HMRC - CFM98220 - Rules: Terminology

The rules are designed to facilitate efficient use of interest allowance and debt cap and are rather complicated, employing a number of somewhat similar, but subtly different, expressions. The following key terms are used in the legislation relevant to calculation of the carry-forward of interest allowance and debt cap.

As we are looking at steps towards the end of the computational process, there are quite a lot of cross-references to the detailed material relating to earlier steps. For convenience, a summary is included below.

Basic Interest allowance

If the fixed ratio method is applied, this is the lower of

The fixed ratio percentage (30%) of aggregate tax-EBITDA (s397); or

The fixed ratio debt cap (s400(1)).

If the group ratio method is applied this is the lower of:

The group ratio percentage of aggregate tax-EBITDA (s398); or

The group ratio debt cap (s400(2)).

The first element of each calculation is derived only from figures for the period of account, but the debt cap figures may take into account excess debt cap from the immediately preceding period of account. This means that although excess debt cap may be carried forward only to the next period it might indirectly augment unused allowance that may be used in a yet later period, as in Example 2 in CFM98250.

The fixed ratio method

Under the fixed ratio method (s397), the basic interest allowance is the lower of 30% of aggregate tax-EBITDA for the period, or the fixed ratio debt cap. It applies unless an election has been made to apply the group ratio method.

The group ratio method

Under the group ratio method (s398), the basic interest allowance is the lower of the group ratio percentage of aggregate tax-EBITDA for the period, or the group ratio debt cap. An election must be made to apply this method in a period of account.

The group ratio percentage

The group ratio percentage is qualifying net group-interest expense (QNGIE) divided by group-EBITDA (s399). This is capped at a maximum of 100%.

Group-EBITDA

This is a measure of the Earnings before Interest, Tax, Depreciation and Amortisation for the group. It will be computed by making adjustments to amounts disclosed or that would be disclosed in the group’s financial statements.

The fixed ratio debt cap

This is the debt cap where the fixed ratio method applies (s400(1)). It is the sum of two amounts:

The group’s adjusted net group-interest expense (

The excess debt cap generated in the immediately preceding period.

Note that it does not matter if the excess debt cap was computed applying group ratio method.

Adjusted net group-interest expense (ANGIE)

This is a measure of the group’s net interest and similar expense. The calculation is based on amounts that are or would be disclosed in the worldwide group’s financial statements, subject to various adjustments.

The group ratio debt cap

This is the debt cap where an election is made to apply the group ratio method (s400(2)). It is the sum of two amounts:

The group’s qualifying net group-interest

The excess debt cap generated in the immediately preceding period.

Note that it does not matter if the excess debt cap was computed applying fixed ratio method.

The excess debt cap is only carried forward to the immediately following period, but the amount brought forward is taken into account in determining the maximum amount that can be carried forward to the next period.

Qualifying net group-interest expense (QNGIE) - S414

This is also a measure of the worldwide group’s net interest and similar expense. The calculation is based on amounts that are or would be disclosed in the worldwide group’s consolidated accounts, prepared in accordance with IAS, subject to various adjustments. The amount will be the same as or smaller than ANGIE, primarily because certain related party expense is excluded.

The carry-forward limit (debt cap) - S400(7)

The carry-forward limit for a period of account is the excess debt cap from the immediately preceding period, if any, plus the total disallowed amount for the period in question.

The interest allowance of a group for a period of account - S396

This is the sum of the basic interest allowance and the aggregate net tax-income of the group. There is only aggregate group tax income where and to the extent that the group’s tax-interest income exceeds its tax interest expense. In such a case the group’s aggregate net tax-interest expense will be zero and there can be no question of an interest restriction arising.

Where the limiting factor is the fixed ratio or group ratio this takes into account figures for the current period of account only, but where the limiting factor is the debt cap this may also take into account excess debt cap from the immediately preceding period. Note, however, that in computing the interest restriction for a period of account, there is also provision for interest allowance brought forward from earlier periods to be taken into account, as part of the interest capacity for the period.

The de minimis amount - s392(2)-(3)

The de minimis amount for a period of account is £2m per annum, adjusted on a pro rata basis for the length of the period of account. This sets a minimum value to the group’s interest capacity for the period. Consequently all groups with sufficient aggregate net tax interest expense are able to deduct at least this amount in a period of account.

However, the de minimis amount is not taken into account in computing the group’s interest allowance for a period and so any excess of the de minimis amount over its aggregate net tax interest expense is not available for carry-forward.

The aggregate tax-EBITDA for a period of account

Aggregate tax-EBITDA is a tax measure of the Earnings before Interest, Tax, Depreciation and Amortisation of the UK Group companies in the worldwide group.

The aggregate net tax-interest expense for a period of account

For the calculation of aggregate net tax-interest expense, the net interest and similar expense of UK group companies as measured for corporation tax purposes.

The interest capacity of a group for a period of account

The interest capacity is the interest allowance for the current period of account, plus the aggregate of the interest allowances for earlier periods, so far as they are available in the current period. The determination of the amounts so available is dealt with at CFM98240.

However, if this is less than the de minimis amount for the period (adjusted for the length of the period), the interest capacity is the de minimis amount.

Note that it is interest allowance and not interest capacity that may be carried forward to later periods.

The total disallowed amount for a period of account

This is the excess if any of the aggregate net tax-interest expense of the group for the period of account over its interest capacity for the period (s373(1)).

Other key terms

Other key terms that will be encountered in the following guidance are:

The interest allowance used in a period

Originating period and receiving period

Interest allowance of a period that is unexpired in a later period

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