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Dear Ruth

Thank you for your letter of 13 April 2026 setting out your analysis of the temporary repatriation facility (TRF) as it applies to trusts, and in particular your detailed consideration of paragraph 7 of Schedule 10 to Finance Act 2025 as amended by Schedule 3 to Finance Act 2026.

We agree that paragraph 7 is intended to address cases in which s732 income arises in a TRF year but does not fall within paragraph 6 because the matched relevant income is either UK-source or arises in the TRF period. Paragraph 7 operates to ensure that the availability of the TRF is not prevented solely by the presence of such non-qualifying income, where the underlying capital distribution would otherwise fall within the scope of the TRF capital gains provisions. This operation is reflected in HMRC guidance on the interaction between paragraphs 6 and 7 in cases involving offshore income gains and other income arising in the TRF period (see [RDRM72560 - Qualifying overseas capital: Unattributed transfer of assets abroad income treated as qualifying overseas capital – offshore income gains](#)).

As you note, paragraph 7 requires an assessment of whether the benefit giving rise to the s732 income would be qualifying overseas capital under paragraph 3 (or paragraph 5) if it were not chargeable to income tax. That assessment is carried out by applying paragraphs 3 or 5 as modified by paragraph 7(1A), including the assumption that no section 1(3) amounts arise in the TRF period and limiting the matching exercise to those benefits treated as capital payments for the purposes of paragraph 7.

Paragraph 7(1A) ensures that the application of paragraphs 3 and 5 for the purposes of paragraph 7 takes account of any prior application of those paragraphs in determining whether capital payments are qualifying overseas capital. As a result, paragraph 7 relief is only available to the extent that sufficient pre-April 2025 section 1(3) amounts remain. Where such amounts are available, the legislation permits treatment of the relevant amount of s732 income as qualifying overseas capital.

We therefore agree with your overarching conclusion that the presence of UK-source income or post-April 2025 income within the trust does not, of itself, preclude access to the TRF under paragraph 7. However, as you acknowledge, relief under paragraph 7 will not be available where there are insufficient pre-April 2025 s1(3) amounts to support the matching required by paragraph 3 as applied by paragraph 7.

We also agree that designation under paragraph 7 differs from designation under paragraph 6 in its mechanical effects. In particular, as detailed in paragraph 11(5), paragraph 7 does not operate to reduce real-world relevant income or benefits for the purposes of the benefits code. Instead, as per paragraph 10(5), amounts designated as qualifying overseas capital under paragraph 7 are treated as designated capital payments for the purposes of paragraph 3 and are taken into account under the substantive capital gains matching rules, reducing available s1(3) amounts accordingly. This reflects the distinct role of paragraph 7 in facilitating access to the TRF rate without rewriting the underlying income character of the trust distribution.

You also raise whether designations under paragraph 7 are deducted when calculating the future availability of s1(3) amounts. The effect of the interaction between paragraph 7 and paragraph 10(5) mean that once an amount has been designated as qualifying overseas capital under paragraph 7, the associated reduction in s1(3) amounts should be recognised consistently in the application of the matching rules in later TRF years, in line with the effect of paragraph 3(6). This ensures that the overall operation of the regime remains coherent and that pre-April 2025 pools are not capable of being used multiple times.

We recognise that the outcome of these rules may, in some circumstances, result in different tax treatments for qualifying and non-qualifying recipients in the same tax year, depending on their eligibility for the TRF and the availability of pre-April 2025 amounts. This is a consequence of the policy intent to target the TRF at individuals who were previously remittance basis users, while allowing existing trust income and gains rules to continue to operate for others.

Thank you again for your engagement on this issue.

Yours sincerely

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