HM Revenue & Customs

Amendments to the Unauthorised Unit Trusts (Tax) Regulations 2013

Who is likely to be affected?

Certain types of unauthorised unit trusts (UUTs) and their investors.

General description of the measure

This measure makes two amendments to the Unauthorised Unit Trusts (Tax) Regulations 2013 (S.I. 2013/2819) (‘the UUT regulations’).

Policy objective

These changes will ensure the UUT regulations work as intended, and will disapply unnecessary rules.

Background to the measure

The UUT regulations introduced substantial changes to the tax treatment of UUTs and their investors, simplifying the rules and removing opportunities for avoidance. An amendment is being made to clarify one aspect of the rules, and a further amendment is connected to HM Revenue & Customs’ (HMRC) ongoing review of loan relationships generally.

Detailed proposal

Operative date

This measure will have effect on and after 6 April 2014.

Current law

- Certain types of unit trusts have long been treated as not being a unit trust scheme, and therefore not an unauthorised unit trust for tax purposes, by regulations made under powers consolidated in section 1007(2) Income Tax Act 2007 (“ITA 07”). Some stakeholders have suggested that, contrary to the government’s intention, the new rules in S.I. 2013/2819 could be read as including such unit trusts within their scope.

- The bond fund rules are contained in Chapter 3 of Part 6 of Corporation Tax Act 2009, and treat corporate holdings in unit trusts that are primarily invested in debt type assets as creditor relationships.

Proposed revisions

Amendments made by these regulations will:

- remove any doubt that unit trusts specified in regulations made under powers in section 1007(2) ITA 07 are not unauthorised unit trusts for tax purposes; and
- take holdings in non-exempt unauthorised unit trusts (NEUUTs) outside of the scope of the bond fund rules. This is because NEUUTs will be subject to corporation tax on the total return from any debt assets they hold themselves, and there is therefore no need to treat holdings in NEUUTs as creditor relationships. It will also prevent potential double taxation for investors in NEUUTs.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19
	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer.				
Economic impact	The measure is not expected to have any significant economic impacts.				
Impact on individuals and households	No impact on individuals or households has been identified, as they are not affected by the bond fund rules and the other change ensures continuity of the current treatment for investors in certain types of unit trusts that are excluded from the UUT rules.				
Equalities impacts	No impact on equalities has been identified.				
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses and civil society organisations.				
Operational impact (£m) (HMRC or other)	This measure is not expected to have any operational impact for HMRC.				
Other impacts	Other impacts have been considered and none have been identified.				

Monitoring and evaluation

HMRC and HM Treasury will continue to liaise with industry from time to time to discuss the implementation of the proposed new rules as part of ongoing engagement with industry.

Further advice

If you have any questions about this change, please contact Roger Leslie on 03000 585528 (email: roger.leslie@hmrc.gsi.gov.uk) or contact John Buckeridge on 03000 585701 (email: john.buckeridge@hmrc.gsi.gov.uk).

Declaration

David Gauke MP, Exchequer 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.