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## EXPLANATORY NOTE

*(This note is not part of the Regulations)*

Section 65 of the Finance Act 1982 (as amended by section 67 of the Finance (No.2) Act 1987) provides that the amount of the credit for foreign tax on loan interest allowable against income tax or corporation tax charged on the profits of the lender is to be limited by treating the amount of the foreign loan interest as reduced by an amount equal to the lender's financial expenditure in relation to the loan which is attributable to the period for which the interest is paid. These Regulations specify matters to be taken into account in determining the amount that it is just and reasonable to attribute to the financing of the loan, in cases where the amount of the lender's financial expenditure in relation to the loan is not readily ascertainable, and make provision with respect to the determination of certain market rates of interest.

Regulation 1 provides the title and commencement.

Regulation 2 contains definitions.

Regulation 3 specifies that, where the terms of a loan provide for interest payments to be calculated by reference to offered rates for deposits in an interbank market (e.g. LIBOR), the bid rates corresponding to those offered rates (e.g. LIBID) are to be taken into account in determining what is a just and reasonable amount to attribute to the financing of the loan. Different provision is made for cases where the terms of the loan do not so provide, or it would be impracticable to establish the corresponding interbank bid rates in a particular interbank market, or the lender establishes that sums attributable to his financial expenditure as a result of taking into account interbank bid rates or their analogues over a chargeable period would be greater than the expenditure incurred in financing all such loans on which he received interest in that period.

Regulation 4 provides for the determination of interbank bid rates of interest and contains definitions including that of "interbank market".

Regulation 5 contains a further definition.

Regulation 6 provides for the application of these Regulations in relation to interest payable on and after 1st April 1987, except where the interest was payable pursuant to an agreement entered into before that date, in which case the Regulations do not apply to interest payable before 1st April 1989.