

Clause 1: Repeal of provisions relating to the Interest and Royalties Directive

Summary

1. This clause will repeal legislation that gave effect to the EU Interest and Royalties Directive in UK law.

Details of the clause

2. Subsection 1 repeals the provisions in the Income Tax Trading and Other Income Act 2005 and in the Income Tax Act 2007 that give effect to the EU Interest and Royalties Directive. The effect of repealing these provisions will be to reinstate an obligation to withhold income tax on certain payments of interest and royalties made to connected companies in EU Member States.
3. Subsections 2 to 7 make consequential amendments to legislation that refers to the repealed provisions.
4. Subsection 8 provides that the repeal shall have effect in relation to payments made on or after 1 June 2021, unless the payments are made in “disqualifying circumstances”.
5. Subsections 9 and 10 make provision for payments made in “disqualifying circumstances”. Where a payment is made with the main purpose, or a main purpose, of securing the provisions being repealed by this clause (that is, to enable a payment to be made without withholding tax on the payment), the effect of the repeal will take effect from 3 March 2021.

Background note

6. The repeal of these provisions will ensure that companies resident in EU member states will cease to benefit from UK withholding tax exemptions now that the UK no longer has an obligation to provide relief. As a result, EU companies will no longer receive more favourable treatment than companies based elsewhere in the world, and the UK's ability to withhold tax on cross-border payments of annual interest and royalties will be governed solely by the reciprocal obligations in double taxation agreements