



HM Government

# Memorandum of Understanding on Royal Taxation

March 2013





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Presented to the House of Commons  
pursuant to section 5(4) of the  
Sovereign Grant Act 2011

March 2013

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## Introduction

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**1.1** This report sets out the arrangements under which the Sovereign and The Prince of Wales make voluntary tax payments. It replaces and supersedes the memorandum of 5 February 1993 together with its supplements of 23 July 1996 and 20 April 2009. It will have effect from 6 April 2013.

### 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.

## The Royal Collection

**1.12** The Royal Collection comprises some 7,000 paintings and 20,000 old master drawings, as well as large numbers of prints, watercolours, miniatures, books, manuscripts, furniture, ceramics, gold and silver plate, arms and armour, jewellery (including the Crown Jewels), clocks, glass, sculpture and tapestries.

**1.13** Considerable efforts have been made to ensure that the Collection can be seen by a large number of people. The maintenance, conservation and presentation of the Royal Collection and Archives are funded by admissions income from visitors, and from the net profits of shops and other related activities, principally at the State Apartments at Windsor Castle, The Queen's Gallery, the Royal Mews and State Apartments at Buckingham Palace and the Palace of Holyroodhouse in Edinburgh.

**1.14** The Royal Collection Trust, a charitable trust established on 1 April 1993, is responsible for the maintenance, conservation and presentation of items from the Royal Collection, and from the Royal Archives, and for admissions and related income which is devoted exclusively to the Royal Collection and Archives. The Royal Collection Trust's responsibilities include ensuring that items in the Collection on which income generated by the trust is spent are publicly accessible. The Royal Collection Trust is registered with the Charity Commissioners and information regarding its constitution, objectives and trustees, and its annual audited accounts are publicly available.

**1.15** The Royal Collection will continue to be held by The Queen. The Queen does not benefit personally from the income generated by the Royal Collection; the income belongs to The Royal Collection Trust, and accordingly will not need to be taken into account under the income tax arrangements described in paragraphs 1.5 to 1.7.

## Administration

**1.16** Her Majesty's Revenue and Customs (HMRC) is responsible for collecting tax under the Memorandum of Understanding. The arrangements for providing information and making payments follow normal self assessment rules. The amounts paid are brought into account under the appropriate tax heading in HMRC's general account.

**1.17** As the Memorandum of Understanding makes clear, The Queen and The Prince of Wales are entitled to the same privacy and confidentiality in relation to their tax affairs as any other taxpayer. Accordingly, the Government will not publish any information relating to monies paid under these voluntary arrangements.

## Memorandum of Understanding

**1.18** The Memorandum of Understanding explains the arrangements in more detail. It describes how the amount of income from the Privy Purse and the Duchy of Cornwall on which tax is to be paid is to be calculated and makes provision for income used to meet certain categories of official expenditure to be disregarded. It also describes how the private proportion of Privy Purse capital gains is to be calculated.

**1.19** The Memorandum provides that any changes in the rates of taxation, or the introduction of new taxes or repeal of existing taxes, should apply to income and assets on which, under these arrangements. The Queen has agreed to pay tax, and to the income on which the Prince of Wales has agreed to pay tax, in the same way as to anyone else.

**1.20** The Memorandum of Understanding provides for the possibility of variation or termination of the arrangements; however, the agreement is expected to continue indefinitely. As indicated above, The Prince of Wales has confirmed that he intends the arrangements to apply on his accession to the Throne.

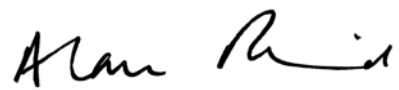
## Parliamentary Annuities

**1.21** A number of members of the Royal Family support The Queen in Her duties as Monarch. Prior to 1 April 2012, they received Parliamentary Annuities to meet the costs that they incur in carrying out a wide range of official engagements in the United Kingdom and overseas. Since 6 April 1993, The Queen has reimbursed all of these amounts directly to The Exchequer, except for the annuity for The Duke of Edinburgh.


**1.22** Under the provisions of the Sovereign Grant Act 2011, with the exception of the annuity for The Duke of Edinburgh, payment of the other Parliamentary Annuities has ceased. The Queen meets the costs of other members of the Royal Family who perform official duties on Her behalf.

## Conclusion

**1.23** The Government believes that the arrangements set out in the attached Memorandum of Understanding are fair and appropriate, taking account as necessary of the unique circumstances of the Monarchy. The Royal Trustees commend these arrangements for tax to the House, on behalf of The Queen and the Government.



Sir Alan Reid, Keeper of the Privy Purse



William Nye, Principal Private Secretary to the Prince of Wales and Duchess of Cornwall



Sir Nicolas Macpherson, Permanent Secretary to the Treasury



Lin Homer, CEO and Permanent Secretary, Her Majesty's Revenue and Customs

13 March 2013





# Memorandum of Understanding on Royal taxation

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## Introduction

**A.1** The Queen graciously agreed to pay income tax, capital gains tax or inheritance tax, from 6 April 1993, on a voluntary basis, in accordance with the arrangements set out in a Memorandum of Understanding dated 5 February 1993 (as amended on 23 July 1996 and 20 April 2009). The Prince of Wales has confirmed that he intends to pay tax on the same basis following his accession to the Throne.

**A.2** The Prince of Wales voluntarily pays income tax on Duchy of Cornwall income not used for official purposes.

**A.3** The arrangements under which tax is paid voluntarily are set out in this Memorandum of Understanding, which replaces the Memorandum of Understanding dated 5 February 1993. It has effect in relation to the tax year beginning on 6 April 2013 and for subsequent tax years.

## Summary of main provisions

**A.4** The memorandum makes provision for:

- income tax and capital gains tax to be paid in respect of the whole of The Queen's private income and assets in accordance with normal tax rules;
- income tax and capital gains tax to be paid in addition on the proportion of the income and capital gains of the Privy Purse (which is partly funded by income from the Duchy of Lancaster) used for private purposes, and includes rules for calculating the private proportion which is to be taxed;
- the Sovereign Grant and any facilities provided for The Queen out of public funds for "Head of State" duties to be disregarded for income tax purposes;
- inheritance tax to be paid on The Queen's assets, but without regard to those which pass to the next Sovereign, whether automatically or by gift or bequest;
- The Prince of Wales to pay income tax on income from the Duchy of Cornwall not used for official purposes, and includes rules for calculating the private proportion which is to be taxed;
- the same tax arrangements to apply to The Prince of Wales, following his accession, as apply to The Queen;
- The Queen and The Prince of Wales to have the same privacy and confidentiality as other taxpayers;
- the payment of tax and other administrative matters; and
- the arrangements to continue indefinitely, but for termination or variation in changed circumstances.

## Income tax

**A.5** Income tax is paid, on private income, in accordance with ordinary income tax rules, subject to the provisions of paragraphs A.7 to A.10 and A.15 below.

## Definition of private income which is to be taxed

**A.6** Income tax is paid on all private sources of income.

**A.7** In addition, income tax is paid on the income of the Privy Purse (which includes income received from the Duchy of Lancaster) to the extent that it is not used to defray expenditure in connection with the official duties of The Queen or members of the Royal Family who undertake official duties on behalf of The Queen. The amount of Privy Purse income to be taxed and the expenses taken into account are to be determined in the way set out in Appendix A.

**A.8** At present The Queen derives no income from the Duchy of Cornwall. But the Sovereign is entitled to that income at any time when there is no Duke of Cornwall, and to 90 per cent of that income when the Duke is a minor. In that event Duchy of Cornwall income is used first to replace Sovereign Grant and voted payments of Sovereign Grant are reduced accordingly. Only the excess, if any, of the Duchy of Cornwall income over the Sovereign Grant expenditure is to be at the Sovereign's disposal. If at any time there is such an excess, it will be taken into account in arriving at the amount on which tax is to be paid in the same way as for income from the Duchy of Lancaster.

**A.9** The Sovereign Grant and any facilities provided to The Queen out of public funds for Head of State duties are disregarded for income tax purposes.

**A.10** The Queen has made items from the Royal Collection of paintings and other works of art, and items from the Royal Archives, available to the Royal Collection Trust, which has responsibility for safeguarding, maintaining, and exhibiting them. The ownership of The Royal Collection and Archives will remain with the Crown. However, The Royal Collection Trust is entitled to all the income arising from items from the Royal Collection and Archives, and all such income, and the corresponding expenses, is accordingly disregarded for the purposes of these arrangements.

## **Capital gains tax**

**A.11** Capital gains tax is paid in respect of any chargeable gains arising from the disposal of private assets on or after 6 April 1993.

**A.12** Any liability to capital gains tax is calculated in accordance with ordinary capital gains tax rules for the year in question, subject to the provisions of paragraphs A.13 and A.14.

## **Definition of private assets for capital gains tax**

**A.13** Because the Privy Purse meets official and private expenditure, it is necessary to determine the proportion of the assets belonging to the Privy Purse which should be regarded as private for capital gains tax purposes. The proportion regarded as private in any year is to be calculated as set out in Appendix A; and that proportion of any capital gains or losses relating to disposals of Privy Purse assets will accordingly be taken into account in determining any capital gains tax liability.

## **Transitional provision**

**A.14** Where there is a disposal of an asset acquired before 6 April 1993, any gain or loss shall be calculated as though the asset had been acquired on 5 April 1993 at its market value on that date. Alternatively, for assets other than shares and securities quoted on a recognised stock exchange, any gain or loss may be calculated in accordance with the normal rules by reference to the actual cost and date of acquisition (or, where appropriate, market value on 31 March 1982), but with the gain or loss time-apportioned so that regard is had only to the proportion relating to the period of ownership from 6 April 1993 to the date of disposal.

## **Arrangements for statements of chargeable income and gains, and payment of tax**

**A.15** A statement of income and gains to be taxed, calculated in accordance with these arrangements, is prepared and delivered on behalf of The Queen, and the tax payable for any tax year is to be paid, in accordance with the normal rules of self assessment.

## **Inheritance tax**

**A.16** No inheritance tax will be payable in respect of assets which are held by The Queen as Sovereign, rather than as a private individual, or in respect of any other assets held in right of the Crown or required for the official purposes of the Crown.

**A.17** For other assets the normal rules for computing inheritance tax will apply to gifts and bequests (i.e. transfers of value) from or to The Queen, except that:

- bequests to the new Sovereign on the death of The Queen and gifts to the new Sovereign before The Queen's death will be disregarded;
- no inheritance tax will be payable which would reduce assets passing to the Sovereign on the death of a consort of a former Sovereign; and
- for gifts and bequests from The Queen, the inheritance tax threshold will be regarded as nil.

**A.18** These arrangements will apply to gifts and bequests made on or after 6 April 1993.

## **Arrangements for accounts of amounts chargeable to inheritance tax and payment of tax**

**A.19** An account of those assets upon which Inheritance Tax is payable in accordance with the terms of this Memorandum will be provided within 12 months of, and the tax will be due six months after, the end of the month in which death, or the relevant transfer or event, occurs, subject to the instalment facilities and any provisions for deferral available under the normal rules of inheritance tax. Where any tax is paid or repaid after the due date, interest will run, at the appropriate rate, from the due date to the date of payment or repayment.

## **Changes in taxation**

**A.20** Any changes in taxation falling on personal income, capital gains or private assets, including the repeal of existing taxes or the introduction of new taxes, will apply in calculating the tax due under these arrangements on The Queen's private income, chargeable gains and assets, as defined above.

## **Successors to The Queen**

**A.21** It is intended that the arrangements in this Memorandum of Understanding should continue indefinitely and should apply to successors to The Queen, with or without variation, unless any successor decides otherwise. The Prince of Wales has confirmed that he intends that these arrangements will apply to him on his accession to the Throne.

## **The Prince of Wales**

**A.22** The Prince of Wales pays income tax on income arising after 6 April 1993 from the Duchy of Cornwall to the extent that it is not used to defray expenditure in connection with his official

duties, or official duties performed by any members of his family. The amount of Duchy of Cornwall income to be taxed and the expenses to be taken into account, are to be determined in the way set out in Appendix B. The arrangements for statements of taxable income and payment of tax set out in paragraph A.15 will also apply to The Prince of Wales in relation to income from the Duchy of Cornwall.

## **Administration**

### **Agreement of tax due**

**A.23** All statements and accounts required under these arrangements are made to HMRC, and the amount due is agreed with them and paid to them.

### **Accounting for tax paid**

**A.24** Amounts paid are brought to account in HMRC's General Account of Receipts and Payments under the appropriate tax heading.

### **Disagreements**

**A.25** If, exceptionally, HMRC are unable to agree the amount to be paid under this voluntary agreement, the Chancellor of the Exchequer shall decide the point at issue, on a joint submission from HMRC and representatives of The Queen or The Prince of Wales.

### **Confidentiality**

**A.26** In relation to anything done in respect of this voluntary agreement The Queen and The Prince of Wales shall be entitled to full privacy and confidentiality in the same way as any other taxpayer; but this shall not preclude any exchange of information between the Treasury and HMRC which is necessary for the proper implementation of these arrangements.

### **Termination or variation**

**A.27** The Queen or The Prince of Wales may, at any time, give notice to the Government of withdrawal from these arrangements with effect from the following 6 April, or any later date.

**A.28** These arrangements have been drawn in wide terms but it is recognised that it might be appropriate to agree variations if circumstances change. In that event, it is open to the holder for the time being of the office held by any signatory to this Memorandum of Understanding to propose that the arrangements should be changed from the following 6 April or from some later date.

## **Publication**

**A.29** It is intended that this Memorandum of Understanding should be published. It is agreed that any termination or variation of the arrangements, in accordance with paragraphs A.27 or A.28, will also be published on or before the date it takes effect.

**A.30** Where a successor to The Queen agrees that the Memorandum of Understanding should apply, in accordance with paragraph A.21, particulars of any variation will be published as soon as possible after agreement has been reached.

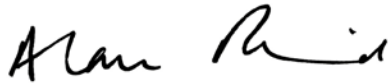
## **Operation of the arrangements**

**A.31** In keeping with the voluntary nature of the arrangements this Memorandum has been drafted in general terms. However, the tax affairs of The Queen and The Prince of Wales will continue to be ordered in a straightforward manner and the provisions included in this


Memorandum will not be used to reduce tax payments by themselves or other members of the Royal Family in circumstances which the provisions were not intended to cover.

## Signatories

**A.32** This Memorandum of Understanding is signed below, by representatives of The Queen, The Prince of Wales and the Government, as a record of the arrangements agreed between them for the payment of income, capital gains and inheritance tax on a voluntary basis.



Sir Alan Reid, Keeper of the Privy Purse



William Nye, Principal Private Secretary to the Prince of Wales and Duchess of Cornwall



Sir Nicolas Macpherson, Permanent Secretary to the Treasury



Lin Homer, CEO and Permanent Secretary, Her Majesty's Revenue and Customs

13 March 2013

## Appendix A

# Rules for determining the income and capital gains of the Privy Purse on which tax is to be paid

## 1. Introduction

The primary purpose of the Privy Purse (which receives the income distributed by the Duchy of Lancaster and has its own sources of income) is to meet expenditure incurred by, or on behalf of, The Queen as Head of State but not charged to the Sovereign Grant. But, to a lesser extent, the Privy Purse also meets some of The Queen's personal expenditure. This annex sets out how the income of the Privy Purse is to be calculated, and the categories of expenditure incurred by The Queen as Head of State which are to be taken into account in arriving at the amount of the income of the Privy Purse on which tax is to be paid, so that tax falls only on that part of the income which is used for The Queen's personal expenditure.

## 2. General Rules

The amount of income from the Duchy of Lancaster and from the Privy Purse's other sources of income which is to be taxed in any year is the sum of:

- a the net surplus earned by the Duchy of Lancaster in the year in question, whether or not transferred to the Privy Purse in full during that year; and
- b the full amount of the other income arising to the Privy Purse in that year, calculated in accordance with ordinary income tax rules;  
less
- c the aggregate of the expenses listed in paragraph 4 below which are met from the Privy Purse and were incurred in the year concerned.

**3.** If in any year the amount to be deducted under paragraph 2(c) exceeds the sum of the amounts under 2(a) and 2(b), the excess may be carried forward and added to the amount deductible under 2(c) in the following year.

## 4. Expenses to be taken into account

- 1 Payments made to and in connection with staff employed, or pensioners previously employed, for official purposes; in the case of staff or pensioners whose duties are or were only partly official, the proportion relating to their official duties;
- 2 The accountancy, legal, administrative, medical, insurance and investment advisory costs relating to the official functions of the Privy Purse;
- 3 Donations, cups, prizes, flowers and presents given in an official capacity;
- 4 Payments made to other Members of the Royal Family to meet official expenses incurred in assisting The Queen in carrying out Her official duties.
- 5 The proportion of the costs of maintaining and running the properties and estates at Balmoral and Sandringham which relates to their use for official purposes. No account is to be taken of costs relating to forestry or sporting facilities;
- 6 The cost of uniforms but not other clothing incurred by The Queen and other members of the Royal Family for official purposes; and

- 7 Any expenses not falling under any of the preceding paragraphs which are incurred by The Queen or other members of the Royal Family in an official capacity or in connection with official duties.

## **5. Private Proportion of Privy Purse Assets for Capital Gains Tax**

As The Queen is not entitled to the assets or capital gains of the Duchy of Lancaster, no account is to be taken of capital gains or losses arising from the disposal of its assets. But The Queen is entitled to the assets of the Privy Purse, and any capital gains arising on them. It is necessary therefore to identify the proportion of the assets of the Privy Purse itself which is to be regarded as private so that that proportion of any capital gains or losses can be taken into account.

**6.** The proportion is to be calculated each year in the same way as the proportion of the income of the Privy Purse which is to be taxed (paragraph 2 above). But because Duchy of Lancaster gains are to be disregarded, no account is to be taken of the Duchy of Lancaster income receivable by the Privy Purse, or of Privy Purse expenses except to the extent that they exceed Duchy of Lancaster income. The proportion of Privy Purse gains and losses to be taken into account in any year is thus:—

$$\frac{A - B}{A}$$

A

where A = Privy Purse Income, and

B = any excess of Privy Purse expenses over Duchy of Lancaster income.



## **Appendix B**

### **Rules for determining the income of the Duchy of Cornwall on which tax is to be paid**

#### **1. General Rule**

The amount of income from the Duchy of Cornwall which is to be taxed in any year is the net surplus earned in the year in question, whether or not paid in full to The Prince of Wales in that year less the aggregate of the expenses listed in paragraph 3 incurred in that year.

**2.** If in any year the amount to be deducted in respect of the expenses listed in paragraph 3 exceeds the net surplus earned by the Duchy of Cornwall for the year in question, the excess may be carried forward and set against Duchy income for the following year or, if necessary, any subsequent year.

#### **3. Expenses to be taken into account**

- 1 Payments made to meet official expenses incurred by The Prince of Wales and any members of his family in assisting The Queen in carrying out Her official duties;
- 2 The proportion of the costs of maintaining and running various properties and estates which relates to their use for official purposes. No account is to be taken of costs relating to forestry, sporting facilities or costs met by the Sovereign Grant;
- 3 The cost of uniforms but not other clothing incurred by The Prince of Wales and any members of his family for whom he incurs official expenses, for official purposes; and
- 4 Any expenses not falling under any of the preceding paragraphs which are incurred by The Prince of Wales and any members of his family in an official capacity or in connection with official duties.

Note: No question of capital gains tax arises in relation to the Duchy of Cornwall since The Prince of Wales is not entitled to its capital or capital gains.



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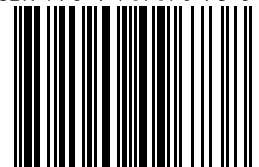
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Correspondence Team  
HM Treasury  
1 Horse Guards Road  
London  
SW1A 2HQ

Tel: 020 7270 5000

E-mail: [public.enquiries@hm-treasury.gov.uk](mailto:public.enquiries@hm-treasury.gov.uk)

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