

Seafarers Earning Deduction

Moore Stephens Consulting Limited
Taxation

PRECISE. PROVEN. PERFORMANCE.

Seafarers are different

Generally anyone resident in the UK will pay UK tax on all their earned income, wherever it arises.

However, seafarers are entitled to a deduction of 100% with respect to their earnings aboard if their work has kept them out of the UK for a defined minimum period of time.

Residence, domicile and your tax liability

The UK now has 'Statutory Residency' tests to determine if you are UK resident or not. Remember just because you're considered resident elsewhere, doesn't mean you are not also UK resident.

At its simplest, to be treated as UK resident you must be physically present in the UK and if you are for 183 days or more in a given tax year, you will always be treated as a UK resident.

Unfortunately it's not quite as simple as that. There are other criteria that determine your resident status.

Leaving the UK to work abroad for at least a whole tax year and spending fewer than 16 days within the UK can result in your ceasing to be UK resident. Your domicile status will determine if you are potentially assessable for Capital Gains Tax (CGT) and if you 'must' be assessed on your worldwide income or not.

Seafarer's Earnings Deduction explained

Anyone who works aboard a vessel can get the Seafarer's Earnings Deduction including entertainers, food service professionals, travel couriers and musicians.

You qualify for the Seafarer's Earnings Deduction as a seafarer if:

- you perform all your duties on a ship, or
- you perform most of your duties on a ship and your other duties are incidental to the duties aboard the ship.

How it works

Employment duties of a seafarer are regarded as being performed outside the UK if they are carried out on a vessel that is engaged on a voyage or part voyage which begins or ends outside the UK. (For this purpose, the UK sector of the North Sea is treated as part of the UK.)

If you had more than one employment during the qualifying period, you may claim only the Seafarer's Earnings Deduction for those jobs you performed outside of the UK.

A 'qualifying period' must cover a period of 365 days made up mainly of days when you are absent from the UK. Incidentally you are considered absent from the UK on any particular day if you are outside the UK at midnight at the end of that day and non-work days spent outside the UK may be counted as days of absence.

A return visit to the UK can also count towards the 'qualifying period' if:

- no single return visit lasts for more than 183 consecutive days, and
- the number of days you were in the UK is less than half of the number of days you were abroad in the 365 day window.

Intervening days in the UK may only be counted if they occur between periods of absence. For example, you cannot claim for a period of 365 days which consists of 183 days abroad followed by 182 days in the UK, as this is not "sandwiched" by trips abroad.

Your claim is determined solely with reference to your dates of entering and leaving the UK - a second employment does not affect the claim in any way.

Obviously, we will need to declare any such income on your UK tax return as this can affect your overall tax liability.

Remember that for any tax year where you clear your liability using a 100% claim, the allowance for the 100% claim does not extend to any other sources of income, such as savings income (dividends, Bank interest etc), or alternative employment. However, it can mean your personal allowances can be offset against this other income, which may have already suffered UK taxation at source, this therefore may lead to a refund of some, or all of the income tax you have suffered.

Are you eligible?

First, to see if you're entitled to the seafarers deduction, you need to work out whether the number of your days outside the UK is sufficient to make up an eligible period. Help Sheet HS205 'Seafarers' Earnings Deduction' will help you with this.

Download the 'Seafarers' Earnings Deduction' help sheet (PDF, 57K)

Records you must keep

HM Revenue & Customs (HMRC) at some time may want to check your tax return, so you'll need to keep details of:

- completed Help Sheet HS205;
- air tickets and/or other travel vouchers;
- hotel bills and/or other receipts;
- passports and visas;
- seafarer's discharge book;
- freeboard logs of vessels you carried out duties on; and
- Employment Contracts.

If you are resident in the UK

If you are resident in the UK you must register for UK taxation and complete a Self Assessment tax return, including the supplementary Employment and Additional Information pages.

As a UK resident, you'll also need to complete a 'Mariners National Insurance Questionnaire' to ensure that HMRC are satisfied with any National Insurance issues. It is likely if you are UK resident and employed on a UK registered vessel or ultimately a UK employer, that you'll have National Insurance Contribution requirements. The questionnaire may help you if you are seeking to make voluntary contributions to assist your future benefit/state pension position as a UK resident.

Members of the EU and European Economic Area (EEA)

From 6 April 2011 entitlement to seafarers' earnings deduction (SED) is extended to seafarers who are resident for tax purposes in an European Economic Area (EEA) or European Union State, other than the United Kingdom. EEA States comprise all of those states that are part of the EU, plus Iceland, Liechtenstein and Norway.

As non-UK residents, these EEA/EU resident seafarers are only taxable in the United Kingdom (which for the purposes of this deduction includes the territorial sea within the 12-mile limit and designated areas of the United Kingdom Continental Shelf) on earnings for seafaring employment duties performed in United Kingdom waters.

For 2011/12 onwards EEA/EU resident seafarers who are not UK resident, are entitled to claim the deduction but only against their earnings as a seafarer in United Kingdom waters and only if they meet the satisfying conditions for the deduction.

For assistance in making a claim, or if you have any questions please do not hesitate to contact us.

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