HMRC - CTM48520 - Interest Distributions

Except as explained below, companies and other specified participants (see Except as explained below, companies and other specified participants (see onwards) receive interest distributions without deduction of tax and are, consequently, treated as receiving a gross amount of yearly interest. This is treated as a loan relationship credit.

Note that in all cases where an interest distribution is made by an authorised investment fund (AIF), as well as some other cases, a company’s holding in that AIF must itself be treated as a loan relationship of the company and the value brought into account ateach accounting date. (CTM48505).

Exception to gross payments to a corporate body

The exception to the rule is where the person receiving the interest is not itself the participant but is acting as a nominee for the person beneficially entitled to the interest distribution. In such cases IT will still be deducted at source by the AIF and the participant will be treated as receiving yearly interest with IT deducted at the lower rate.

The reason why tax is deducted from payments made to nominee companies is that the nominee is not beneficially entitled to the payment and so is not within the conditions listed at ICTA88/S349B to be excepted from the requirement to deduct tax in ICTA88/S348.

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