HMRC - CFM95690 - x-Interest: Co-Operative And Community Benefit Societies

TIOPA10/S458

Interest paid by a company will typically attract taxation relief whereas the declaring of a dividend will not. There are provisions however which deem certain distributions made by certain entities to be treated as payments of interest for certain taxation purposes.

Such provisions exist for dividends made by co-operatives and community benefit societies by virtue of CTA09/S499. Multiple investors will use such entities to invest in a return-producing asset and then distribute these returns back to the investors. Without special provisions, the entity would be taxed on income from the investment and then the investor would be taxed on the distribution of this income from company to investor which would be a disincentive to investors.

By treating distributions as interest, CTA09/S499 allows a deduction for such payments with the result that the investor is essentially treated as investing in the underlying asset directly. This treatment would mean such amounts would be included in the definition of tax interest however as a relevant loan relationship amount despite the payments not being equivalent to interest. TIOPA10/S348 therefore treats such amounts as not being tax-interest amounts of the company.

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