

EXPLANATORY MEMORANDUM TO
THE TAXES (INTEREST RATE) (AMENDMENT) REGULATIONS 2015

2015 No.411

1. This explanatory memorandum has been prepared by HM Revenue and Customs (HMRC) and is laid before the House of Commons by Command of Her Majesty.

2. Purpose of the instrument

This instrument reduces the “official rate of interest” applicable under section 178 of the Finance Act 1989 for the purposes of Chapter 7 of Part 3 of the Income Tax (Earnings and Pensions) Act 2003 (taxable benefits: loans) (“ITEPA”).

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

None.

4. Legislative Context

4.1 Regulation 5 of the Taxes (Interest Rate) Regulations 1989 sets the applicable rate for the purposes of Chapter 7 of part 3 of ITEPA. Chapter 7 sets out the circumstances in which employment-related loans give rise to a taxable benefit on the amount by which the interest rate paid is less than the amount that would have been due if calculated at the “official rate of interest”. The legislation allows for a generally applicable official interest rate to be set and for different official rates where the loan is in a foreign currency and other conditions apply.

4.2 These regulations reduce the generally applicable rate.

5. Territorial Extent and Application

This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

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

7. Policy background

- *What is being done and why*

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

7.2 HMRC's policy is to confirm the official rate in advance of the new tax year to help simplify record keeping and benefit valuation for employers.

7.3 The latest review on average interest rates on mortgages has indicated that the official rate of interest should be reduced. Accordingly, these regulations reduce the current official rate of interest of 3.25% to 3.0% with effect from 6 April 2015.

- ***Consolidation***

7.4 There are no plans to consolidate the instrument that is being amended. No free informal consolidated text is available.

8. Consultation outcome

No consultation has been undertaken as the amendment is in line with the procedure contained in the publicly announced policy.

9. Guidance

The official rate of interest is posted on the Government website and previously on the HMRC website. This is known and established practice. It is also included in the Employment Income Manual which is used by employers and their agents and this will be updated. Form P11D (INT) advises employers of the official rate which is posted on the Government website and is sent to all employers as part of the employers pack.

10. Impact

10.1 The impact on business, charities or voluntary bodies is negligible.

10.2 No impact on the public sector is foreseen.

10.3 A Tax Information and Impact Note has not been prepared for this instrument as it contains no substantive changes to tax policy.

11. Regulating small business

11.1 The legislation applies to small business.

11.2 A Small Firms Impact Test has not been undertaken because the legislation does not alter the operation of existing procedures.

12. Monitoring & review

12.1 HMRC will continue to monitor mortgage rates and amend the regulations to change the rate if appropriate.

13. Contact

Alastair Dougans at HMRC, tel: 03000 584745 or email: employmentincome.policy@hmrc.gsi.gov.uk, can answer any queries regarding the instrument.