HMRC - CFM95670 - x-Interest: Consideration Received For Provision Of A Guarantee

TIOPA10/S385

If a company approaches a bank for a loan, the bank might be reluctant to lend that company the required amount. The company might, for example, have a poor credit history or the amount requested might seem excessive compared to the expected return on it.

The bank may still approve the loan but require a guarantee in the case of a default, whereby the guarantor will take over the debt from the original debtor. The guarantor is likely to receive a fee from the debtor in return for providing the guarantee and s385(6) ensures that this will be included as an item of income in the guarantor’s tax-interest amount.

The provision is needed because the guarantor will not be party to a loan relationship on providing the guarantee and so this amount cannot be a relevant loan relationship credit. By contrast, the expense to the debtor arises from its loan relationship with the bank and so will be included in tax-interest as a relevant debit.

Previous page

Next page