

The taxation of the Royal Family

Synopsis: The death of the Queen and the accession of the new King has raised the subject of taxation and the Royal Family.

Date published: 21.09.2022

Following the sad death of Queen Elizabeth and the accession to the throne of King Charles III, while the focus has rightly been on the period of mourning, the lying in state of Her Majesty and the State funeral the subject of taxation has been raised more than once in the press and through various other media.

There is nothing new to report, but this paper is a reminder of the position agreed in 1993 (when John Major was Prime Minister) in relation to the personal taxation of the Sovereign. All other members of the Royal Family have no special exemptions.

The position in relation to the taxation of the Sovereign was agreed and documented in a memorandum of 5 February 1993 together with its supplements of 23 July 1996 and 20 April 2009.

A new memorandum, updating the earlier one was agreed and implemented from 6 April 2013.

To summarise the main provisions of this Memorandum in relation to personal taxation, the following is an extract from the Executive Summary...

Taxation

1.2 The Sovereign is not legally liable to pay income tax, capital gains tax or inheritance tax because the relevant enactments do not apply to the Crown. The Prince of Wales is not legally liable to pay income tax on the income from the Duchy of Cornwall to which Crown exemption also applies (The Prince of Wales is otherwise subject to taxation in the normal way).

1.3 The Queen however pays income and capital gains tax, on a voluntary basis, and inheritance tax will also be paid voluntarily, to the extent described in paragraphs 1.9-1.10 below, on transfers of Her assets. The Prince of Wales also pays tax voluntarily on his income from the Duchy of Cornwall to the extent that is not used to meet official expenditure. These arrangements came into effect from 6 April 1993. The main features of the tax arrangements are described in this Report. The Memorandum of Understanding (at Annex A) gives full details.

1.4 Neither The Duchy of Lancaster nor the Duchy of Cornwall are liable to pay Income Tax, Capital Gains Tax or Inheritance Tax as they are Crown bodies subject to Crown exemption. However, the income from the Duchy of Lancaster forms part of The Queen's Privy Purse income and is taxed on the basis described in paragraph 1.6 below, whilst The Prince of Wales pays tax on his income from the Duchy of Cornwall as detailed in paragraph 1.3 above.

Income Tax

1.5 Tax is paid on all private sources of income such as investment income and trading profits.

1.6 Tax is also paid on The Queen's Privy Purse income to the extent that the income is not used for official purposes.

1.7 No account is taken of the Sovereign Grant provided to support The Queen in the fulfilment of Her Official Duties or of the cost of facilities and services borne on the Votes of Government Departments, since these are provided by Parliament to meet official expenses and to provide facilities for the performance of official business.

Capital Gains Tax

1.8 Capital gains tax has been paid from 6 April 1993 on any gains from the disposal of private assets on or after that date. The private proportion of capital gains in the Privy Purse is also taxed. For assets acquired before 6 April 1993 only the proportion of any gain or loss relating to the period from 6 April 1993 is taken into account.

Inheritance Tax

1.9 Some assets are held by The Queen as Sovereign rather than as a private individual. They are not sold to provide income or capital for the personal use of The Queen and pass from one Sovereign to the next. The official residences, the Royal Archives, the Royal Collection of paintings and other works of art and other assets held by The Queen in right of the Crown fall into this category. It would clearly be inappropriate for inheritance tax to be paid in respect of such assets.

1.10 In relation to assets which can properly be regarded as private, the arrangements provide that inheritance tax will not be paid on gifts or bequests from one Sovereign to the next, but will be payable on gifts and bequests to anyone else. Tax will also not be payable on assets passing to the Sovereign on the death of a consort of a former Sovereign. The reasons for not taxing assets passing to the next Sovereign are that private assets such as Sandringham and Balmoral have official as well as private use, and that the Monarchy as an institution needs sufficient private resources to enable it to continue to perform its traditional role in national life, and to have a degree of financial independence from the Government of the day.

The Prince of Wales

1.11 The Prince of Wales intends that, from his accession to the Throne, he should pay income tax and capital gains tax on the same basis as The Queen. He is also in agreement with the arrangements for inheritance tax.

Comment

Unsurprisingly, the focus of any recent debates on royal taxation has been on inheritance tax. There will no doubt have been more than a raised eyebrow in some quarters over the fact that there is no inheritance tax on assets passing from one Sovereign to the next on Private Assets. Some might argue that at the least (taking into account the arguments in relation to assets used for official and private use) there should be some tax payable on assets that do not fall into that “partial official use” category.

There appears to be no moves to change the current arrangements.

For a link to the full Memorandum and Appendix, please see [here](#).

020 7183 3931
www.riskassured.co.uk