

EXPLANATORY MEMORANDUM TO
THE MANUFACTURED INTEREST (TAX) REGULATIONS 2007

2007 No. 2488

1. This explanatory memorandum has been prepared by Her Majesty's Revenue and Customs and is laid before Parliament by Command of Her Majesty. This memorandum contains information for the Select Committee on Statutory Instruments.

2. Description

These Regulations replace the Manufactured Interest (Tax) Regulations 1997 (S.I. 1997/992) ("the old Regulations"). They provide that, where the relevant conditions are met, a UK company receiving a payment of manufactured interest payment that represents interest on a UK debt security may obtain tax credit relief for any tax withheld on a payment of the real interest to the payer of the manufactured interest.

3. Matters of special interest to the Select Committee on Statutory Instruments

None

4. Legislative Background

These Regulations are being made to clarify the circumstances in which the UK company recipient of a payment of manufactured interest can claim tax credit relief in respect of the payment. They also ensure that these rules apply properly in cases where the new repo legislation in Schedule 13 to the Finance Act 2007 applies.

5. Extent

This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy background

7.1 Manufactured interest arises under agreements for the transfer of debt securities such as gilts and represents the real interest payable in respect of the securities. Manufactured interest is commonly payable under repo or stocklending arrangements where securities are temporarily transferred by their original owner to a temporary holder who receives the real interest.

7.2 Where the securities are UK debt securities and the temporary holder is a non-UK person then the real interest may be paid under deduction of UK tax even though the UK resident original owner would have received the interest gross. In such a case it is possible that the amount of manufactured interest paid by

the overseas recipient will be similarly reduced so that the UK recipient will receive a smaller amount than if the interest had been paid directly to it.

- 7.3 The old Regulations were intended to provide that in this case the UK recipient of the manufactured interest would be entitled to claim tax credit relief for the UK tax deducted. However, the scope and application of these rules has become unclear as a result of changes to primary legislation dealing with the deduction of tax at source.
- 7.4 The new Regulations set out the conditions that need to be met for the tax credit to be claimed, and define the amount of the credit. The UK recipient of the manufactured interest must show that the interest manufacturer received the real interest of which the manufactured interest is representative. The credit will then be the lower of the UK tax actually withheld in respect of the real interest and the excess of the gross amount of the real interest over the amount of the manufactured payment representing that interest paid by the interest manufacturer.
- 7.5 A draft of the Regulations was circulated to members of the Standing Committee examining the Finance Bill of 2007. The new Regulations have been developed in consultation with business with whom drafts of the Statutory Instrument have been shared.

8. Impact

A Regulatory Impact Assessment has not been prepared for this instrument as it has no impact on business, charities or voluntary bodies.

9. Contact

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