HM Revenue & Customs

Income tax: deduction at source from interest paid on private placements

Who is likely to be affected?

Companies that make payments of yearly interest on a form of unlisted debt instrument known as a private placement.

General description of the measure

This measure will provide an exception from the obligation to deduct income tax from yearly interest paid on private placements which meet certain conditions. Such instruments will be known as 'qualifying private placements'.

Policy objective

The development of the private placement market will provide a new source of financing for mid-size businesses and infrastructure projects. It removes an obstacle to the development of a market for UK-based private placements by introducing an exemption from the obligation to deduct income tax from interest paid on such instruments. The measure will incorporate appropriate safeguards to ensure the exemption from withholding tax obligations in such cases is not abused. It supports the Government's objective of making the tax system more competitive.

Background to the measure

This measure was announced at Autumn Statement 2014.

Detailed proposal

Operative date

The primary legislation for this measure will have effect on or after the date of Royal Assent to Finance Bill 2015. Regulations made under the power provided in this primary legislation will come into force on the date specified in the regulations.

Current law

Part 15 of the Income Tax Act 2007 (ITA) sets out the rules that require deduction of income tax at source from certain types of payment. The rules on the deduction of income tax from payments of yearly interest arising in the UK, including certain exceptions from this obligation, are set out in Chapter 3 of Part 15 ITA.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend Chapter 3 of Part 15 ITA to include an exception from the duty to deduct income tax from qualifying private placements. The legislation will set out certain gateway conditions, including requirements that the instrument must represent a loan relationship of a company, be issued for a minimum period of three years, and not be listed on a recognised stock exchange. In addition to setting out these key conditions, the primary legislation will allow for further conditions to be set out in regulations, in relation to the security itself and the terms and conditions of its issuance, and in relation to the issuer and holder of the security.

Detailed regulations made under this power will be developed in consultation with stakeholders following publication of the primary legislation. Draft regulations may provide for the issuers and holders of such instruments to be limited to certain types of entity, and for the issuances to be restricted to a certain size. The regulations will include anti-avoidance provisions to apply where the security is held for an unallowable purpose, and will set out the consequences of having paid interest gross in circumstances where the exception should not have applied. A Technical Note on draft regulations was published on 10 December 2014.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer.					
Economic impact	The measure is expected to stimulate the use of private placements as a source of finance for medium sized businesses and infrastructure projects.					
Impact on individuals, households and families	The proposed changes will apply only to companies. The measure will have no impact on individuals, or on family formation, stability or breakdown.					
Equalities impacts	This measure applies only to companies and will not impact on any equality group.					
Impact on business including civil society organisations	This measure will facilitate the growth of private placements as a source of finance for business. It will affect only a small number of companies but will remove an obstacle to the growth of the private placement market. It will not impose any new administrative burdens on business.					
Operational impact (£m) (HMRC or other)	It is not anticipated that implementing this change will incur any additional costs for HM Revenue & Customs (HMRC).					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

HMRC will monitor the impact of this measure through engagement with stakeholders.

Further advice

If you have any questions about this change, please contact Tony Sadler on 03000 585479 (email: tony.sadler@hmrc.gsi.gov.uk) or contact Mark Lafone on 03000 585613 (email: mark.lafone@hmrc.gsi.gov.uk).