

Budget 2009



BN91

22 April 2009

INTEREST HARMONISATION

Who is likely to be affected?

1. Taxpayers who do not pay their tax liabilities on time, those who overpay their tax and those who receive a refund from HM Revenue & Customs (HMRC) for:
 - income tax, corporation tax (CT), VAT, sums due under Pay as you Earn (PAYE), Class 4 National Insurance Contributions (NICs) and the Construction Industry Scheme (CIS);
 - environmental taxes (aggregates levy, climate change levy and landfill tax);
 - excise duties (alcohol, fuel, tobacco, oils) gambling and air passenger duty);
 - stamp duties (stamp duty land tax and stamp duty reserve tax); and
 - inheritance tax, insurance premium tax, pension schemes and petroleum revenue tax (PRT).

General description of the measure

2. Legislation will be introduced in Finance Bill 2009 to create a harmonised interest regime for the first time for all taxes and duties administered by HMRC (listed above) with the exception of CT and PRT. The legislation makes provision for the automatic setting and implementation of interest rate changes. This will replace the current range of interest regimes. It is expected that the legislation to apply the harmonised interest regime to CT and PRT will be introduced in Finance Bill 2010.
3. These changes have been subject to recent consultation as part of the ongoing work of the Review of HMRC's Powers, Deterrents and Safeguards to provide a modern framework of law and price for HMRC.

Operative date

4. For those taxes where HMRC currently charge and pay interest, rates will be aligned by Treasury Order and will have effect shortly after the date that Finance Bill 2009 receives Royal Assent.

5. Implementation of interest harmonisation requires changes to HMRC's computer systems and is to be staged over a number of years. Interest on late payments of in year PAYE is expected to be introduced, using a risk based approach, from April 2010. The new provisions will be brought into effect by Treasury Orders which will specify the dates from which they have effect.

Current law and proposed revisions

6. HMRC inherited the legal frameworks governing the interest charged on late payments and paid out on overpayments from the former Inland Revenue and HM Customs and Excise. However, there are a number of differences across the range of taxes administered by HMRC. Many taxpayers, particularly businesses, interact with HMRC across a range of taxes, and these differences add complexity and burdens for taxpayers, their advisers and HMRC.
7. The new provisions replace the current range of differing regimes with a single legislative framework for interest chargeable on late payments, and payable on repayments of overpaid tax.
8. The measure will provide for interest to be charged from the date the tax was due to be paid to HMRC until the date it is paid. HMRC will also pay interest on repayments from the date the tax was due to be paid or, if later, the date the payment was actually received, to the date the repayment is made.
9. The measure will provide for differential interest charged and paid by HMRC to be based around the Bank of England base rate. Regulations will establish the basis for calculating and applying the rate of interest charged and paid. These will provide:
 - a single rate of simple interest paid by HMRC on overpayments across all taxes, duties and penalties listed in paragraph 1, other than Quarterly Instalment Payments (QIPs) for companies;
 - a single rate of simple interest charged by HMRC across all taxes, duties, and penalties listed in paragraph 1 that are paid late to HMRC, other than QIPs;
 - that different interest rates will continue to apply to payments made by companies under QIPs arrangements;
 - a set of aligned rules for how the interest rates will be determined, including for QIPs, and
 - a set of aligned rules, including for QIPs, with rates that are:
 - calculated by reference to the Bank of England base rate; and
 - updated automatically 13 working days after any changes in that rate.
10. The rates of interest will also be set in regulations. The rates themselves are considered in the Final Impact Assessment accompanying this work which has been published today.

Further advice

11. This measure was the subject of initial consultation in June 2008. Responses to that consultation together with a further consultation were published in November 2008 – *Interest-Working Towards a Harmonised Regime: Summary of Responses and Proposals* and draft legislation in December 2008. A summary of responses and a Final Impact Assessment, including an explanation of any resulting changes, has been published today on the HMRC website.
12. These provisions are part of a wider package of measures to modernise HMRC's administration of the tax systems to improve customer service, effectiveness and efficiency. Please see Budget Note 90 on *Review of HMRC Powers, Deterrents and Safeguards: Penalties for Late Filing of Returns and Late Payment of Tax*.
13. If you have any questions about this change, please contact Robert Horwill on 020 7147 2447 (email: robert.horwill@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk