

2007 Pre-Budget Report and Comprehensive Spending Review



PBRN 03

9 October 2007

TACKLING AVOIDANCE: INDIVIDUALS PAYING INTEREST IN ADVANCE: RESTRICTION OF LOSS RELIEF

Who is likely to be affected?

1. Individuals who enter into arrangements designed to avoid income and capital gains tax.

General description of the measure

2. Legislation will be introduced in Finance Bill 2008 to block a scheme notified under the avoidance disclosure rules whereby individuals seek to accelerate relief for interest payments made on certain qualifying loans.

Operative date

3. The measure will have effect in relation to interest that is paid on qualifying loans on or after 9 October 2007.

Current law and proposed revisions

4. Where an individual borrows money that is invested in a partnership or in certain types of small company, interest paid on the loan may be eligible for relief against the individual's income or gains. The amount of interest eligible for relief is the amount of interest paid in the tax year, regardless of the period to which the interest relates.
5. In the avoidance scheme, all interest on the loan is paid in advance, with the aim of accelerating tax relief. The loan may then be repaid, with the amount of the loan repayment being substantially reduced to reflect the fact that at the point of repayment the loan is no longer interest-bearing.
6. This measure denies tax relief for interest that relates to a later tax year than the year in which the interest is paid.
7. Draft legislation has been published today on the HM Revenue & Customs website.

Further advice

8. If you have any questions about this measure, please contact Richard Rogers on 020 7147 2625 (e-mail richard.rogers@hmrc.gsi.gov.uk). Information about Pre Budget Report measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk