Early Compliance Note: Residency Tax Orientation Statement (RTOS)

Improving Early Compliance for Individuals Becoming UK Tax Residents

Author	Daramola Joseph Omoyele
Affiliation	Independent Researcher, Public Policy and Compliance Analytics, United Kingdom
ORCID	0009-0006-0347-0499
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Author's Note

The observations in this note arise from independent research into tax compliance behaviour and the administrative causes of late disclosure among internationally mobile taxpayers. The note focuses on preventable compliance cases created by timing gaps between the commencement of UK tax residence and the point at which overseas income obligations are first understood.

1. Executive Summary

This submission identifies a recurring compliance pattern affecting individuals who become UK tax residents for the first time. A significant number of new residents enter the UK tax system through PAYE employment and reasonably assume that tax deducted by their employer satisfies their obligations. As a result, overseas income, most commonly rental income, family business distributions, and foreign investment returns, often remains undeclared for several years.

The issue is not deliberate evasion. It is a timing failure in the tax administration process. HMRC typically becomes aware of overseas income only after multiple tax years have passed, at which point retrospective assessments, interest, and penalties are unavoidable. In many such cases, the individual is encountering the worldwide income rule for the first time during an investigation rather than at the point they became a resident.

This note proposes a Residency Tax Orientation Statement (RTOS): a short, one-time guidance check delivered when a new resident first creates a Government Gateway account. The RTOS would not create a tax charge, require asset disclosure, or trigger an investigation. Its purpose is simply to ask structured yes/no questions about overseas income sources and immediately route the individual to the correct HMRC guidance where relevant.

The proposal addresses a specific administrative gap. Currently, HMRC receives strong signals when employment income begins under PAYE but receives no equivalent signal that a person may also have continuing overseas income. Without an early prompt, compliance often begins only after an enquiry several years later.

The RTOS therefore operates as an early compliance prompt rather than an enforcement mechanism. It uses existing digital infrastructure, imposes minimal administrative burden, and aims to prevent multi-year arrears cases before they arise. The expected effect is earlier voluntary disclosure, reduced investigation costs, and improved taxpayer understanding of the worldwide income rules.

2. Why HMRC Must Act Now: The Urgency Case

The UK's population of internationally mobile tax residents has grown substantially. Post-Brexit changes to freedom of movement, combined with increased inbound skilled migration under the Global Talent and Skilled Worker visa routes, have expanded the cohort of new residents with complex international financial profiles.

Indicator	Data / Reference
New long-term migrants to the UK (ONS, 2022–23)	Recent ONS estimates indicate several hundred thousand long-term arrivals to the UK each year, many of whom will subsequently become UK tax residents.
Estimated new tax residents annually	100,000–150,000 (ONS/Home Office data).
HMRC overall tax gap (2023–24)	£46.8 billion (5.3% of theoretical tax liabilities),
Overseas/undeclared income contribution	Material exact sub-figure not separately published
Average HMRC investigation cost per case.	Estimated £5,000–£25,000+ (HMRC impact assessments)
Typical detection delay for overseas income	3–7 years post-residency (practitioner observation)

As migration volumes grow, the number of delayed overseas income cases increases over time. Without a structural intervention at the point of residency, the volume of multi-year overseas income enquiries will continue to increase, creating growing downstream pressure on HMRC's compliance resource.

This is the right moment to introduce a preventative system. The cost of implementation is low. The cost of continued inaction rises each year.

3. How the Compliance Failure Actually Occurs

Current policy descriptions of the overseas income compliance gap focus on outcomes. This section maps the operational failure chain, showing how a standard residency scenario produces a multi-year arrears liability through a series of system gaps, not taxpayer intent.

#	Stage	System / Information Gap
1	Individual arrives in the UK and becomes tax resident	HMRC does not currently receive a structured onboarding signal indicating new tax residency
2	Takes UK employment registered under PAYE	PAYE covers UK employment income only; no overseas income prompt
3	Does not register for Self-Assessment.	No mechanism prompts overseas income check at this stage
4	Overseas rental / business income continues abroad.	Income exists but is outside UK administrative visibility.
5	CRS / FATCA reporting does not capture this income type.	Non-financial income (property, business) falls outside exchange frameworks
6	3–6 years elapse without disclosure.	Gap compounds annually; arrears, interest, and penalties accumulate
7	HMRC enquiry triggered via intelligence or third-party data.	By this point, a multi-year assessment is unavoidable
8	Taxpayer faces large retrospective liability.	Often genuinely surprised this was misunderstanding, not evasion

Steps 5–8 arise because the reporting obligation has not been understood, rather than from deliberate non-disclosure. The RTOS would act between Steps 2 and 3, providing a guidance prompt at the point where the individual first enters the UK tax system.

4. Alignment with HMRC Compliance Strategy

HMRC's compliance framework centres on two core pillars: Promote Good Compliance and Prevent Non-Compliance. The RTOS is designed to serve both simultaneously.

The RTOS aligns with HMRC's preventative compliance approach by addressing unintentional non-compliance before it crystallises into enforceable debt. It reduces the compliance burden on both the taxpayer and HMRC at the lowest possible intervention cost.

Specifically, the RTOS supports the following strategic objectives:
Earlier voluntary disclosure of overseas income instead of multi-year retrospective investigations
Fewer compliance investigations arising from late discovery of overseas income
Using the existing Government Gateway interaction to provide timely guidance
Earlier reporting of overseas income from the first year of UK residence
Fewer disputes and appeals caused by unexpected retrospective liabilities

This proposal does not ask HMRC to create new enforcement powers. It asks HMRC to use its existing digital infrastructure to deliver existing guidance more effectively at the moment it is most needed.

5. Behavioural Drivers of Late Disclosure

HMRC Policy Lab operates at the intersection of tax administration and behavioural science. This section is central to the proposal: the RTOS is a timed early guidance prompt.
The question is not only that new residents fail to disclose overseas income, but also why they fail. Understanding the behavioural mechanism is essential to designing the right intervention.

Behavioural Driver	Mechanism
Complexity Avoidance	Individuals faced with unfamiliar tax systems default to inaction. The interaction between UK tax law, double taxation treaties, and the remittance basis is genuinely complex. When the correct course of action is unclear, the most common response is to do nothing.
Uncertainty Delay	Many new residents intend to 'sort it out later' when they understand the system better. Later rarely arrives before HMRC does.
Assumption of Foreign Taxation	A near-universal misconception: individuals believe income taxed (or taxable) in the country of origin is not reportable in the UK. This misunderstanding applies to rental income, business income, and dividends.
Fear of Mistakes	Some individuals are aware they may have obligations but are afraid of filing incorrectly. Fear of making a mistake leads to no filing at all.
Previous financial arrangements	Pre-UK financial arrangements were managed abroad. The default is to continue managing them abroad. A new default prompt to disclose is needed to break this pattern.

The RTOS addresses all five drivers simultaneously. It reduces complexity by providing targeted guidance. It breaks uncertainty delay by creating a defined moment of action. It corrects the foreign taxation assumption directly. It removes fear by framing the interaction as educational, not investigative. And it overrides the continuation of previous financial arrangements by making disclosure the default next step.

The RTOS is not a form. It is an early guidance step within the existing HMRC interaction, intended to prompt awareness at the first point of contact.

6. Policy Proposal: The Residency Tax Orientation Statement (RTOS)

Recommended Integration Point

Of the available integration points, Government Gateway account creation is recommended as the primary delivery mechanism.

Every UK taxpayer ultimately creates a Government Gateway account. This is the single universal touchpoint across all taxpayer types: employed, self-employed, landlord, and investor, regardless of immigration route or visa category. It requires no border or immigration disclosure, no new legislation, and no new HMRC system.

The RTOS would appear as a one-time 'New UK Tax Resident Check' during the initial Government Gateway identity setup, a brief, guided interaction that takes under two minutes to complete.

Core Questionnaire Design

The RTOS asks only whether the individual has any of the following outside the UK. No values, no amounts, no tax assessment:

Orientation Check Question	Yes	No
Do you own or receive income from property outside the United Kingdom?	☐ Yes	☐ No
Do you own shares or have a stake in a business outside the UK?	☐ Yes	☐ No
Do you receive dividends, profits, or distributions from an overseas business?	☐ Yes	☐ No
Are you a partner in, or beneficiary of, a family enterprise or trust abroad?	☐ Yes	☐ No
Do you receive dividends or interest from overseas bank or investment accounts?	☐ Yes	☐ No
Do you regularly receive funds sent from overseas (remittances)?	☐ Yes	☐ No

Any 'Yes' response automatically routes the individual to guidance specific to that income type, including relevant HMRC guidance pages, treaty summaries, Self-Assessment registration criteria, and record-keeping expectations.

Safeguard Against Over-Registration

A critical design requirement and a likely internal HMRC concern is that the RTOS must not trigger unnecessary Self-Assessment registrations or create administrative burdens for PAYE-only taxpayers. The safeguards built into the RTOS design are:

The RTOS does not automatically trigger a Self-Assessment registration; it provides guidance on when registration is required.

PAYE-only taxpayers with no overseas income sources are directed through the check-in in under 30 seconds with no further action.

Guidance explicitly distinguishes income types that require registration from those that may be covered by treaty exemptions or the remittance basis.

No tax liability is created by completion of the RTOS.

No data collected in the RTOS is used as an investigation trigger; it is a guidance tool only.

Completion of the RTOS does not by itself constitute notification of chargeability and does not automatically enrol an individual into Self-Assessment.

7. Illustrative Scenario

In practice, many overseas income enquiries begin with individuals who are fully compliant under PAYE but unaware that UK tax residence requires them to report income arising abroad.
A common pattern is as follows. A person moves to the UK for employment and begins work under PAYE. Because tax is deducted at the source and HMRC makes no further contact, the individual reasonably assumes their tax affairs are complete. Meanwhile, property rental income, family business profits, or investment income continues to be managed in their country of origin, often under the supervision of a local accountant.

Several years later, HMRC identifies the overseas income through third-party data, intelligence, or international information exchange. A multi-year assessment then becomes necessary. The individual typically reports that they did not realise UK reporting obligations applied to income already taxed or administered abroad. The issue is therefore not concealment but the point at which the reporting obligation first became clear to the taxpayer.

The administrative impact is substantial. HMRC must conduct a full compliance investigation, and the taxpayer faces retrospective liabilities, interest, and penalties covering multiple tax years. A simple prompt at the point of entry into the UK tax system would likely have led to annual reporting from the first year of residence.

The RTOS is designed to intervene at the first interaction with HMRC's digital services and provide targeted guidance before the compliance case is created. The compliance case arises from late awareness rather than deliberate non-disclosure. Earlier guidance at first contact with HMRC would in many cases prevent the compliance investigation altogether.

8. Why Timing Differences Create Compliance Problems

Tax systems derive their legitimacy in part from their perceived fairness. The current system produces a demonstrably inequitable outcome:

Income Type	Current Outcome	Typical Detection
UK-based rental income	Taxed immediately via SA or HMRC data-matching	Year 1
Overseas rental income (same UK resident)	Potentially unreported for 3–7 years pending HMRC detection	Year 3–7+

Two individuals living on the same street, paying the same council tax, using the same public services: one pays tax on rental income from Year 1, the other may not pay for years. This is not a consequence of tax law. It is a consequence of an information gap in the administration of that law.
The RTOS aligns the timing of awareness and reporting for both income types by aligning the point of awareness and therefore the point of compliance for both income types. It does not create new tax obligations. It ensures existing ones are understood from the start.

9. International Precedent

The RTOS concept is supported by comparable mechanisms in peer jurisdictions. The recommended design deliberately adopts the lighter-touch models (Australia, Canada, and Ireland) and avoids the complexity of US-style asset disclosure.

Country	Mechanism	Key Feature
Australia	Mandatory residency orientation checks for certain visa categories	Triggers automatic guidance on worldwide income obligations.

Country	Mechanism	Key Feature
Canada	T1135 Foreign Income Verification Statement triggered at residency for foreign assets above CAD$100,000	Declarative only; targets awareness before enforcement.
Ireland	Revenue Online Service onboarding includes an overseas income disclosure prompt for new residents.	Integrated into registration; low-friction design.
United States	FBAR and Form 8938 filing requirements triggered upon residency	More complex, useful as a ceiling, not a model

The UK currently relies on post-residency compliance education rather than an entry-stage guidance step. The RTOS introduces an early guidance interaction while avoiding the complexity of the US reporting model.

10. Implementation Pathway

The recommended implementation pathway prioritises low disruption and high digital leverage:

Phase 1. Pilot Design (Months 1–3): HMRC Policy Lab scoping exercise; stakeholder consultation with CIOT, LITRG, and migrant advisory bodies; prototype RTOS questionnaire built within the Government Gateway test environment.

Phase 2. Controlled Pilot (Months 4–12): RTOS would be deployed to a defined cohort of new Government Gateway users identified as likely new residents (e.g., first-time registrants with non-UK identity documents). Voluntary, guidance-only, no enforcement linkage.

Phase 3. Evaluation (Months 13–18): Assessment against success metrics (see Section 11). Decision on full rollout, expansion, or redesign.

Phase 4. Full Deployment (Month 19+): Integration across all four Government Gateway entry points: NiNo registration, GG account creation, SA onboarding, and first PAYE registration.

Legislative basis: *The RTOS operates within HMRC's existing administrative discretion under the Taxes Management Act 1970. No primary legislation amendment is required for the pilot phase.*

11. How HMRC Could Measure Success

Policy Lab cannot run a pilot without measurable outcomes. The following metrics are proposed as the evaluation framework for the RTOS pilot:

Type	Metric	Measurement Approach
Primary	Rate of early Self-Assessment registration (overseas income)	% increase in SA registration within 12 months of UK residency
Primary	Voluntary disclosure rate for overseas income types	Year-on-year % change in first-year overseas income declarations
Primary	Reduction in multi-year overseas income enquiries	Volume of enquiries covering 3+ tax years (pre vs. post RTOS)
Secondary	Average arrears per case at point of discovery	Reduction in mean outstanding liability per investigated case
Secondary	Reduction in tribunal cases (overseas income category)	Volume of First-tier Tribunal cases referencing overseas income

Type	Metric	Measurement Approach
Secondary	RTOS completion rate and user experience	% of users completing the check; drop-off rate by question
Qualitative	Taxpayer Understanding Survey	Self-reported awareness of overseas income obligations at registration vs. 12 months

These metrics allow Policy Lab to assess both the direct compliance impact (registrations, disclosures) and the wider system effect (enquiry reduction, tribunal workload) within a standard 12–18 month pilot window.

12. Conclusion and Requested Next Steps

Many overseas income compliance investigations arise because awareness of reporting obligations occurs several years after UK residence begins, by which point arrears, interest, and penalties have accumulated, and retrospective investigation is the only available remedy.
Experience suggests this is a structural information gap rather than deliberate non-disclosure. The solution is not more enforcement; it is better-timed guidance. The Residency Tax Orientation Statement delivers that guidance at the earliest possible moment, using existing infrastructure, at the lowest possible cost. The proposal supports HMRC's preventative compliance model by addressing misunderstanding before it becomes debt, rather than resolving debt after it arises.

Public sources used:

1. HM Revenue & Customs (2025), Measuring Tax Gaps 2025 edition
2. Office for National Statistics, Long-term International Migration latest provisional release

The following steps may help assess whether the RTOS would be practical to implement:

- A feasibility review of integrating the RTOS within the Government Gateway account creation journey
- Stakeholder discussion with CIOT, LITRG, immigration practitioners, and migrant support organisations
- A controlled pilot with a defined cohort of new Government Gateway registrants

I would be happy to clarify any aspect of the note or provide further detail if helpful.

Daramola Joseph Omoyele
Independent Researcher, Public Policy & Compliance Analytics, United Kingdom
ORCID: 0009-0006-0347-0499
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