

SEAFARER'S EARNINGS DEDUCTION UPDATE

As you may be aware, we have received a number of enquiries into Seafarers tax returns over the last year and I thought it might be useful to update you on the standards of information the HM Revenue & Customs (HMRC) expect Seafarers to keep as proof of their eligibility for the Seafarer's Earnings Deduction. A reminder of this guidance can be found on our website at www.aibscholes.co.uk in the Info Centre section.

WORKING IN THE NORTH SEA

This is a particularly contentious area with HMRC. If you are working in the North Sea area you may have to prove all the nights that you are outside the twelve mile limit at midnight during a trip. A Discharge Book entry is no longer sufficient in this case as HMRC are aware that a number of boats will be returning to port during their 28 days shift.

HMRC has also recently confirmed that Water and Freeboard Notices are not acceptable from now on as evidence of time outside the twelve mile limit. These notices only show dates of departure from and return to a port, not the time outside the twelve mile limit which is the main issue when it comes to investigations.

We recommend that you request a statement, signed by the Captain or Chief Officer, confirming all the dates on which you were outside the twelve mile limit during the trip. You should obtain this for each and every voyage around UK and North Sea waters. A number of ships are now able to produce a monthly statement like this but if your ship is not up to this, you might want to keep a log of your own and get the Captain to sign it. An example of such a log, kindly provided by one of our clients, is enclosed.

What is the definition of outside the UK for SED?

A qualifying day is one in which you are absent from the UK at midnight. Under normal circumstances HMRC regard being outside the twelve mile limit as being outside the UK. However, by concession they are prepared to accept that where a vessel leaves its UK berth before midnight and goes to a foreign port, then that is a day out. BUT, if a vessel sails from a UK port to another UK port then it is only when the vessel is outside the twelve mile limit at midnight that it is regarded as outside the UK.

TYPE OF VESSEL

The word 'ship' is not defined in tax law, but 'offshore installations' used in the offshore oil and gas industry are specifically identified and are not regarded as ships for the purposes of the deduction. The following list of offshore installations is given as a guide only:

- fixed production platforms
- floating production platforms
- floating storage units
- floating production storage and offloading vessels (FPSOs)
- mobile offshore drilling units (drill ships, semi-submersibles and jack-ups)
- flotels.

Any vessel engaged in exploitation of mineral resources by means of a well whilst standing or stationed in any waters, is an offshore installation. If you work on an offshore installation anywhere in the world, you are not regarded as a 'seafarer' for the purposes of the deduction and your earnings for duties performed on such a vessel or structure will not qualify for the

deduction.

Where there is any doubt as to your vessels eligibility to qualify as a vessel HMRC are now asking to see the Daily Progress reports that specify the precise nature of the vessels work. They are **not** now prepared to accept a statement from the Captain of the vessel confirming that your vessel did not undertake any exploration for, or exploitation of, minerals during the tax year whilst standing or stationed for in excess of 120 hours. This is a change in attitude by the Revenue and we realise this means keeping a lot more paperwork for each trip you do.

CHECKLIST

I have enclosed a tax return checklist, which should help remind you of all the information we require from you to confirm that your employment qualifies for the deduction. This is a comprehensive list of all the requirements and some may not apply to you but please provide as much information as you can.

COLLEGE

You will be liable for tax on your earnings, despite your 100% claim running through your time at College. The reason for this is that HMRC do not regard you as a Seafarer whilst at College. You have to bear in mind that, to be classed as a Seafarer, you have to perform the duties of your employment on board a vessel. It is the same as if you go to work in your company's offices abroad for a couple of months before joining a vessel. Under those circumstances the income earned whilst in the office is taxable, and the 100% allowance cannot be claimed on this.

Finally, if you have any colleagues who you feel could benefit from our services, we would be more than happy to help.

I hope that you have found this short update useful. If you have any queries, please do not hesitate to contact our Tax Manager Bob Walker.