



Income Tax Act 2007

2007 CHAPTER 3

PART 8

OTHER RELIEFS

CHAPTER 1

INTEREST PAYMENTS

The relief: introduction

383 Relief for interest payments

- (1) A person who pays interest in a tax year is entitled to relief for the tax year for the interest if—
 - (a) the loan on which the interest is payable is a loan to which a provision specified in subsection (2) applies,
 - (b) the interest is eligible for relief in accordance with this Chapter, and
 - (c) the person makes a claim.
- (2) The provisions are—
 - (a) section 388 (loan to buy plant or machinery for partnership use),
 - (b) section 390 (loan to buy plant or machinery for employment use),
 - (c) section 392 (loan to buy interest in close company),
 - (d) section 396 (loan to buy interest in employee-controlled company),
 - (e) section 398 (loan to invest in partnership),
 - (f) section 401 (loan to invest in co-operative), and
 - (g) section 403 (loan to pay inheritance tax).
- (3) The amount of the relief given under subsection (1) is equal to the amount of the interest eligible for relief.

Status: This is the original version (as it was originally enacted).

- (4) The relief is given by deducting that amount in calculating the person's net income for the tax year in which the interest is paid (see Step 2 of the calculation in section 23).
- (5) This section is subject to—
 - (a) section 384 (general restrictions on relief under this Chapter),
 - (b) section 385 (general provisions about loans),
 - (c) section 386 (loans partly meeting requirements),
 - (d) section 387 (exclusion of double relief etc), and
 - (e) section 405 (carry back and forward of relief for interest on loans within section 403).
- (6) See also section 51(2) of FA 2005 (under which this Chapter applies as if arrangements falling within section 47 of that Act were loans and alternative finance return were interest).

384 General restrictions on relief under Chapter

- (1) Relief is not to be given under this Chapter for interest on a debt incurred—
 - (a) by overdrawing an account, or
 - (b) by debiting the account of any person as the holder of a credit card or under similar arrangements.
- (2) If interest is paid at a rate in excess of a reasonable commercial rate, relief is not to be given under this Chapter for so much of the interest as represents the excess.

385 General provisions about loans

- (1) References in this Chapter to a loan being used or used in any way—
 - (a) are references to the money lent being applied or, as the case may be, applied in that way, and
 - (b) except in section 403 include references to a loan being used to meet expenditure already incurred or, as the case may be, already incurred on such a use.
- (2) Sections 392, 396, 398, 401 and 403 apply to a loan only if it is made—
 - (a) in connection with the use of money, and
 - (b) on the occasion of its use or within what is in the circumstances a reasonable time from its use.
- (3) Those sections apply to a loan only if the loan is used as mentioned in those sections without first having been used for another purpose.
- (4) For the purposes of this Chapter the giving of credit for any money due from the purchaser under a sale is treated as the making of a loan used by the purchaser in making the purchase.

386 Loans partly meeting requirements

- (1) If, at the time a loan (“the mixed loan”) is used, only part of the mixed loan is a loan to which any of the provisions specified in section 383(2) apply, for the purposes of this Chapter that part (“the qualifying part”) is treated as a loan to which the provision in question applies.

- (2) Accordingly, the corresponding proportion of the interest on the mixed loan is eligible for relief.
- (3) If a mixed loan is partly repaid, for the purposes of this Chapter the corresponding proportion of the repayment is treated as repaying the qualifying part (but see section 406(5)).
- (4) In this section “the corresponding proportion” means the proportion that the qualifying part bears to the whole of the mixed loan at the time the mixed loan is used.

387 Exclusion of double relief etc

- (1) Interest for which relief is given under this Chapter is not allowable as a deduction for any other income tax purposes.
- (2) No relief is given under this Chapter for any tax year for the payment of any interest taken into account in calculating the profits of—
 - (a) any trade, profession or vocation,
 - (b) any UK property business, or
 - (c) any overseas property business.
- (3) If interest is so taken into account, no relief is given under this Chapter for any relevant tax year for other interest on the same debt or liability.
- (4) A tax year is a relevant one if the interest has been taken into account in calculating the profits of the trade, profession, vocation or business of the tax year.
- (5) For the purposes of subsection (3) all interest which—
 - (a) is capable of being taken into account in calculating the profits of a trade, profession, vocation or business, and
 - (b) is payable by the same person on money advanced to the person on current account,is treated as interest on the same debt.
- (6) It does not matter whether the money is advanced—
 - (a) on one or more accounts, or
 - (b) by the same or separate banks or other persons.
- (7) The reference in subsections (2) to (4) to interest taken into account is a reference to interest allowed as a deduction in an assessment which can no longer be varied (whether on appeal or otherwise).