01 / WHY THE CUSTOMER PAID LESS

A tax deduction is not the same as a discount.

What to check when an overseas customer withholds tax from your invoice.

What is withholding tax?

Some countries require a payer to deduct tax and pay it to their tax authority on the supplier's behalf. Whether this applies depends on the country, income type, work location and any tax treaty.

A treaty may reduce the rate or prevent the charge, but the customer may need documents before paying. Do not assume every foreign deduction is correct or automatically reclaimable from HMRC.

GET A CLEAR BREAKDOWN

Ask for the gross invoice amount, tax rate, tax amount, legal basis and official withholding certificate. Separate tax from bank fees, exchange differences and a genuine invoice dispute.

Example: £10,000 invoice

How the invoice is settled	Amount
Agreed fee	£10,000
Foreign tax withheld, assumed 10%	£1,000
Cash received	£9,000

The sale remains **£10,000** in this example. The £1,000 needs a separate tax/receivable assessment; it is not automatically a sales discount or bank charge.

This is separate from VAT. An invoice outside UK VAT can still raise foreign withholding questions, and a withholding certificate is not a VAT invoice.

Example only. No particular country or treaty is assumed and 10% is not a recommended or universal rate.

CHECK THE RULES Foreign tax credit conditions · Treaty relief and excessive withholding · HMRC certificate of residence

02 / WHEN UK RELIEF CAN HELP

A foreign tax credit has conditions and a limit.

The same income and the correct taxpayer must be identified.

Company example: credit allowed

Calculation	Amount
Foreign-source fee before withholding	£10,000
Related deductible costs	(£4,000)
UK taxable profit on that income	£6,000
UK Corporation Tax at assumed 25%	£1,500
Eligible foreign tax credit	(£1,000)
UK tax still payable on that profit	£500

Total tax in this example is £1,000 abroad + £500 UK = **£1,500**. The credit prevents paying that same £1,000 again; it is not an extra £1,000 cash refund.

Assumes ordinary UK tax applies, the source/treaty conditions are satisfied, the final £1,000 foreign tax is eligible, and the entire £6,000 is taxed at 25%. No losses, exemptions or other restrictions.

Why the claim can be restricted

Credit is normally limited to the lower of the eligible foreign tax and UK tax attributable to the same income. If eligible foreign tax were £2,000 and the UK limit £1,500, credit would normally be capped at £1,500.

HMRC does not refund the excess foreign tax. Other relief routes or an overseas reclaim may need review; they are not automatic.

EXCESSIVE FOREIGN TAX IS DIFFERENT

If a treaty should reduce the withholding, the extra amount is not normally rescued by claiming it all in the UK. Take the required steps to obtain the correct treaty treatment or reclaim it abroad.

A foreign customer does not by itself prove the income has a foreign source for UK credit purposes. The work, rights and treaty provisions matter.

CHECK THE RULES Foreign tax credit conditions · Double-tax relief and the same income · Treaty relief and excessive withholding · How a foreign tax credit is given

03 / PREVENT THE SHORT PAYMENT

Ask about withholding before agreeing a net cash target.

Use the contract and certificate process before the customer's payment run.

Before or after payment	What to record
Country, customer and contracting supplier	The legal person on the contract and invoice.
Type and location of work / rights supplied	Services, royalties or other income; where performed.
Proposed deduction and treaty position	Rate, legal basis, relief form and certificate deadline.
Proof of tax deducted	Official certificate, period, gross income and recipient.
UK and overseas action	Credit assessment, overseas reclaim or correction.

Certificate of residence: HMRC may provide one to support treaty relief where the requirements are met. It is not the same as a Companies House certificate, and the overseas authority decides whether relief is available under its process.

Agree the price: a contractual "gross-up" can change who funds a withholding cost. Do not add one casually; get the commercial and tax terms checked before signing.

SEND SBX THE FULL STORY

Send the contract, invoice, bank receipt, withholding certificate and any residence/treaty forms. Tell us about later foreign refunds so relief is not claimed twice or left overstated.

Contact our office or your account manager. info@sbxaccountants.com | 020 7046 1730

CHECK THE RULES HMRC certificate of residence · Treaty relief and excessive withholding · Foreign tax credit conditions · Taxed in two countries