



Finance and Central Services Department  
Local Government Finance & Performance Division

Victoria Quay  
Edinburgh EH6 6QQ

**Finance Circular No. 9/2002**

Chief Executives, Scottish Local Authorities

Copy (by e-mail) to: Directors of Finance  
Heads of Revenue Departments

Telephone: 0131-244 7003  
Fax: 0131-244 7020  
Carol.sibbald@scotland.gsi.gov.uk  
<http://www.scotland.gov.uk>

Your ref:  
Our ref:

21 November 2002

---

Dear Sir/Madam

**CHANGES TO THE DEDUCTION OF INCOME TAX FROM INTEREST PAYMENTS TO SPECIFIED EXEMPT BODIES**

This circular gives details of changes to the deduction of income tax from payments to specified bodies that are exempt from UK tax and who would otherwise have to reclaim that tax at a later stage.

On Budget Day, 17 April, the Chancellor announced that from 1 October 2002 companies would not have to deduct tax from interest payments paid to specified bodies that are exempt from UK tax. He also announced that rules for deducting tax at source from payments by local authorities would be aligned with those that apply to payments by companies. Clause 93 of the Finance Bill 2002 (section 94 of the Finance Act 2002 <http://www.legislation.hmso.gov.uk/acts/acts2002/20023--e.htm#94>), which was published on 17 April 2002, put these reforms into effect from 1 October 2002.

This means that from 1 October 2002 local authorities (and partnerships that include local authorities) will be able to make gross payments to UK companies and specified UK bodies that are exempt from tax, with respect to interest payments.

Specified tax-exempt bodies include charities, approved pension funds, local authorities and Government departments. The full list of specified tax-exempts is included within Section 94 of the Finance Act 2002.

With respect to business rates, any payments of interest on overpayment of rates made by local authorities after 1 October 2002 can be made without deduction of tax at source where the local authority reasonably believes that the recipient is:

- a UK company, or

- a partnership each member of which is a company resident in the UK or an exempt body, or
- a non-resident company carrying on a trade through a branch or agency in the UK where the interest will be brought into account in computing the profits chargeable to corporation tax, or
- a body that is exempt from tax.

Further details of these changes are available from the Inland Revenue's website at

[http://www.inlandrevenue.gov.uk/finance\\_bill/deduction\\_%20of\\_%20tax.pdf](http://www.inlandrevenue.gov.uk/finance_bill/deduction_%20of_%20tax.pdf)

This Circular has been copied by e-mail to the Directors of Finance and the Head of Revenue.s. A hard copy has been sent to all Chief Executives.

Any enquires about this Circular should be directed to Colin Cummins – e-mail [colin.cummins@scotland.gsi.gov.uk](mailto:colin.cummins@scotland.gsi.gov.uk) or telephone 0131 244 7004.

Yours faithfully



**CAROL SIBBALD**