HMRC - CFM95605 - x-Interest: Overview

TIOPA10/PART10/CH3

The Corporate Interest Restriction aims to limit the tax deductibility of excessive corporate interest expense. The rules go wider than merely interest in a legal sense, however, and also include payments economically equivalent to interest and expenses incurred in the raising of finance. The term tax-interest covers all such amounts of a company and is therefore a key definition when considering the scope of the rules.

TIOPA10/PART10/CH3 defines tax-interest amounts and does this by looking firstly at expense amounts and then at income amounts.

Definitions

{#}Aggregate net tax-interest expense and income

The statutory definitions of the aggregate tax-interest expense and income for the group for a period of account is at TIOPA10/S390. These are defined by comparing:

The total of the net tax-interest expense amount of each company in the group.

The total of the net tax-interest income amount of each company in the group.

Where A exceeds B there is an aggregate tax-interest expense for the amounts of the excess.

Where B exceeds A there is an aggregate tax-interest income for the amounts of the excess.

{#}Net tax-interest expense and net tax-interest income

The statutory definition of net tax-interest expense and net tax-interest of a company in relation to a group’s period of account is at TIOPA/S389. This is based on the amounts of tax-interest expense and income of the company that are attributable to the group’s period of account.

These terms are defined by comparing:

The total of the tax-interest expense amounts of the company for the group’s period of account.

The total of the tax-interest income amounts of the company for the group’s period of account.

Where A exceeds B there is a net tax-interest expense for the amount of the excess.

Where B exceeds A there is a net tax-interest income for the amount of the excess.

The object of the calculations is to arrive at an aggregate tax-interest figure for a particular period of account of a group. As a result, only amounts from a relevant accounting period (defined in S490 as one that falls wholly or partly within a period of account of the worldwide group) that are attributable to the group’s period of account are included in the tax-interest of the company for the period of account. It is therefore necessary to adjust for any disregarded periods which occur where:

A relevant accounting period of a company in the group falls partly outside of the group’s period of account, or

The company joins or leaves the group part way through the group’s period of account.

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