

Status: Point in time view as at 29/04/1996. This version of this part contains provisions that are not valid for this point in time.

Changes to legislation: Income and Corporation Taxes Act 1988, PART II is up to date with all changes known to be in force on or before 16 July 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

SCHEDULES

SCHEDULE 7

TAXATION OF BENEFIT FROM LOANS OBTAINED BY REASON OF EMPLOYMENT

PART II

CALCULATION OF CASH EQUIVALENT OF LOAN BENEFIT

General

- 3 (1) ^{M1}The cash equivalent for any year of the benefit obtained from a loan is—
- (a) the amount of interest (calculated in accordance with paragraph 4 or 5 below) which would have been payable for that year had interest at the official rate been payable on the loan, less
 - (b) the amount of interest actually paid on the loan for that year.
- [^{F1} and, in a case where there are two or more loans, the aggregate of the cash equivalents (if any) of the benefit of each of those loans shall be treated for the purposes of section 160 as the cash equivalent of the benefit of all of them.]

^{F2}(2)

^{F2}(3)

Textual Amendments

F1 Words in Sch. 7 para. 3(1) added (for year 1991-92 and subsequent years of assessment) by Finance Act 1991 (c. 31, SIF 63:1), s. 27(6), Sch. 6 para. 3(1)

F2 Sch. 7 paras. 3(2)(3) repealed (for year 1991-92 and subsequent years of assessment) by Finance Act 1991 (c. 31, SIF 63:1), ss. 27(6), 123, Sch. 6 para. 3(2), Sch. 19 Pt. V, Note 6

Marginal Citations

M1 Source—1976 Sch.8 5, 6, 7

Normal method of calculation (averaging)

- 4 [^{F3}(1)] In the absence of a requirement or election that paragraph 5 below should apply, the amount of interest at the official rate payable on a loan for any year (“the relevant year”) shall be ascertained as follows—
- (a) take half the aggregate of—

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- (i) the maximum amount of the loan outstanding on 5th April preceding the relevant year or, if it was made in that year, on the date on which it was made, and
- (ii) the maximum amount of the loan outstanding on 5th April in the relevant year or, if the loan was discharged in that year, the date of discharge;
- (b) multiply that figure by the number of whole months during which the loan was outstanding in that year, and divide by 12;
- (c) multiply the result by the official rate of interest in force during the period when the loan was outstanding in that year or, if the official rate changed during that period, the average rate during that period ascertained by reference to the number of days in the period and the number of days for which each rate was in force.

For the purposes of this paragraph, months begin on the sixth day of the calendar month.

- [^{F4}(2) Where an employment-related loan is replaced, directly or indirectly—
- (a) by a further employment-related loan, or
 - (b) by a non-employment-related loan which in turn is, in the same year of assessment or within 40 days thereafter, replaced, directly or indirectly, by a further employment-related loan,
- sub-paragraph (1) above applies as if the replacement loan or, as the case may be, each of the replacement loans were the same loan as the first-mentioned employment-related loan.
- (3) For the purposes of sub-paragraph (2) above “employment-related loan” means a loan the benefit of which is obtained by reason of a person’s employment (and “non-employment-related loan” shall be construed accordingly).
- (4) The references in sub-paragraph (2) above to a further employment-related loan are to an employment-related loan the benefit of which is obtained by reason of—
- (a) the same or other employment with the person who is the employer in relation to the first-mentioned employment-related loan, or
 - (b) employment with a person who is connected (within the meaning of section 839) with that employer.]

Textual Amendments

F3 Sch. 7 para. 4 renumbered as para. 4(1) (with effect in accordance with s. 45(5) of the amending Act) by virtue of Finance Act 1995 (c. 4), s. 45(4)

F4 Sch. 7 para. 4(2)-(4) inserted (with effect in accordance with s. 45(5) of the amending Act) by Finance Act 1995 (c. 4), s. 45(4)

Election for alternative method of calculation

- 5 (1) For any year of assessment (“the relevant year”) the alternative method of calculation set out in this paragraph applies if—
- (a) the inspector so requires, by notice given to the employee, [^{F5}at a time allowed by sub-paragraph (2) below]; or

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- (b) the employee so elects, by notice given to the inspector [^{F6}at such a time].
- [^{F7}(2) A notice containing a requirement or election for the purposes of sub-paragraph (1) above is allowed to be given at any time before the end of the period of 12 months beginning with the 31st January next following the relevant year.]
- (3) The alternative method of calculating the amount of interest at the official rate payable on a loan for the relevant year is as follows—
- (a) take each period in the relevant year during which the official rate of interest remains the same;
 - (b) for each such period take for each day in the period the maximum amount outstanding of the loan on that day, and add those amounts together;
 - (c) multiply that sum by the official rate in force during the period divided by 365; and
 - (d) add together the resulting figures for each period in the relevant year.

Textual Amendments

- F5** Words in Sch. 7 para. 5(1)(a) substituted (with effect in accordance with s. 107(4) of the amending Act) by Finance Act 1996 (c. 8), s. 107(2)(a)
- F6** Words in Sch. 7 para. 5(1)(b) substituted (with effect in accordance with s. 107(4) of the amending Act) by Finance Act 1996 (c. 8), s. 107(2)(b)
- F7** Sch. 7 para. 5(2) substituted (with effect in accordance with s. 107(4) of the amending Act) by Finance Act 1996 (c. 8), s. 107(3)

VALID FROM 28/07/2000

Apportionment of cash equivalent in case of joint loan etc.

- 5A (1) Where in any year there are two or more employees chargeable to tax in respect of the same loan—
- (a) the cash equivalent of the benefit of the loan (determined in accordance with this Schedule) shall be apportioned between them in a fair and reasonable manner, and
 - (b) the portion allocated to each employee shall be treated as the cash equivalent of the benefit of the loan so far as he is concerned.
- (2) For the purposes of determining the cash equivalent in such a case, the references in paragraph 5 above to the employee shall be construed as references to all the chargeable employees.

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