HM Revenue
& Customs

Corporation Tax: Authorised Investment Funds: interest distributions and property Income

Who is likely to be affected?

Authorised Investment Funds (AIFs) which mainly invest in assets generating interest returns but may also have a small amount of income from property to distribute to investors.

General description of the measure

The measure will permit AIFs to make interest distributions to investors where, in addition to interest, income from property has also been received by the fund. It is subject to a safeguard to prevent such property income being paid offshore without deduction of tax.

Policy objective

The measure contributes towards a simpler, fairer tax system by enabling some flexibility in distribution of fund income while protecting the Exchequer. As such, it also complements the government's investment management strategy.

Background to the measure

The government published a notice on 13 November 2014 setting out its intention to amend The Authorised Investment Fund (Tax) Regulations with respect to interest distributions. A consultation to consider draft Regulations ran from 11 December 2014 until 15 January 2015.

Detailed proposal

Operative date

The Regulations are to be made under the powers provided by section 17(3) and section 18 of the Finance (No.2) Act 2005 and are effective 21 days after being laid before the House of Commons.

Current law

The current law prevents an interest distribution being made by an AIF in any case where the fund has received any property income in the distribution period. See Regulations 12-13 and 15-23 The Authorised Investment Funds (Tax) Regulations 2006 (S.I. 2006/964).

Proposed revisions

These Regulations:

- remove a restriction on making interest distributions where an AIF receives property income
- insert a new regulation restricting the amount that can be deducted in calculating the profits of an AIF by reference to any property income it receives

This results in a Corporation Tax charge arising on the AIF on amounts of income from property received. This provides a safeguard for the Exchequer against property income leaving the UK untaxed.

The Regulations also make minor consequential amendments.

Summary of impacts

Exchequer impact (£m)	2014 to 2015	2015 to 2016	2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020
	negligible	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer. The Exchequer may receive very small amounts of additional tax on property income from bond funds that have small amounts of property income but decide to make an interest distribution.					
Economic impact	The measure is not expected to have a significant macroeconomic impact.					
Impact on individuals, households and families	The measure is not expected to impact on family formation, stability or breakdown. There is no impact upon Individuals and households because this affects Authorised Investment Funds only					
Equalities impacts	No apparent impact on protected characteristics.					
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses. The very small segment of the Investment Management sector affected would need to familiarise themselves with the changes and in some cases correct their accounting methodologies. This measure will have no impact on civil society organisations.					
Operational impact (£m) HM Revenue and Customs (HMRC or other)	It is not anticipated that implementing this change will incur any additional costs / savings for HMRC.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

This policy may be kept under review through communication with groups affected by the measure and information collected from tax returns. HMRC has an established programme of liaison with the industry, which will capture issues around implementation and ongoing compliance and administrative costs

Further advice

If you have any questions about this change, please contact Hayley Moran on email: hayley.moran@hmrc.gsi.gov.uk.

Declaration

Andrea Leadsom MP, Economic Secretary to the Treasury has read this Tax Information and Impact Note and is satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impacts of the measure.