

Summary of meeting between HMT/HMRC and business representatives on 1 August 2007

These bullet points reflect the concerns that business have regarding the two interest proposals. They do not cover the discussion on each of these points

General

- Business were concerned that the scope of the proposals may be wider than is perhaps intended
- Business felt the policy behind the two interest proposals was not totally clear and needed to be set out in more detail

Debt cap measure

- General view that the rules won't affect large numbers of UK headed groups.
- Business were concerned that the debt cap measure and CC rules together could create a double tax charge
- Business think the rule overrides the arm's length principle and will potentially provide problems with treaty partners
- Business are concerned other countries will adopt similar rules
- Inward investment could be affected because of large variations in debt profile that the UK has no control over
- Business asked that government consider: an arm's length override, carry forward of losses, averaging over longer period, carving out specific sectors

Unallowable purpose

- Business are unclear where the rule fits in with dividend exemption - groups can already move group companies underneath the UK
- Better to change manufactured payments unallowable purpose test so it fits with the tests for loan relationships and derivative contracts – same test for three regimes
- Business understands and can broadly accept why government wish to extend the unallowable purpose tests to include a "scheme or arrangement" test
- Business were concerned about introducing a main benefit test as they felt this would be difficult to measure
- Business felt some sort of clearance system would be needed