

Budget 2009



BN39

22 April 2009

MANUFACTURED INTEREST

Who is likely to be affected?

1. Large companies that make payments of manufactured interest.

General description of the measure

2. As announced by the Financial Secretary to the Treasury on 27 January 2009, legislation will be introduced in Finance Bill 2009 to prevent a recent decision of the High Court from affecting the tax treatment of real payments of manufactured interest. The legislation will ensure that the tax treatment follows the treatment of the payments in company accounts prepared in accordance with Generally Accepted Accounting Practice.

Operative date

3. To ensure that the decision of the High Court does not have adverse consequences for the Exchequer or for taxpayers, the legislation will apply to manufactured payments made before the date of the Financial Secretary's statement as well as to those made afterwards. For "deemed payments" of manufactured interest, the legislation will apply only to payments made on or after 27 January 2009.

Current law and proposed revisions

4. A recent High Court case involving the tax treatment of deemed manufactured payments has cast doubt on the tax treatment of real manufactured payments for both payers and recipients. The decision could result in payers being able to claim additional deductions for tax purposes that bear no relation to their economic position, and recipients being taxable on amounts in excess of their actual income.
5. Before the High Court decision, the tax treatment of real payments of manufactured interest had never been questioned. To ensure the decision does not have adverse consequences either for the Exchequer or for taxpayers, the legislation will apply to past payments as well as to payments made before the date of the announcement. This will ensure that existing practice is followed. The legislation has no effect on deemed manufactured payments of the type considered in the High Court case.

Further advice

6. This measure was announced on 27 January 2009 by a Written Ministerial Statement tabled by the Financial Secretary to the Treasury.
7. If you have any questions about this change, please contact Richard Rogers on 020 7147 2625 (email: richard.rogers@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk