

INTEREST AND TAX PAYMENTS

HMRC charges interest on underpayments of tax, and pays interest (*repayment supplement*) on overpayments. The rate of interest paid on overpaid tax is lower than the rate charged on underpayments, and interest rates are adjusted frequently in line with commercial interest rates.

Detailed calculation of interest and supplement are not shown on Statements of Account, so it is worth checking when these items are large.

Income Tax and Capital Gains Tax – Self Assessment

Interest is charged on underpaid payments on account and balancing payments from the due date to the date of payment. Repayment supplement is paid from the date of overpayment to the date the repayment is issued. The interest or supplement is based on the final amount of tax and Class 4 national insurance contributions, taking into account all later adjustments.

Interest is also payable on late-paid penalties and surcharges - but not on interest itself.

For individual taxpayers interest charged by the Revenue is not tax-deductible, but neither is interest paid by the Revenue taxable income.

Corporation Tax - Self Assessment

Similar principles apply with regard to corporation tax. However, interest rates are not necessarily the same as those applying to income tax and capital gains tax. In addition, there are different rates of interest for companies required to make quarterly payments of corporation tax.

In contrast to the position with personal taxpayers, under corporation tax self assessment interest charged is allowed against company profits and interest received is treated as taxable income.

Typical Interest Rates

As mentioned above, interest rates move with commercial rates. The rates from 6 September 2005 were:

	Income and Capital Gains Tax	Corporation Tax
Underpaid Tax	6.5% pa	6.5% pa
Overpaid Tax	2.25% pa	3% pa

The rates move with commercial interest rates, so see www.hmrc.gov.uk/rates/interest.htm for the latest rates.

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