EXPLANATORY MEMORANDUM TO

THE CORPORATION TAX ACT 2010 (PART 8C) (AMENDMENT) REGULATIONS 2025

2025 No. 1253

1. Introduction

1.1 This Explanatory Memorandum has been prepared by His Majesty's Revenue and Customs ("HMRC") on behalf of His Majesty's Treasury and is laid before the House of Commons by Command of His Majesty.

1.2 This memorandum contains information for the Select Committee on Statutory Instruments.

2. Declaration

2.1 Dan Tomlinson MP, Exchequer Secretary to the Treasury confirms that this Explanatory Memorandum meets the required standard.

2.2 James Konya, Deputy Director for Corporation Tax, at HMRC confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Neil Drinkwater at HMRC can be contacted by email at the following address with any queries regarding the instrument: part8cctaamendments2025@hmrc.gov.uk. Alternatively, the department can be contacted by telephone: 03000 562 434.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 The legislation will clarify that awards of simple interest by the Courts against HMRC which are awarded at a rate no more than a statutory rate of interest under the Taxes Acts are outside the scope of Part 8C of the Corporation Tax Act 2010 ("Part 8C"). This means that these awards will not be subject to Corporation Tax of 45%, but will, instead, continue to be subject to the normal rate of Corporation Tax.

4.2 The legislation will also provide an additional time limit of two years to permit an assessment under Part 8C to be made. This will be relevant to cases where the final determination of the litigation occurs many years after the payment of interest since the normal time limits in which to make an assessment are likely to have expired in those cases.

Where does the legislation extend to, and apply?

4.3 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is the United Kingdom.

4.4 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the United Kingdom.

5. Policy Context

What is being done and why?

5.1 Part 8C of the Corporation Tax Act 2010 ("Part 8C") was introduced in 2015 to levy a 45% tax on certain payments of court awarded interest. Broadly, this was intended to apply where the effective rate of interest was significantly higher than would be given under the Taxes Acts (which award simple interest – that is interest only on the principal amount). The policy intention was to tax the windfall generated by such high rates of interest and compounding of interest.

5.2 However, on a plain reading of Part 8C, it would apply to all payments of interest awarded by the High Court in the litigation; not just to compound interest or simple interest at a high rate. This was not what was intended.

5.3 The legislation will put beyond doubt that Part 8C does not apply to claimants who are entitled to awards of simple interest at a rate which is equivalent to, or lower than, a statutory rate of repayment interest available under the Taxes Acts.

5.4 When the Part 8C charge applies, the customer may need to make an adjustment in an earlier tax return to reflect the 45% charge. If the customer does not make the adjustment, HMRC can do so but is currently limited to the normal time limits of four years from the end of the relevant company accounting period in which to make the necessary assessment if an enquiry into that accounting period has not been opened.

5.5 In some cases, the gap between the year of payment and the year in which the litigation becomes final (when the Part 8C charge arises) could exceed more than four years, in which case HMRC would be unable to make a Part 8C assessment. It had been the original policy intent that any time limit for the making of adjustments was to be disregarded for these purposes, but a later judicial decision has indicated that the Part 8C legislation on this aspect does not work.

5.6 To address this, and to reflect the original policy intent, an additional time limit of two years after the end of the company accounting period in which the litigation has become final is to be introduced. An assessment may be made under Part 8C by the later of the new time limit or the usual time limits provided elsewhere in the Taxes Acts.

What was the previous policy, how is this different?

5.7 There are no changes from the previous policy. HMRC is applying the legislation as it was originally intended to apply as not imposing a Part 8C charge on awards of simple interest at a rate equivalent to or below the statutory rate; an approach which has not been challenged by any customers. Both changes are intended to reflect the original policy intent of the legislation and, in turn, to provide legal clarity and certainty and so mitigate the risk of legal challenges for and from customers.

6. Legislative and Legal Context

How has the law changed?

6.1 The legislation will clarify that Part 8C of the Corporation Tax Act 2010 ("Part 8C") does not apply to awards of simple interest made by the Court against HMRC in litigation proceedings which are awarded at a rate which is no more than a rate of repayment interest available under the Taxes Acts.

6.2 It will also provide for the potential to extend the time limit in which HMRC may make a Part 8C assessment to two years after the end of the company accounting period in which the litigation has become final (when the Part 8C charge arises).

Why was this approach taken to change the law?

6.3 The law is to be clarified by way of Regulations, but its effect has not changed the original policy intent of the primary legislation. Part 8C has a power to amend and there are a very small number of customers and their advisers who will be affected, all of whom will be familiar with Part 8C and have been notified of these proposed changes in technical consultation.

7. Consultation

Summary of consultation outcome and methodology

7.1 A technical consultation on the draft regulations was published on the GOV.UK website and ran from 28 April 2025 to 30 May 2025. This sought technical feedback on the draft regulations to ensure they operate as intended and to identify any areas needing further clarification in more detailed guidance. The consultation was highlighted to interested parties and there were over 500 views of the consultation during the time that it was live. No responses were received to the consultation from members of the public or other interested organisations.

8. Applicable Guidance

8.1 Guidance about the operation of Part 8C will be available in the Company Taxation Manual[1].

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A Tax Information and Impact Note covering this instrument will be published on the GOV.UK website[2].

Impact on businesses, charities and voluntary bodies

9.2 There is no, or no significant, impact on business, charities or voluntary bodies. Part 8C does not apply to charities or voluntary bodies. For businesses, the impact of this change to the law is to clarify the type of interest to which Part 8C will apply and set definite time limits for making a Part 8C assessment. There are an estimated 55 groups of companies affected by the changes.

9.3 The changes are expected to improve businesses experience of engaging with HMRC since, for most companies entitled to a Court award of interest from HMRC, an award of interest is unlikely to attract a 45% withholding tax on payment. There will also be a clear time limit by which HMRC can make a Part 8C assessment which was not there before.

9.4 The legislation does not impact small or micro businesses.

[1] Company Taxation Manual: https://www.gov.uk/hmrc-internal-manuals/company-taxation-manual
[2] Tax Information and Impact Note: https://www.gov.uk/government/collections/tax-information-and-impact-notes-tiins

9.5 There is no, or no significant, impact on the public sector because the changes reflect current HMRC practice.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The approach to monitoring this legislation is through information collected from the relevant claims as required.

10.2 The instrument does not include a statutory review clause and, in line with the requirements of the Small Business, Enterprise and Employment Act 2015 Dan Tomlinson MP has made the following statement:

"The small number of affected claimants together with the fact that the impacts of the measure are expected to be nil means that it is not appropriate to include a statutory review clause."

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 This is the second use of the power provided by section 357YW of the Corporation Tax Act 2010. Regulations under Statutory Instrument 2017 No.364 introduced anti-avoidance provisions and excluded charities from the scope of Part 8C.

12. European Convention on Human Rights

12.1 The Exchequer Secretary to the Treasury has made the following statement regarding Human Rights:

"In my view the provisions of The Corporation Tax Act 2010 (Part 8C) (Amendment) Regulations 2025 are compatible with the Convention rights."

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").