

## The official rate of interest to increase

Synopsis: The official rate of interest will increase to 2.25% for 2023/24.

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The official rate of interest that applies to employment-related loans, and the pre-owned asset tax charge, currently 2%, will increase to 2.25% for the 2023/24 tax year, according to updated guidance issued by HMRC.

The rate is normally fixed in advance for the whole tax year. However, it may be changed during the tax year if there are significant changes in interest rates.

### Loans to employees

If an employer makes a cheap loan to an employee, or a relative of the employee, then the official rate is used to measure the benefit to the employee which is subject to tax as a benefit in kind. The benefit is the difference between the interest (if any) paid by the employee and interest at the official rate. An employer will pay Class 1A national insurance contributions (NICs) on any taxable benefit.

There is no tax or NICs charge if all loans for an individual do not exceed £10,000 at any time in the tax year.

Where the loan is provided under a salary sacrifice or flexible benefits arrangement, if the amount of the earnings foregone under the arrangement is greater than the amount of interest at the official rate, the amount to be treated as a benefit in kind is the amount foregone minus any actual interest paid.

### Pre-owned asset tax charge

The official rate is also used in calculating the pre-owned asset tax (POAT) charge on assets other than land.

The POAT provisions, which introduced a charge to income tax on benefits received by the former owner of gifted property, apply to many trusts and settlements from 6 April 2005.

There is no tax charge if the benefit is less than £5,000 a year. The charge is calculated by applying the official rate of interest to the value of the asset.

So, for example, where the asset is a life assurance investment bond, then, where the official interest rate is 2.25%, the value of the policy would have to be in excess of £222,222.22 for a charge to apply.

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