

# Tax Reserve Certificates Issued by HM Treasury: Repeal of Relief

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## Who is likely to be affected?

Individuals and companies who hold tax reserve certificates issued between 1941 and 1975.

## General description of the measure

This measure will repeal the reliefs which provide an exemption from income tax and corporation tax respectively for interest earned from tax reserve certificates (TRC) issued by HM Treasury. TRCs have not been issued since 1975, when they were replaced by certificates of tax deposit. Therefore, on the basis that they have not been issued for sometime, the relief is being repealed.

## Policy objective

The repeal supports the Government's objective to simplify the tax system and is part of a package of measures which will repeal reliefs that are no longer necessary, have not achieved their policy rationale or are distortive.

## Background to the measure

Following the Office of Tax Simplification review of reliefs, the Government announced at Budget 2011 that it would repeal seven reliefs in Finance Act 2011 and confirmed its intention to abolish a further 36 reliefs in Finance Bill 2012 and beyond, subject to a period of consultation.

*Consultation on the abolition of 36 tax reliefs* was published on 27 May 2011 and views were requested on the Government's proposal to repeal this relief. The Government response was published on 6 December 2011. All documents are available on both the HM Treasury and HM Revenue & Customs (HMRC) websites.

Whilst this measure focuses on the removal of a corporation tax relief, since the consultation process it was recognised that an equivalent income tax relief existed which could also be removed. Opportunity is provided to comment on the repeal of the income tax relief, with a further opportunity to comment on the repeal of the corporation tax relief. The information is set out in the Government's consultation response document.

## Detailed proposal

### Operative date

The repeal will have effect from 6 April 2013 in the case of individuals and 1 April 2013 in the case of companies.

### Current law

Section 750 of the Income Tax (Trading and Other Income) Act 2005 (ITTOIA) gives exemption from income tax in respect of interest from TRCs and section 1283 of the Corporation Tax Act 2009 (CTA) has the same effect for corporation tax.

## Proposed revisions

Legislation will be introduced in Finance Bill 2012 to repeal section 750 of ITTOIA and section 1283 CTA.

## Summary of impacts

<b>Exchequer impact (£m)</b>	2011-12	2012-13	2013-14	2014-15	2015-16
	-	-	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2012.				
<b>Economic impact</b>	Government records show that the total amount deposited in TRCs is less than £300,000. The average nominal value of the certificates is under £130. A small amount of interest will be accrued for the period the certificates are held until 1975, although this is only payable on redemption of the certificate. The exemption from tax for interest payable will remain for certificates redeemed before April 2013. Even if all holders of certificates encashed them prior to these changes, the impact on Government finances and the wider economy would be negligible.				
<b>Impact on individuals and households</b>	This change will impact on those individuals and households who encash their certificates after the date of the change as they may be liable to pay income tax on any interest payable.				
<b>Equalities impacts</b>	These certificates have not been issued since 1975, therefore, individuals who hold TRCs are likely to be older persons. However, the impact overall on those people with protected characteristics, based on the numbers in the economic impact section, is not significant. This change aligns the tax treatment of interest payable on these certificates with that of other income-producing investments.				
<b>Impact on business including civil society organisations</b>	This change is expected to have a negligible impact on business as the number of businesses who hold TRCs is small and the nominal value is low.				
<b>Operational impact (£m) (HMRC or other)</b>	If, in response to this change, there is a large-scale encashment, there will be a one-off operational impact on HMRC resources although the likelihood of this is considered to be low.				
<b>Other impacts</b>	Small firms: the number of businesses who hold TRCs is small and the consultation did not identify anything to suggest that the abolition of this relief would have a significant impact on small firms.				

## Monitoring and evaluation

This change does not require monitoring or evaluation. It removes an unnecessary relief. Any correspondence received on the impact of the repeal will be dealt with on a case by case basis.

## Further advice

If you have any questions about this change, please contact Angela Roach on 020 7147 0002 (email: [angela.roach@hmrc.gsi.gov.uk](mailto:angela.roach@hmrc.gsi.gov.uk)).

**1 Tax reserve certificates**

- (1) The following provisions are repealed—
  - (a) section 750 of ITTOIA 2005 (interest from tax reserve certificates);
  - (b) section 1283 of CTA 2009 (interest from tax reserve certificates).
- (2) In consequence, in section 369 of ITTOIA 2005 (charge to tax on interest), in subsection (3)(e), omit “tax reserve certificates,”.
- (3) The repeals made by subsections (1)(a) and (2) have effect in relation to tax reserve certificates redeemed on or after 6 April 2013.
- (4) The repeal made by subsection (1)(b) has effect in relation to tax reserve certificates redeemed on or after 1 April 2013.

# FINANCE BILL

## EXPLANATORY NOTE

### TAX RESERVE CERTIFICATES

#### SUMMARY

1. This clause repeals the relief for corporation tax and income tax on interest paid in respect of tax reserve certificates.

#### DETAILS OF THE CLAUSE

2. Subsection (1)(a) repeals section 750 of Income Tax (Trading and Other Income) Act 2005 (ITTOIA). That section provides that no liability to income tax arises in respect of interest from tax reserve certificates issued by the Treasury.
3. Subsection (1)(b) repeals section 1283 of Corporation Tax Act 2009. That section provides that no liability to corporation tax arises in respect of interest from tax reserve certificates issued by the Treasury.
4. Subsection (2) makes a consequential amendment to section 369 of ITTOIA 2005.
5. Subsection (3) provides that the repeal made by subsections (1)(a) and (2) will have effect in relation to any tax reserve certificates redeemed on or after 6 April 2013. Taxpayers who redeem tax reserve certificates before this date will continue to get relief for income tax.
6. Subsection (4) provides that the repeal made in subsection (1)(b) will have effect in relation to tax reserve certificates redeemed on or after 1 April 2013. Taxpayers who redeem tax reserve certificates before this date will continue to get relief for corporation tax.

#### BACKGROUND NOTE

7. Tax reserve certificates were introduced in 1941 as a mechanism for making payments of tax on account. Interest on tax reserve certificates is paid when the certificates are redeemed to settle a tax liability. Tax reserve certificates have not been issued since the mid-1970s.
8. The repeal of tax relief for tax reserve certificates was recommended by the Office of Tax Simplification in its Review of Tax Reliefs published on 3 March 2011.
9. If you have any questions about this change, or comments on the legislation, please contact Angela Roach on 020 7147 0002 (email: [angela.roach@hmrc.gsi.gov.uk](mailto:angela.roach@hmrc.gsi.gov.uk)).