

FINANCE ACT 2014

EXPLANATORY NOTES

INTRODUCTION

Section 22: Threshold for Benefit of Loan to Be Treated as Earnings

Summary

1. This section introduces an increase in the current statutory threshold in section 180 of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA) from £5,000 to £10,000 for loans provided by an employer with interest at less than commercial rates, sometimes known as ‘beneficial loans’. This section prevents a tax charge on small amounts of benefit arising from cheaper loans by providing a £10,000 threshold which applies in the two circumstances explained below.

Details of the Section

2. The section increases the current beneficial loans threshold from £5,000 to £10,000, effective from 6 April 2014 and for subsequent years. The increase in the threshold applies to all loans, no matter when they were taken out.
3. Section 180(1)(a) of ITEPA 2003 is amended to provide that the ‘normal’ threshold for the cash equivalent of an employed related loan is increased to £10,000. No tax is chargeable if the balance outstanding on all beneficial loans does not exceed £10,000 in the year of assessment.
4. Section 180(1)(b) of ITEPA 2003 is amended to provide that where the balance outstanding on all beneficial loans exceeds the threshold, but the balance outstanding on non-qualifying loans does not exceed £10,000 throughout the tax year, no tax is chargeable in respect of the non-qualifying loans.
5. Section 180(2) of ITEPA 2003 is amended to provide the increase to £10,000 where all taxable cheap loans are aggregated to find whether the normal £10,000 threshold is exceeded for the purposes of subsection (1)(a).
6. Section 180(3) of ITEPA 2003 is amended to provide that for non-qualifying loans (subsection 1(b)), the £10,000 limit will also apply to the calculation where taxable cheap loans are aggregated. So if the qualifying loans are deducted and the total is then less than £10,000 the cash equivalent of the non-qualifying loans is not treated as earnings.
7. Subsections (4) and (5) which define “non-qualifying loan” and “qualifying loan” are not amended.
8. Subsection 2 provides for the increase in the threshold to be effective from the beginning of the 2014-15 tax year and subsequent years.

Background Note

9. The beneficial loan threshold has remained unchanged since it was first introduced in section 88(3) of the Finance Act 1994. The increase in the threshold is to ensure that it more accurately reflects the current levels of such loan arrangements.

*These notes refer to the Finance Act 2014 (c.26)
which received Royal Assent on 17 July 2014*

10. Although a beneficial loan can be taken out for any purpose by an employee, one of the most common reasons is to fund the purchase of season tickets for commuting.