



Interest Distributions from authorised investment funds paid without deduction of tax

Who is likely to be affected?

Businesses distributing investments in United Kingdom authorised investment funds (AIFs) to persons resident outside the UK and persons investing in AIFs through such businesses.

General description of the measure

The measure will allow interest distributions to be paid without deduction of basic rate income tax on units or shares in AIFs that have been marketed to persons not resident in the UK.

Policy objective

The measure will permit UK domiciled AIFs to make available units in the fund from which interest distributions will be paid without deduction of basic rate income tax provided that the units are sold through distributors who will market the units exclusively outside the UK.

This will enable funds to make gross payments where it is impractical to provide assurance that no individual investors are UK resident. UK investors who do have holdings in such funds and who receive gross interest payments are responsible for ensuring that the payments are declared and tax paid on that income where due.

This measure will also remove references to 'ordinarily resident' in the Authorised Investment Funds (Tax) Regulations 2006 (SI 2006/964) ('the AIF Regulations').

Background to the measure

This measure was announced in Budget 2013. A consultation was published on 22 July 2013 and closed on 16 September 2013.

Seven responses were received from industry representative bodies, accountancy firms and a fund administrator, all supportive of the measure. Comments were confined to minor suggestions relevant to drafting.

A Tax Information and Impact Note (TIIN) covering reforms to ordinary residence was published on 11 December 2012. That TIIN remains an accurate summary of those provisions.

Detailed proposal

Operative date

The main provisions of this measure will have effect in relation to units acquired on or after 19 December 2013.

The provisions relating to the removal of references to 'ordinarily resident' will have effect on and after 6 April 2014.

Current law

The AIF Regulations (regulations 26 to 33) provide for interest distributions to be paid without deduction of tax to individuals established to be non-resident and not ordinarily resident in the UK.

Proposed revisions

This Statutory Instrument: The Authorised Investment Funds (Tax) (Amendment) (No. 2) Regulations 2013 permits interest distributions to be made without deduction of tax provided the offshore marketing condition is met.

In cases where the investor is, in fact, liable to UK Income tax then the investor will be responsible for compliance with UK tax rules.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	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	It is not expected that there will be any significant impact on individuals and households generally, as relatively few UK resident individuals invest in share classes of UK funds which are marketed only outside the UK.				
Equalities impacts	There is no evidence to suggest that the measure will have any adverse equalities impacts for any particular groups.				
Impact on businesses and 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 significant effect on any operational area of HM Revenue & Customs (HMRC) or any effect in other public sector organisations.				
Other impacts	<p><u>Small firms impact test</u>: small firms will be affected to the extent that they form part of the population of affected fund managers.</p> <p>Other impacts have been considered and none have been identified.</p>				

Monitoring and evaluation

HMRC and HM Treasury will keep the measure under review and continue to liaise with industry from time to time to discuss the implementation of the proposed amendments, as part of ongoing engagement.

Further advice

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

Declaration

Sajid Javid MP, Financial 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.