
EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations amend regulation 5 of the Taxes (Interest Rate) Regulations 1989.

That regulation sets the applicable rate for the purposes of Chapter 7 of Part 3 of the Income Tax (Earnings and Pensions) Act 2003 (“ITEPA 2003”). Chapter 7 sets out the circumstances in which employment related loans give rise to a taxable benefit on the amount by which the interest actually paid is less than the amount that would have been due if calculated at “the official rate of interest”. Section 181 of ITEPA 2003 defines the official rate of interest as, in effect, the rate specified in regulation 5.

The principal amendment made by these Regulations specifies, with effect from 1st March 2009, a new generally applicable rate of interest of 4.75 per cent per annum, in substitution for the rate of 6.25 per cent per annum. The rates of interest specified in relation to Japan and Switzerland in paragraph (2) of regulation 5 remain the same. There is a minor amendment to replace references to section 181 with Chapter 7 so as to confirm that the official rate is set for the purposes of the Chapter as a whole (as provided for by section 181(1)).

A full and final Impact Assessment has not been produced for this instrument as a negligible impact on the private or voluntary sectors is foreseen.