
European Tax Newsalert

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*UK withdraws proposals to restrict
withholding tax exemption for
Quoted Eurobonds*

In brief

After concluding a consultation period Her Majesty's Revenue & Customs (HMRC) has withdrawn proposed changes to the Quoted Eurobond withholding tax exemption. In addition, HMRC confirmed that it will retain references to 'yearly' interest such that withholding tax should not apply to interest payments on short-term debt. This welcome response from HMRC should further entice multinationals (MNCs) to consider the United Kingdom as a place to do business.

Note: The UK government will proceed with other changes to the income tax rules on interest. However, these are not expected to significantly impact most US MNCs.

Background

On March 27, 2012, HMRC published a consultation document on possible changes to the income tax rules on interest. The consultation period ended June 22 and today HMRC responded to the consultation.



Quoted Eurobond exemption

In the consultation document HMRC proposed to restrict the exception from the duty to deduct income tax on interest paid with respect to Quoted Eurobonds. In this case, the exemption would not apply where the Eurobond was issued to a fellow group company unless the Eurobond was substantially or regularly traded.

Respondents challenged this proposal and, as a result, the UK government will not proceed with the proposal.

Yearly interest

The proposals would have amended the current legislation to remove the reference to 'yearly' interest such that taxpayers would have to withhold income tax on interest payments for short-term, as well as long-term, debt.

Again respondents challenged the proposal, and the UK government confirmed that it will not abolish the concept of yearly interest.

Next steps

The UK government will consider circumstances in which withholding tax on interest is applied in a cross-border context. The government may request additional consultation in the future.

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SOLICITATION

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