UK withholding tax on interest: simplification or risk shift?

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On 13 July 2026, HMRC published a consultation on simplifying the process for obtaining treaty relief from UK withholding tax on interest paid overseas.

The consultation considers whether UK payers should be able to apply treaty relief at source without first obtaining a formal direction from HMRC. If implemented, this could reduce delays, administrative burden and cash-flow issues under the current regime. However, it could also shift greater responsibility, and potentially greater risk, onto borrowers and other UK payers.

The proposals are likely to be significant for UK borrowers, institutional lenders, private credit funds, multinational groups and fund managers involved in lending into the UK.

The current regime

A person paying UK-source “yearly interest” (broadly, interest on debt capable of lasting more than a year) must generally withhold UK income tax at the basic rate, currently 20%, unless a domestic exemption applies or relief is available under a double tax treaty.

Treaty relief from withholding tax is not automatic. Under the current regime, the relevant lender or borrower must apply to HMRC and obtain a direction before interest can be paid at the reduced treaty rate.

In broad terms, there are two main routes for obtaining treaty relief.

- Standard treaty relief process: The overseas lender applies to HMRC for a direction permitting interest to be paid at the treaty rate. Until that direction is issued, withholding must be applied (even where the lender is eligible to reclaim the tax).
- Double Taxation Treaty Passport (DTTP) scheme: An eligible overseas lender can obtain a treaty passport in advance. The borrower must then notify HMRC of each relevant loan before treaty relief can be applied and HMRC will issue a direction permitting interest to be paid at the treaty rate. The DTTP process is generally more streamlined, but it still requires loan-by-loan notification and can be cumbersome, particularly for syndicated facilities or less straightforward lending

structures.

The DTTP guidance also allows the treaty rate to be applied provisionally once the online application has been submitted and acknowledged by HMRC (i.e. before the direction is issued by HMRC). This does mitigate the risk of being required to withhold while awaiting authorisation, however, issues can still arise where obtaining a passport is delayed or the financing structure falls outside the scheme’s straightforward parameters, such as lending through a UK tax-transparent partnership. In certain types of transactions, borrowers may be unwilling to pay gross unless and until the direction is received.

The 2026 consultation: borrower self-assessment?

The key option under consideration is whether UK payers of interest should be permitted to apply treaty relief at source where they consider that the relevant treaty conditions are met, without first obtaining HMRC clearance.

HMRC would retain the ability to review the position later through compliance activity.

This would broadly align the treatment of interest with the current approach for certain cross-border royalty payments, where the payer may apply the treaty rate without advance clearance but bears the risk of tax, interest and penalties if relief was not in fact available.

From a borrower perspective, this could be a meaningful simplification. It could avoid delays where treaty relief is clearly available but HMRC clearance has not yet been issued, and reduce the need for repayment claims where withholding has been applied as an interim measure.

However, the reform would also transfer responsibility for the treaty analysis from HMRC’s upfront clearance process to the parties to the loan. That analysis may be straightforward where the lender is a corporate vehicle resident in a treaty jurisdiction and lending on its own account. It may be much more difficult where the lender is a fund, partnership, securitisation vehicle or other structure where tax residence, beneficial ownership or entitlement to treaty relief is less clear.

HMRC recognises this in the consultation and asks what evidence borrowers should obtain before applying treaty relief, how comparable regimes operate in other jurisdictions and whether an optional advance clearance or certainty process should be retained.

Implications for financing transactions

If the UK moves to self-assessment for treaty relief, facility documentation may need to adapt.

Under the current regime, the existence of an HMRC direction gives the borrower a degree of comfort that treaty relief can be applied. Without that direction, borrowers may seek more extensive lender representations, information undertakings and potentially indemnities covering treaty residence, beneficial ownership, entitlement to relief and any change in circumstances.

This could affect the negotiation of UK withholding tax provisions, including gross-up and tax confirmation mechanics. Borrowers may argue that, if they are being asked to apply treaty relief without HMRC clearance, they need better contractual protection. Certain types of lender may resist that shift, particularly given that the UK withholding obligation arises by reference to the borrower's UK nexus.

The practical impact may be most acute for syndicated facilities, private credit lending, fund finance and structures involving tax-transparent or hybrid lenders, where the treaty analysis may be less straightforward.

Reporting and compliance

If HMRC removes or reduces the need for advance clearance, it is likely to require reporting of interest payments where treaty relief is applied, even where no UK tax is deducted.

The consultation asks whether such reporting should be made through the CT61 process or alongside treaty-rated cross-border royalty payments in the CT600H. Borrowers would therefore need systems to identify relevant payments, retain supporting evidence and explain why treaty relief was applied.

HMRC is also considering sanctions for non-compliance, including cases where treaty relief is applied incorrectly, where relief is available but supporting requirements have not been met, and where reporting obligations are not complied with.

Key takeaways and next steps

The proposals could materially simplify cross-border lending into the UK by allowing treaty relief to be applied without waiting for HMRC clearance. That would be welcome in many financing transactions.

However, simplification may come with a shift in risk. Borrowers may need to take greater responsibility for assessing treaty entitlement, collecting evidence and reporting relieved payments. If advance clearance is retained as an option, borrowers may still not be willing to rely on the self-assessment route at all where they consider that they are not adequately protected (either through the new rules or relevant loan documentation).

Businesses involved in cross-border financing should consider whether the proposed self-assessment model would work in practice, what evidence borrowers should reasonably be expected to obtain, and whether an optional advance clearance route should remain available for complex cases.

The consultation closes on 7 September 2026.

Related Professionals

- **Richard Miller**
  Partner
- **Daniella Abel**
  Partner
- **David M. Ward**
  Associate