

GMS Flash Alert

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United Kingdom – HMRC Guidance on the Tax Treaty Application of Deferred Remuneration

On 2 February 2026, the UK tax authority, HMRC, added a new page to its International Manual ([INTM163155](#)).¹ The new guidance clarifies the correct application of the employment income article of a tax treaty to deferred remuneration, such as bonuses, long-term incentive plans (LTIPs), and other similar payments.

The new guidance confirms that it is the individual's treaty residence **at the point of payment** that drives the reading of Article 15(1) of the OECD model treaty and the attribution of taxing rights.

WHY THIS MATTERS

The application of the employment income article determines how the deferred remuneration paid to internationally mobile employees will be treated in the UK, and ultimately, how much will be subject to UK taxation.

In the past, there have been differing approaches taken by both HMRC and advisers who have been waiting for guidance from HMRC for some time. This new guidance therefore provides a welcome clarification as to HMRC's position and provides employers with certainty that they are treating the payments correctly.

Further details

Article 15 of the OECD Model Tax Convention addresses the attribution of taxing rights between two Contracting States in respect of Employment Income. The interpretation of the term "derived by a resident of a contracting state" in Article 15(1) of the OECD model treaty is central to the question of how a treaty should be applied to deferred remuneration.

In practice, the question has been whether, when determining the attribution of taxing rights over deferred remuneration between two contracting states, it is correct to look at:

- The individual's treaty residence position at the time of payment; or
- The individual's treaty residence throughout the performance period of an award, which may vary.

HMRC's new guidance confirms that it is the individual's treaty residence position at the point of payment that drives the reading of Article 15(1) and the subsequent attribution of taxing rights. This is a welcome clarification that may provide the catalyst for resolving open enquiries on this topic.

However, it is important to remember that not all treaties follow the wording of the OECD Model, so it is important to always check the wording of the applicable treaty when assessing its application.

The guidance confirms that deferred remuneration payments received by individuals will be treated as follows, under UK domestic law and the double tax treaty:

Individual is treaty resident in the UK at payment:

- Under UK domestic law, the UK would tax the portion that relates to UK workdays in the portion of the payment that relates to the period of non-residence, and the full portion of the payment that relates to the period of residence.
- Under the double tax treaty, as the UK is the state of the individual's residence, the UK would have the right to tax the full payment under the treaty. However, the UK would not exercise this right to tax amounts that would not otherwise be taxable under UK domestic law, and HMRC acknowledge that there could be scenarios where a portion of a payment is not taxable in any state due to the domestic law and tax treaty interaction.

Individual is treaty non-resident in the UK at payment:

- Under UK domestic law, the UK would tax the portion that relates to UK workdays in the portion of the payment that relates to the period of non-residence, and the full portion of the payment that relates to the period of residence.
- However, under the tax treaty, as the "State of Source," the UK would only have the right to tax the portion that relates to UK workdays throughout the whole of the performance period, regardless of where the individual was resident.

KPMG INSIGHTS

This guidance will be welcome for employers after many years of uncertainty. This also confirms that the UK is generally aligned with the position taken in other jurisdictions, such as Germany.²

For the majority of assignees, this position is likely to be beneficial, as it confirms that where a payment is made when the individual is treaty non-resident in the UK, the UK would only have the right under the treaty to tax the portion that relates to UK workdays, even when the individual was resident in the UK for part of the sourcing period. This is particularly likely to be beneficial when the individual had a significant amount of non-UK workdays during that period of UK residence.

In the converse scenario, where the individual is treaty resident in the UK at the point of payment, instances of double taxation may be limited. Although the UK would have the right to tax the whole payment under the double tax treaty, under UK domestic law the UK would only tax the proportion of the payment that relates to UK workdays in the portion sourced to the non-resident period.

ENDNOTES:

1 GOV.UK, "[INTM163155 - Employment income – deferred remuneration](#)," published on 9 April 2026, recently updated on 12 February 2026.

2 For coverage by KPMG Germany of the German Ministry of Finance updating tax principles to align with the OECD model, see [GMS Flash Alert 2024-044](#), published on 29 February 2024.

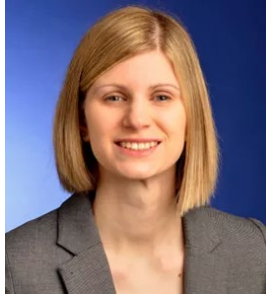
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