EXPLANATORY MEMORANDUM TO

THE QUALIFYING PRIVATE PLACEMENT REGULATIONS 2015

2015 No. 2002

1. Introduction

1.1 This explanatory memorandum has been prepared by Her Majesty's Revenue and Customs on behalf of Her Majesty's Treasury and is laid before the House of Commons by Command of Her Majesty.

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

2. Purpose of the instrument

2.1 The instrument sets out the conditions for an unlisted debt instrument to be considered a 'qualifying private placement'. When a UK company pays yearly interest on a private placement it will not be required to deduct income tax from that payment.

3. Matters of special interest to the House of Commons

Matters of special interest to the Select Committee on Statutory Instruments

3.1 This instrument contains the first exercise of the powers in section 888A of the Income Tax Act 2007 to specify conditions in respect of qualifying private placements.

Other matters of interest to the House of Commons

3.2 As this instrument is subject to the negative procedure and has not been prayed against, consideration as to whether there are other matters of interest to the House of Commons does not arise at this stage.

4. Legislative Context

4.1 This instrument sets out the further conditions necessary for a security to be a qualifying private placement under section 888A of the Income Tax Act 2007.

5. Extent and Territorial Application

5.1 The extent of this instrument is the United Kingdom.

5.2 The territorial application of this instrument is the United Kingdom.

6. European Convention on Human Rights

6.1 As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy background

What is being done and why

7.1 Private placements are a form of unlisted debt instrument. The *Breedon Report* of March 2012 (available on the website at

https://www.gov.uk/government/publications/improving-business-access-to-finance) recommended increasing the number of UK-based private placement investors in order to unlock a new source of financing for mid-sized borrowers.

7.2 Where a UK company pays yearly interest on borrowings, tax rules require the company to deduct income tax from the payment. However, there are a number of exemptions from this requirement, and where the borrowing is from a non-UK lender, double taxation treaties commonly allow interest to be paid gross or at a reduced rate of withholding.

7.3 This instrument will remove an obstacle to the development of the UK private placement market by providing a specific exemption for private placements that meet the qualifying conditions, whilst incorporating appropriate safeguards to ensure the exemption from withholding tax obligations in such cases is not abused. It supports the Government's objective of making the tax system more competitive.

Consolidation

7.4 This is the first instrument made under s888A of the Income Tax Act 2007.

8. Consultation outcome

8.1 These regulations were developed in consultation with stakeholders following publication of the primary legislation.

9. Guidance

9.1 Guidance is not essential to understanding this instrument. It will be published in the Savings and Investment Manual

10. Impact

10.1 There is no impact on business, charities or voluntary bodies.

10.2 There is no impact on the public sector.

10.3 A Tax Information and Impact Note covering this instrument was published on 10th December 2014 alongside the Autumn Statement 2014 and is available on the website at https://www.gov.uk/government/publications/income-tax-deduction-at-source-from-interest-paid-on-private-placements .It remains an accurate summary of the impacts that apply to this instrument.

11. Regulating small business

11.1 The legislation does not apply to activities that are undertaken by small businesses.

12. Monitoring & review

12.1 HMRC will monitor the impact of this measure through engagement with stakeholders.

13. Contact

13.1 Mark Lafone at HMRC Telephone: 03000 585 613 or email: mark.lafone@hmrc.gsi.gov.uk can answer any queries regarding the instrument.