

CHAPTER 2

Interest

KEY POINTS

- Introduction **2.1**
- What is ‘interest’?
 - Generally **2.5**
 - Dictionary definition **2.6**
 - Common law concept – *Bennett v Ogston* **2.12**
 - The need for a ‘debt’ **2.13**
 - Contingency in relation interest **2.17**
 - Capitalisation **2.18**
 - Payment mechanics **2.19**
- The unimportance of labelling
 - Description is not determinative **2.21**
 - Voluntary credit **2.24**
 - Involuntary credit **2.25**
 - Dissection **2.26**
 - Commercial contracts **2.28**
 - Hire purchase contracts **2.29**
 - Finance leases **2.30**
 - Swap agreements **2.31**
 - Interest subsidy agreements **2.34**
- Amounts which may constitute ‘interest’
 - Premium **2.35**
 - Guarantee payments **2.41**

2 Interest

● Damages	2.47
● Quantum	
□ Super interest	2.51
□ Transfer pricing	2.52
○ Amounts that are not ‘interest’	
● Discount	
□ Classification as capital or income at common law	2.53
□ Statutory intervention (a historical overview)	2.56
□ Practical issues relating to discount	
■ Continuing relevance of the distinction between capital and income discount to the tax charge	2.65
■ The charge to tax	2.66
■ Deduction at source	2.69
□ Deeply discounted securities	
■ Definition	2.70
■ Fungible securities	2.79
● Commitment and arrangement fees, etc	2.80
● Profit share	
□ Common law	2.81
□ Statutory override: distribution treatment	
■ Circumstances in which distribution treatment applies	2.84
■ ‘Non-Commercial Securities’	
– ‘Principal secured’	2.92
– ‘New consideration’ exceeds ‘principal secured’	2.96
■ ‘Special Securities’	
– Convertible securities	2.98
– Results dependent securities	2.99
– ‘Securities ‘connected with’ shares	2.106

– Equity notes'	2.107
■ Transfers of assets or liabilities to members	2.111
■ Transfers of assets or liabilities to members	2.114
■ Thin-capitalisation – prior to 1 April 2004	2.115
● Disguised interest	2.123
○ Amounts which are treated as 'interest'	
● Islamic finance	
□ Overview	2.125
□ Types of transaction	
■ Purchase and resale	2.130
■ Diminishing shared ownership	2.130
■ Investment bonds	2.132
■ Deposit arrangements	2.134
■ Profit share agency arrangements	2.135
● Factoring - finance arrangements	2.136
● Repos and stock loans	
□ Overview	2.137
□ Repos - income tax and corporation tax	2.138
□ Manufactured interest - income tax	
■ Manufactured interest in respect of UK securities	2.140
■ Manufactured interest which differs from an underlying payment	2.144
□ Manufactured interest - corporation tax	2.146
□ Deemed manufactured interest - income tax	
■ Stock lending arrangements	2.147
■ Repos	2.150
□ Deemed manufactured interest - corporation tax	

2 *Interest*

■	Stock lending arrangements	2.152
●	Accrued interest on securities bought and sold	2.155
●	Financial services compensation fund compensation	2.156
●	Certain payments from collective investment schemes	
□	Investment trusts	2.157
□	Authorised unit trusts and OEICs	2.158