EXPLANATORY MEMORANDUM TO

THE TAXES AND DUTIES, ETC (INTEREST RATE) (AMENDMENT) REGULATIONS 2025

2025 No. 386

1. Introduction

1.1 This explanatory memorandum has been prepared by His Majesty's Revenue and Customs (HMRC), on behalf of HM 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 James Murray MP, Exchequer Secretary to the Treasury, confirms that this Explanatory Memorandum meets the required standard.

2.2 Paul Riley, Director for Tax Administration Policy Directorate, at HMRC confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Ben Reed at HMRC Telephone: 03000 547236 or email: benjamin.reed@hmrc.gov.uk can be contacted with any queries regarding the instrument.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 These Regulations amend legislation[1] to increase the late payment interest rate.

4.2 The effect of the amendments will be to increase the late payment interest rate on amounts payable to HMRC in respect of unpaid tax liabilities by 1.5 percentage points (ppts).

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.

[1] The Taxes (Interest Rate) Regulations 1989 (S.I. 1989/1297), the Air Passenger Duty and Other Indirect Taxes (Interest Rate) Regulations 1998 (S.I. 1998/1461), the Taxes and Duties, etc (Interest Rate) Regulations 2011 (S.I. 2011/2446) and the Customs (Import Duty) (EU Exit) Regulations 2018 (S.I. 2018/1248).

5. Policy Context

What is being done and why?

5.1 Late payment interest is charged whenever tax is paid late. Interest on tax paid late is designed to both compensate the Exchequer for late payment and to provide a measure of fairness to those taxpayers who pay what is due on time.

5.2 Late payment interest is currently charged at the Bank of England (BoE) base rate (BR) plus 2.5 ppts except for quarterly instalment payment (QIP) for corporation tax (CT) which is BoE BR plus 1 ppt and customs import duty which is BoE BR plus 2 ppts.

5.3 At Autumn Budget 2024, the Government announced that it will increase HMRC's late payment interest rate on unpaid tax liabilities by 1.5 ppts from 6 April 2025. This is part of a package of measures to close the tax gap.

5.4 The rate operated, even after this increase, is low compared to commercial interest rates.

5.5 Raising the interest rate will encourage some taxpayers to pay on time, ensure fairness for those who pay on time and help raise vital revenue for public services.

What was the previous policy, how is this different?

5.6 For most taxes, the previous policy charged a rate of BoE BR plus 2.5 ppts. QIP for CT charged a rate of BoE BR plus 1 ppt and customs import duty charged a rate of BoE BR plus 2 ppts. All these rates will be 1.5 ppts higher.

6. Legislative and Legal Context

How has the law changed?

6.1 The interest rates in respect of late payment interest are contained in four sets of regulations.[2] Each set of regulations apply a formula which is linked to the BoE BR. This instrument will amend that formula by increasing the ppts added to the BoE BR by 1.5.

Why was this approach taken to change the law?

6.2 This approach is the most appropriate means of amending the interest rate.

7. Consultation

Summary of consultation outcome and methodology

7.1 No consultation was necessary as the instrument amends the rate of interest on amounts due to HMRC in line with the measure announced at Autumn Budget 2024 to close the tax gap.

[2] The Taxes (Interest Rate) Regulations 1989 (S.I. 1989/1297), the Air Passenger Duty and Other Indirect Taxes (Interest Rate) Regulations 1998 (S.I. 1998/1461), the Taxes and Duties, etc (Interest Rate) Regulations 2011 (S.I. 2011/2446) and the Customs (Import Duty) (EU Exit) Regulations 2018 (S.I. 2018/1248).

8. Applicable Guidance

8.1 Existing guidance on the gov.uk website will be updated to reflect the changes provided for by this instrument. This will be updated as soon as possible after the instrument is laid.

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.[3]

Impact on businesses, charities and voluntary bodies

9.2 There is no significant impact on business, charities or voluntary bodies. Those that pay their liabilities on time will be unaffected by this instrument. Also, the interest rate operated, even after this increase, is low compared to commercial interest rates.

9.3 The legislation does not impact small or micro businesses unless they have amounts payable to HMRC beyond the due date.

9.4 There is no, or no significant impact on the public sector.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 This measure will be monitored and assessed alongside other measures in the Government's package for closing the tax gap.

10.2 The instrument does not include a statutory review clause because it is exempt under section 28(3)(a) of the Small Business, Enterprise and Employment Act 2015.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 The instrument comes into force less than 21 days after it was laid. The instrument has been laid on 26 March 2025 (Spring Statement) in order to be laid on the same day as other announcements to tackle tax debt.

12. European Convention on Human Rights

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

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").

[3] Tax Information and Impact Note: https://www.gov.uk/government/collections/tax-information-and-impact-notes-tiins