

Clause 1: Corporate interest restriction: minor amendments

Summary

1. This clause makes technical amendments to the Corporate Interest Restriction (CIR) rules in Part 10 of, and Schedule 7A to the Taxation (International and Other Provisions) Act 2010 (TIOPA) to ensure that the regime works as intended.

Details of the clause

2. Subsection 1 introduces amendments to Part 10 of TIOPA.
3. Subsection 2 introduces new subsection 452(2A), which clarifies that for the purposes of section 452, a company is deemed to carry on a residual business within the charge to UK corporation tax, regardless of whether or not the company actually has a business other than a property rental business. Accordingly, any amounts that are required to be brought into account by section 452 in respect of the residual business are within the charge to UK corporation tax.
4. Subsection 3 provides that new subsection 452(2A) applies from 21 July 2020.
5. Subsection 4 introduces new paragraph 29A into Schedule 7A to, which provides that a reporting company is not liable to a late filing penalty where the company has a reasonable excuse for the failure and the return is submitted as soon as possible once the reasonable excuse ceases.
6. Subsection 5 provides that paragraph 29A applies from 1 April 2017.

Background note

7. The CIR rules restrict the ability of large businesses to reduce their taxable profits through excessive UK interest and similar expenses. They are part of the government's policy to align the location of taxable profits with the location of economic activity. They are consistent with the UK's more territorial approach to corporate taxation, and the OCED Base Erosion and Profit Shifting (BEPS) Action 4 (Limiting Base Erosion Involving Interest Deductions and Other Financial Payments) recommendations.
8. The CIR rules were enacted in Finance (No.2) Act 2017 and apply from 1 April 2017. They were subject to technical amendments in Finance Act 2018 and in Finance Act 2019.
9. As a result of further engagement with affected businesses, two minor amendments to the legislation have been identified that are necessary for the regime to work as

intended.

10. The first amendment concerns the interaction of the CIR with rules for UK Real Estate Investment Trusts (REITs). From 6 April 2020, UK property businesses of non-resident companies are brought into the charge of corporation tax rather than income tax. The amendment clarifies that a non-resident company within a UK REIT group would face a UK corporation tax charge where a CIR disallowance is allocated to the residual business company.
11. The second amendment addresses the unintended omission of ‘reasonable excuse’ as a ground for late submission of an interest restriction return without penalty.
12. For further information about the CIR rules, please refer to:
<https://www.gov.uk/guidance/corporate-interest-restriction-on-deductions-for-groups> .
13. If you have any questions about this change, or comments on the legislation, please contact Adeline Chan on 03000 586 039 (email: adeline.chan@hmrc.gov.uk).