

2005 No.

INCOME TAX

The Pension Schemes (Prescribed Interest Rates for Authorised Employer Loans) Regulations 2005

<i>Made</i>	- - - -	<i>2005</i>
<i>Laid before the House of Commons</i>		<i>2005</i>
<i>Coming into force</i>	- -	<i>6th April 2006</i>

The Commissioners for Her Majesty's Revenue and Customs, in exercise of the powers conferred by section 179(2)(a) of the Finance Act 2004(a) make the following Regulations:

Citation and commencement

1. These Regulations may be cited as the Pension Schemes (Prescribed Interest Rates for Authorised Employer Loans) Regulations 2005 and shall come into force on 6th April 2006.

Interpretation

2.—(1) In these Regulations—

“the operative date” means the sixth working day of each month;

“the reference date” is the twelfth working day preceding the operative date in the following month;

“working day” means a day which is not a non-business day within the meaning of section 92 of the Bills of Exchange Act 1882(b).

(2) In these Regulations the relevant interest rate found on a reference date is the percentage rate per annum found by the following steps.

Step 1

Find the average of the base lending rates of—

- (a) the Bank of Scotland;
- (b) Barclays Bank plc;
- (c) HSBC Bank plc;
- (d) Lloyds TSB Bank plc;
- (e) National Westminster Bank plc; and
- (f) the Royal Bank of Scotland plc.

(a) 2004 c. 12. The functions of the Commissioners of Inland Revenue, including those under which this instrument is made, were transferred to the Commissioners for Her Majesty's Revenue and Customs by section 5 of the Commissioners for Revenue and Customs Act 2005 (c.)

(b) The definition of was amended by sections 3(1) and 4(4) of the Banking and Financial Dealings Act 1971 (c. 80).

Step 2

If the amount found by step 1 is a multiple of $\frac{1}{4}\%$, that is the relevant interest rate.

If the amount found by step 1 is not such a multiple, round the amount up to the nearest amount which is such a multiple.

Prescribed rate of interest for the purposes of section 179 of the Finance Act 2004

3.—(1) For the purposes of section 179 of the Finance Act 2004 (authorised employer loans) the prescribed rate of interest is found in accordance with paragraph (2).

(2) The prescribed rate applicable for the period beginning on one operative date and ending on the day preceding the next operative date is the percentage rate found by the formula—

RIR + 1.

Here RIR is the relevant interest rate found on the reference date immediately preceding the operative date at the start of the period.

Two of the Commissioners for Her Majesty's Revenue and Customs

EXPLANATORY NOTE

(This note is not part of the Regulations)

Section 179 of the Finance Act 2004 prescribes conditions which must be met before a loan made by a pension scheme to a sponsoring employer is an authorised employer loan. One of the conditions is that the rate of interest payable on the loan is not less than the rate prescribed by regulations. These Regulations prescribe that rate.

Regulation 1 provides for the citation and commencement of the Regulations.

Regulation 2 defines certain expressions used in the Regulations and provides a method of determining the relevant interest rate, which is an average of the base rates of a specified group of banks.

Regulation 3 prescribes the rate of interest for the purposes of section 179 for a period beginning on the sixth working day of one month and ending on the day preceding the sixth working day of the next month as 1% more than the relevant interest rate found on the reference date preceding the start of the period.

A regulatory impact assessment in respect of the provisions of Part 4 of the Finance Act 2004 and subordinate legislation under it was published by the Board of Inland Revenue on 8 April 2004, and is available on the Inland Revenue website at www.inlandrevenue.gov.uk/ria/simplifying-pensions.pdf or (for hard copies) by writing to the Ministerial Correspondence Unit, Capital and Savings 1st Floor Ferrers House, PO Box 38, Castle Meadow Road, Nottingham, NG2 1BB.