

The tax treatment of interest cap fees

Part 08-03-02

This document should be read in conjunction with section 81 of the Taxes Consolidation Act 1997.

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Interest caps set an upper limit to the interest payable on variable rate loans. Caps may be included in a loan agreement or may be subject to a separate agreement with either the lending bank or another bank. In return for the interest cap fee or payment, which may be paid up front, the bank agrees to compensate the borrower if interest rates rise above a certain level.

Revenue treats a payment for an interest cap as part of the interest expense relating to a loan. Where the interest on the loan to which the cap applies is allowable in computing the profits of a trade or profession, the payment for the interest cap will also be allowed.