



HMRC's latest nudge letter campaign targets loan arrangements

HMRC issues “nudge” letters to companies with open enquiries into the application of the unallowable purpose rule

HMRC is targeting taxpayers who have claimed tax relief for interest paid, or other debits relating to loans, where they suspect that one of the taxpayer's “main purposes” for entering into the loan relationship was to avoid tax.

Unallowable purpose

The “unallowable purpose” rule prevents companies deducting interest and other debits for UK corporation tax purposes if one of the main purposes of entering into the underlying loan relationship is to reduce its corporation tax liability. The application of the rule has been the subject of substantial litigation and uncertainty because it is unclear to what extent it is acceptable to factor tax consequences into the design of financing arrangements.

The Court of Appeal recently considered the application of the unallowable purpose rule in three separate appeals: *BlackRock Holdco 5 LLC v HMRC* [2024] EWCA Civ 330; *Kwik-Fit Group Ltd and other companies v HMRC* [2024] EWCA Civ 434; and *JTI Acquisitions Company (2011) Ltd v HMRC* [2024] EWCA Civ 652. All three decisions emphasised the importance of reviewing contemporary documentary evidence to ascertain the subjective purpose of the company in entering into the loan relationship.

HMRC's latest nudge letters

HMRC has recently written to taxpayers with open enquiries into the application of the unallowable purpose rule. The letters request the recipient taxpayers to reconsider their position in light of the Court of Appeal's decisions in the above cases and try to resolve the matter through without prejudice discussions with HMRC.

The letter also indicates that HMRC are continuing to challenge cases where they believe the "*facts, circumstances and evidence*" show that a company has entered into a loan relationship and one of the main purposes for doing so was avoiding tax.

A copy of HMRC's letter has been published by the ICAEW and can be found [here](#).

Further action

If you are contacted by HMRC in relation to the above (whether you have an open enquiry or not) and require expert advice and assistance in this complex area of the law, please contact:

Contacts



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