

SCHEDULES

SCHEDULE 7

TAXATION OF BENEFIT FROM LOANS OBTAINED BY REASON OF EMPLOYMENT

PART II

CALCULATION OF CASH EQUIVALENT OF LOAN BENEFIT

General

- 3 (1) The cash equivalent for any year of the benefit obtained from a loan is—
- (a) the amount of interest (calculated in accordance with paragraph 4 or 5 below) which would have been payable for that year had interest at the official rate been payable on the loan, less
 - (b) the amount of interest actually paid on the loan for that year.
- (2) Where an assessment for any year in respect of a loan has been made or determined on the footing that the whole or part of the interest payable on the loan for that year was not in fact paid, but it is subsequently paid, then on a claim in that behalf, the cash equivalent for that year shall be recalculated so as to take that payment into account and the assessment shall be adjusted accordingly.
- (3) All the loans between the same lender and borrower for which a cash equivalent falls to be ascertained and which are outstanding at any time, as to any amount, in any year are to be treated for the purposes of this Schedule as a single loan.

Normal method of calculation (averaging)

- 4 In the absence of a requirement or election that paragraph 5 below should apply, the amount of interest at the official rate payable on a loan for any year (“the relevant year”) shall be ascertained as follows—
- (a) take half the aggregate of—
 - (i) the maximum amount of the loan outstanding on 5th April preceding the relevant year or, if it was made in that year, on the date on which it was made, and
 - (ii) the maximum amount of the loan outstanding on 5th April in the relevant year or, if the loan was discharged in that year, the date of discharge;
 - (b) multiply that figure by the number of whole months during which the loan was outstanding in that year, and divide by 12;
 - (c) multiply the result by the official rate of interest in force during the period when the loan was outstanding in that year or, if the official rate changed during that period, the average rate during that period ascertained by

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reference to the number of days in the period and the number of days for which each rate was in force.

For the purposes of this paragraph, months begin on the sixth day of the calendar month.

Election for alternative method of calculation

- 5 (1) For any year of assessment (“the relevant year”) the alternative method of calculation set out in this paragraph applies if—
- (a) the inspector so requires, by notice given to the employee, for the purpose of any assessment to income tax (or the adjustment of any such assessment in consequence of an appeal); or
 - (b) the employee so elects, by notice given to the inspector within the time allowed by sub-paragraph (2) below.
- (2) An election by the employee must be made—
- (a) in a case where an assessment including the emoluments in question has been made on the basis of the normal method of calculation, within the time allowed for appealing against that assessment or such further time as the inspector may allow;
 - (b) where no such assessment has been made, within six years after the end of the relevant year of assessment.
- (3) The alternative method of calculating the amount of interest at the official rate payable on a loan for the relevant year is as follows—
- (a) take each period in the relevant year during which the official rate of interest remains the same;
 - (b) for each such period take for each day in the period the maximum amount outstanding of the loan on that day, and add those amounts together;
 - (c) multiply that sum by the official rate in force during the period divided by 365; and
 - (d) add together the resulting figures for each period in the relevant year.