains, and the amounts involved were small.

Does the Requirement to Correct affect me?

The Requirement to Correct applies to UK tax on foreign income and gains. It tackles offshore tax non-compliance. It only applies to tax non-compliance that took place before 6 April 2017.

You are likely to be affected by the Requirement to Correct if:

- you pay tax in the UK, and
- you have [foreign income or gains](#) on which you have to pay tax in the UK (if you are resident and domiciled in the UK then you have to pay UK tax on your worldwide income and gains), and
- you have not told HMRC about all your foreign income and gains.

For example, if you are resident in the UK and you receive income from a property abroad that you let out or you receive interest on an offshore bank account then you may be affected.

You may also be affected even if you do not live in the UK but you pay UK tax. For example, if you own a UK property that you let out or you receive interest from a UK bank or building society account and this money was transferred overseas prior to 6 April 2017.

The Requirement to Correct rules also include Inheritance Tax, but this is not discussed in this article.

You will not be affected however, if you do not have any UK tax to pay on any foreign income and gains that you have.

Any undisclosed foreign income or gains which are assessable to UK tax at 6 April 2017 fall within the scope of the rules. This means HMRC can go back to 2013/14 in most cases, or 2011/12 where the failure to disclose was careless. Where you have deliberately avoided tax,

or if you have failed to notify HMRC of your chargeability to tax, HMRC may be able to go back 20 years.

What do I need to do?

If you think that you have not told HMRC about UK tax due on foreign income or gains, or that you have transferred UK income abroad without paying the UK tax on it, you should tell HMRC before 30 September 2018. You can do this by making a formal 'disclosure'.

The main route to let HMRC know about previously undeclared tax on foreign income or gains is the [Worldwide Disclosure Facility](#) through the Digital Disclosure Service.

If you are confident that your tax affairs are in order, then you do not need to worry. If you are unsure, you should seek advice from a [professional tax advisor or agent](#). If you are on a low income, you may be eligible to seek assistance from one of the tax charities – [TaxAid](#) or [Tax Help for Older People](#).

Why should I do anything?

This is the final opportunity to make a disclosure before penalties rise.

If you make a disclosure in relation to foreign income or gains (or HMRC find out about your foreign income or gains) after the Requirement to Correct deadline of 30 September 2018, you will be subject to much tougher Failure to Correct penalties.

The 'Failure to Correct' penalties are:

- a penalty of 200% of the tax owed – this may be reduced to a minimum penalty of 100% of the tax owed, depending on taxpayer cooperation with enquiries and the quality of disclosure;
- an asset-based penalty of up to 10% of the underlying asset for serious cases (i.e. where the tax involved exceeds £25,000 in any tax year);
- an additional penalty (an additional 50% of the first penalty) for situations in which HMRC can show the taxpayer moved their assets to avoid reporting.

In addition to the penalties, you would also have to pay any outstanding tax and interest.

If you enter the Worldwide Disclosure Facility to disclose undeclared foreign income and gains before 30 September 2018, you would possibly only pay a penalty of 30% of the tax due. If you make a disclosure after 30 September, the minimum penalty will be 100% of the tax due. This means, for example, if you owe £1,000 in tax now, your total bill for a disclosure made before the deadline would be around £1,300 plus statutory interest. In comparison, if you wait, a disclosure or discovery after 30 September 2018 will result in a total bill of at least £2,000 plus statutory interest.

What about foreign income and gains in tax years 2017/18 onwards?

You must declare your foreign income and gains on which UK tax is due to HMRC.

HMRC are beginning to receive an unprecedented amount of information about foreign income and assets under the Common Reporting Standard (CRS) exchange of information. By 30 September 2018, more than 100 jurisdictions will be exchanging data with the UK under the CRS. The CRS data will provide HMRC with information on UK taxpayers' bank accounts, investments and trusts held around the world. HMRC will use this information to open tax enquiries, issue tougher penalties, and take forward criminal prosecutions against those who avoid paying the tax they owe.

Where can I find more information?

To make a disclosure, or for further information on the Worldwide Disclosure Facility, visit [GOV.UK](https://www.gov.uk).