

Explanatory Note: draft clause

Debt traded on a multilateral trading facility

Summary

1. This clause amends the rules on the deduction of income tax from payments of yearly interest. It provides that such a deduction will not apply to securities admitted to trading on a multilateral trading facility (MTF) operated by an EEA-regulated recognised stock exchange (RSE). It further widens the definition of alternative finance investment bonds to include securities admitted to trading on such an MTF.

Details of the clause

2. Subsection 1 of the clause amends section 987 of Income Tax Act 2007 (meaning of "quoted Eurobond") (ITA) so that the definition of a quoted Eurobond is extended to include securities admitted to trading on a MTF operated by an EEA-regulated RSE.
3. It further inserts a new subsection (2) into section 987 which defines an 'EEA-regulated RSE' and a 'MTF'
4. Subsection 2 of the clause similarly amends the definition of 'investment bond arrangements' in section 151N of Taxation of Capital Gains Act 1992, section 564G of ITA and section 507 of Corporation Tax Act 2009.
5. Subsections 3 to 4 of the clause set out the commencement details of the amendments.

Background note

6. There has been a decline in the use of the UK as a trading venue for corporate debt since 2009. Against that background, the UK Debt Market Forum, set up by the Financial Conduct Authority in 2015, identified a need to improve the competitiveness of UK MTFs as alternatives to traditional debt markets.
7. It has become clear that current requirements to withhold tax on interest are a barrier to the establishment of MTFs in the UK. This is because debt traded on a UK MTF would not benefit from an existing exemption from withholding requirements - the Qualifying Eurobond Exception (QEE) - while similar debt traded on some overseas MTFs would. This means that UK MTFs suffer a competitive disadvantage, making them commercially unattractive.
8. This measure ensures that UK debt markets can compete internationally on an equal footing by ending the anomaly which leads UK companies to issue debt on overseas venues in order to benefit from an existing UK exemption from withholding tax on interest.

9. If you have any questions about this change, or comments on the legislation, please contact Mark Lafone on 03000 585613 (email: mark.lafone@hmrc.gsi.gov.uk).