

## Complex considerations tax relief for corporate borrowing

There are a number of issues that make it imperative for companies to look closely at the tax relief on their funding activities: these issues include the lender's relationship with the borrower, whether the borrowing is at a particularly high level relative to the borrowing company's value, as well as specific rules in connection with late payment of interest, impairment of debts and the release or waiving of debts.

It is firstly important to point out that tax relief will normally follow accounting treatment.

It is also important to note that specific rules with regard to borrowing apply where the borrowing company and the lending company are connected, i.e. where one has control of the other.

If the borrowing is very high, HM Revenue & Customs (HMRC) might argue that such borrowing is rather too large and amounts to a 'thin capitalisation.' In such a case a proportion of the interest would be disallowed.

Generally the lender will get tax relief on bad debts, unless the companies are connected.

An important feature of the rules is the availability of relief for the costs of arranging loan finance. Relief is still available, even where the facility is not taken up. This can be particularly useful where an acquisition project is aborted, since the costs related to raising loan finance should in principle be available.

**If you require any further advice on this issue, please speak to your usual Baker Tilly contact.**