

FINANCE ACT 2015

EXPLANATORY NOTES

INTRODUCTION

Section 23: Exceptions from Duty to Deduct Tax: Qualifying Private Placements

Summary

1. This section amends the rules on the deduction of income tax from payments of yearly interest. It provides for an exception from the duty to deduct income tax from interest paid on qualifying private placements, with effect from a date to be set in regulations.

Details of the Section

2. Subsection (1) of the section inserts a new section 888A into Chapter 3 of Part 15 of the Income Tax Act 2007 (ITA).
3. Subsection (1) of new section 888A provides that the duty to deduct income tax from yearly interest does not apply to a payment of interest on a 'qualifying private placement'. This is defined in subsection (2) as a security which represents a debtor loan relationship of a company, is not listed on a recognised stock exchange and meets such other conditions as are set in regulations. Subsection (6) provides that 'loan relationship' takes its meaning from Part 5 of the Corporation Tax Act 2009.
4. Subsections (3) to (5) of new section 888A set out the provisions that apply to regulations made under this section. They provide, among other matters, that the regulations may set out conditions relating to the security itself, the debtor company, the holder of the security, the consequences where a payment is made in the reasonable but mistaken belief that the security was a qualifying private placement, and to transitional and similar cases.
5. Subsection (2) to (4) of the section set out the commencement provisions. The power to make regulations under the new section 888A comes into force on and after the date of Royal Assent to Finance Act 2015. The exemption from the duty to deduct income tax will apply from a date to be set in regulations.

Background Note

6. Private placements are a form of unlisted debt instrument. The *Breedon Report* of March 2012 recommended increasing the number of UK-based private placement investors in order to unlock a new source of financing for mid-sized borrowers.
7. Where a UK company pays yearly interest on borrowings, tax rules require the company to deduct income tax from the payment. However, there are a number of exemptions from this requirement, and where the borrowing is from a non-UK lender, double taxation treaties commonly allow interest to be paid gross or at a reduced rate of withholding. This measure will remove an obstacle to the development of the UK private placement market by providing a specific exemption for private placements that meet certain qualifying conditions.

*These notes refer to the Finance Act 2015 (c.11)
which received Royal Assent on 26 March 2015*

8. The power to make regulations provided in this measure allows detailed conditions to be set out in relation to private placements to qualify for the exemption from the duty to deduct income tax. These regulations will allow the exemption to be appropriately targeted.