
EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations amend the Taxes (Interest Rate) Regulations 1989 (S.I. 1989/1297) (“the 1989 Regulations”).

The 1989 Regulations set the official rate of interest for the purposes of Chapter 7 of Part 3 of the Income Tax (Earnings and Pensions) Act 2003 (c. 1) (“ITEPA”). Chapter 7 provides that tax is chargeable on an employment-related loan to the extent that the interest rate that it carries is lower than the official rate of interest. Calculation of the cash equivalent of the benefit of the loan for any tax year, which is generally the amount of the benefit that will be treated as earnings from the employment, is the difference between the amount of interest on the loan at the official rate and the amount of interest paid on the loan for that year. Section 181 of ITEPA in effect defines “the official rate of interest” as the rate prescribed in regulation 5 of the 1989 Regulations.

Regulation 2 increases the generally applicable official rate of interest from 2.00 per cent to 2.25 per cent per annum with effect from 6th April 2023. It does not affect the modified official rates that apply in relation to Japan and Switzerland, which are prescribed in regulation 5(2) of the 1989 Regulations.

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