

Reform of close company participator rules

Technical

01 February 2015

It was announced in the Autumn Statement 2014 that the government has completed its review into the tax charge on loans from close companies to individuals, trusts and partnerships that have a share or interest in them. The government does not intend to change the structure or operation of the tax charge as a result of this review.

Towards the end of 2013 HMRC consulted on further reform of the close company loans to participators rules, but decided not to make any fundamental changes to the existing regime or to change its operational structure.

However, HMRC told us in spring 2014 that they would consider the need for less fundamental adjustments to the regime, after concerns and suggestions were put forward during the consultation. In particular, areas that were to be given further consideration were loans to partnerships, including LLPs, loans to charities, and loans to employee benefit trusts (EBTs). HMRC asked for information on the extent of the problems the regime, including the amendments made in FA 2013, were causing, and evidence in support of reform on any of the three areas. The CIOT wrote to HMRC with examples and suggestions that were put forward by members.

Our response to HMRC can be viewed here: www.tinyurl.com/pjqfang

It is therefore disappointing that the government has decided, without explanation, not to make any further changes to the structure or operation of the tax charge. We intend to follow this up with HMRC and hope to be able to report back later.

On a separate but related matter, HMRC has published a non-statutory form that can be used for claims for repayment. Form (L2P) can be found at:

www.tinyurl.com/pmwmhd3