

**EXPLANATORY MEMORANDUM TO THE
THE TAXES (INTEREST RATE) (AMENDMENT) REGULATIONS 2007**

2007 No. 684

1. This explanatory memorandum has been prepared by the Treasury and is laid before the House of Commons by Command of Her Majesty.

This memorandum contains information for the Select Committee on Statutory Instruments.

- 2. Description**

These regulations raise the official rate of interest used when employers calculate the tax charge that arises on free or cheap loans they provide to their employees to 6.25% from 6 April 2007.

- 3. Matters of special interest to the Select Committee on Statutory Instruments**

None

- 4. Legislative Background**

This instrument is being made to effect an increase of the official rate of interest applicable under section 178 of the Finance Act 1989 for the purposes of section 181 of the Income Tax (Earnings and Pensions) Act 2003.

- 5. Territorial Extent and Application**

This instrument applies to all of the United Kingdom.

- 6. European Convention on Human Rights**

As this instrument is subject to negative resolution procedure and does not amend primary legislation no statement is required.

- 7. Policy background**

7.1 Directors and employees earning £8,500 a year or more are taxable on benefits in kind they receive by reason of their employment. Where an interest free or low interest loan is made to an employee, the tax charge is on the difference between any interest paid by the employee and the interest which would have been paid at the official rate of interest. Where a tax charge arises, employers also pay Class 1A NICs on the benefit.

7.2 The official rate of interest is set by Treasury regulations by reference to prevailing average bank and building society mortgage rates. New regulations are only necessary if the official rate is changed. The current rate of 5% has been in place since January 2002.

7.3 Since 2000 the policy has been to announce the official rate in advance, with the aim of the rate applying for the whole of the following tax year; this simplifies record keeping and benefit valuation for employers. But the rate can be amended during a tax year if interest rates change dramatically.

8. Impact

8.1 A Regulatory Impact Assessment has not been prepared for this instrument as it has no significant impact on business, charities or voluntary bodies.

8.2 There is no impact on the public sector.

9. Contact

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