

EXPLANATORY MEMORANDUM TO
THE TAXES (INTEREST RATE) (AMENDMENT) REGULATIONS 2025

2025 No. 270

1. Introduction

1.1 This explanatory memorandum has been prepared by His Majesty's Revenue and Customs (HMRC) and is laid before the House of Commons by Command of His Majesty.

2. Declaration

- 2.1 James Murray MP, Exchequer Secretary to the Treasury, confirms that this Explanatory Memorandum meets the required standard.
- 2.2 Philip Batchelor, Deputy Director for Income Tax Policy, at HMRC confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Philip Batchelor at HMRC, email: policyemploymentbenefits@hmrc.gov.uk can be contacted with any queries regarding the instrument.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

- 4.1 This instrument increases 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 (ITEPA).
- 4.2 Regulation 5 of the Taxes (Interest Rate) Regulations 1989 (S.I. 1989/1297) sets the generally applicable rate of interest for the purposes of Chapter 7 Part 3 of ITEPA. Chapter 7 sets out the circumstances in which employment-related loans give rise to a taxable benefit. The value of this benefit is based 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.

Where does the legislation extend to, and apply?

- 4.3 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is the United Kingdom.
- 4.4 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the United Kingdom.

5. Policy Context

What is being done and why?

- 5.1 Directors and employees 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. The official rate of interest is also used to determine the taxable benefit of employer-provided living accommodation, in cases where the value of the property exceeds £75,000.
- 5.2 HMRC confirms the official rate of interest in advance of the new tax year to help simplify record keeping and benefit valuation for employers.
- 5.3 The latest review of average interest rates on mortgages has indicated that the official rate of interest should be increased. Accordingly, this instrument increases the current official rate of interest of 2.25% to 3.75% with effect from 6 April 2025.
- 5.4 The Government announced at Autumn Budget 2024 that the official rate of interest may increase during the tax year. From 6 April 2025 the official rate of interest may increase or decrease, as appropriate, following each quarterly review. This will ensure that employment-related beneficial loans and living accommodation are correctly valued.

What was the previous policy, how is this different?

- 5.5 The official rate of interest was previously set at 2.25% for the 2023-24 and 2024-25 tax years. Following the latest HMRC review of average interest rates, this instrument increases the rate to 3.75% for the 2025-26 tax year effective from 6 April 2025.

6. Legislative and Legal Context

How has the law changed?

- 6.1 This instrument determines that employers should use the increased official rate of interest of 3.75% for the year 2025-26 to calculate the value of the relevant taxable benefits they provide to their employees.

Why was this approach taken to change the law?

- 6.2 This is the only possible approach to make the necessary changes.

7. Consultation

Summary of consultation outcome and methodology

- 7.1 No consultation has been undertaken as the amendment is in line with the procedure contained in HMRC's publicly announced policy regarding the official rate of interest.

8. Applicable Guidance

- 8.1 The official rate of interest is posted on the gov.uk website.¹

¹ Official Rate of Interest: www.gov.uk/government/publications/rates-and-allowances-beneficial-loan-arrangements-hmrc-official-rates/beneficial-loan-arrangements-hmrc-official-rates

- 8.2 It is also included in the Employment Income Manual, which is used by employers and their agents, and this will be updated.² Form P11D advises employers of the official rate which is posted on the government website.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

- 9.1 A full Impact Assessment has not been prepared for this instrument because the legislation relates to maintenance of existing regulatory standards.

Impact on businesses, charities and voluntary bodies

- 9.2 There is no, or no significant, impact on business, charities or voluntary bodies because there are no substantive changes to tax policy.
- 9.3 The legislation does not impact small or micro businesses.
- 9.4 There is no, or no significant, impact on the public sector because there are no substantive changes to tax policy.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

- 10.1 The approach to monitoring this legislation is that HMRC will continue to monitor mortgage rates on a quarterly basis and will amend the legislation to change the rate if appropriate.
- 10.2 The instrument does not include a statutory review clause because of a tax exemption in section 28(3)(a) of the Small Business, Enterprise and Employment Act 2025.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

- 11.1 None.

12. European Convention on Human Rights

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

13. The Relevant European Union Acts

- 13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 (“relevant European Union Acts”).

² Employment Income Manual: www.gov.uk/hmrc-internal-manuals/employment-income-manual/eim26104