EXPLANATORY MEMORANDUM TO

THE TAXES (INTEREST RATE) (AMENDMENT) REGULATIONS 2026

2026 No. 347

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.

2. Declaration

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

2.2 Richard Thomas, Deputy Director for Base Protection Policy, at HMRC confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Alexander Wharrad at HMRC can be contacted by email at the following address with any queries regarding the instrument: pillar2.consultation@hmrc.gov.uk.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 This Instrument supports the UK's implementation of the model rules for the Pillar Two Global Minimum Tax (Pillar Two rules) agreed by the Organisation for Economic Co-operation and Development (OECD)/G20's Inclusive Framework on Base Erosion and Profit Shifting.

4.2 Specifically, this instrument sets the rate of interest on late payments and repayments of Multinational Top-up Tax (MTT) and Domestic Top-up Tax (DTT) liabilities.

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 The Instrument forms part of the legislative framework applying the Pillar Two rules within the UK. Pillar Two is a global tax reform coordinated by the OECD/G20 Inclusive Framework which aims to ensure that large multinational enterprises pay an effective tax rate of at least 15% in every jurisdiction in which they operate.

5.2 The UK implemented the Pillar Two rules in the Finance (No.2) Act 2023 in the form of two new taxes, MTT and DTT. As these are new taxes a new administrative framework was also required. This includes provisions to encourage that tax is paid in

a timely manner. This Instrument enables this by setting interest rates on late payment and repayment of MTT and DTT liabilities, which are linked to the official bank rate.

5.3 The interest rate applicable for late payment interest will be the reference rate plus 4 percentage points, per annum.

5.4 The interest rate applicable for repayment interest will be the reference rate less 1 percentage point, or 0.5 percent if greater, per annum.

5.5 In all cases the reference rate is linked to the official bank rate as determined by the most recent meeting of the Monetary Policy Committee of the Bank of England.

5.6 These rates are consistent with rates of late payment and repayment interest applied elsewhere in the UK tax system.

What was the previous policy, how is this different?

5.7 The UK's implementation of the Pillar Two rules created two new taxes, MTT and DTT. These required new administrative provisions including this Instrument, which will set the rates of late payment and repayment interest.

5.8 While this Instrument mirrors the wider UK tax systems approach to setting interest rates, the Pillar Two rules do not replace any previous policy.

6. Legislative and Legal Context

How has the law changed?

6.1 MTT and DTT are new taxes that were introduced in the Finance (No.2) Act 2023. As these are new taxes, they required new administrative provisions which are contained in Schedules 14 and 18 to Finance (No.2) Act 2023. As well as setting the date for payment of MTT and DTT to be made, the legislation also makes provision for late payment interest to be charged and repayment interest to be paid.

6.2 The rate of this interest is set by reference to section 178 Finance Act 1989. This section requires, and provides the power for, the appropriate interest rate to be set by regulations made by HM Treasury. The Finance (No.2) Act 2023 amended this section so that it also affects MTT and DTT.

6.3 This Instrument amends the Taxes (Interest rate) Regulations 1989 so that the correct rate of interest applies to late payments and repayments of MTT and DTT liabilities.

Why was this approach taken to change the law?

6.4 This is the only possible approach to make the necessary changes.

7. Consultation

Summary of consultation outcome and methodology

7.1 As an integral part of the administrative provisions for MTT and DTT, this Instrument forms part of the implementation of the outcome of the Government's earlier consultation on the introduction of Pillar Two in the UK. A report of the earlier consultation and summary of responses is available on the GOV.UK website[1]. In the

[1] Consultation response on implementation of Pillar Two: https://assets.publishing.service.gov.uk/media/62d6f9fed3bf7f28643ca4e3/Pillar_2_Summary_of_Responses_for_20_July_2022.pdf

consultation, respondents included a number of trade bodies, accounting firms, law firms, universities and various large businesses.

7.2 There has been no specific consultation on this instrument.

8. Applicable Guidance

8.1 This Instrument does not implement or require specific guidance. A range of guidance materials relating to Pillar Two is currently available on the GOV.UK website[2].

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A Tax Information and Impact Note for the implementation of Pillar Two was published on 15 March 2023 on the GOV.UK website[3].

Impact on businesses, charities and voluntary bodies

9.2 There is no, or no significant, impact on businesses, charities or voluntary bodies because this Instrument is a standard administrative provision which provides consistency with other taxes in the application of interest rates to late payments and repayments of MTT and DTT liabilities.

9.3 The legislation does not impact small or micro businesses.

9.4 There is no, or no significant, impact on the public sector because governmental entities are excluded entities for the purposes of the Pillar Two rules. This is stated in section 127 Finance (No.2) Act 2023.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The approach to monitoring this legislation is as part of the wider implementation of MTT and DTT, especially in relation to tax receipts and repayments.

10.2 The instrument does not include a statutory review clause.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 None.

12. European Convention on Human Rights

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

[2] Domestic Top-up Tax and Multinational Top-up Tax: detailed information: https://www.gov.uk/government/collections/multinational-top-up-tax-and-domestic-top-up-tax

[3] Multinational top-up tax and Domestic top-up tax: UK adoption of OECD Pillar 2 tax information and impact note: https://www.gov.uk/government/publications/introduction-of-the-new-multinational-top-up-tax-and-domestic-top-up-tax/multinational-top-up-tax-and-domestic-top-up-tax-uk-adoption-of-oecd-pillar-2

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.