

Budget 2009



BN23

22 April 2009

TAX ELECTED FUNDS

Who is likely to be affected?

1. Authorised Investment Funds (AIFs) and their investors.

General description of the measure

2. This measure will introduce an elective regime for UK AIFs that will move the point of taxation from the AIF to the investor, so that the investor is treated as though they had invested in the underlying assets directly.

Operative date

3. The new regime will have effect on and after 1 September 2009.

Current law and proposed revisions

4. Under current rules, UK AIFs are normally chargeable to corporation tax on taxable income at a special rate of 20 per cent.
5. That will remain the case under the new regime, but UK AIFs that meet certain conditions will be able to elect to be treated as a tax elected fund (TEF). TEFs will be required to make two types of distribution of the income they receive - a dividend and a non dividend (interest) distribution. UK dividend income will remain non taxable in the fund and will be distributed as a dividend. For all other income that is distributed as a non-dividend (interest) distribution, the fund will receive a tax deduction up to the same amount. The new regime will be introduced by secondary legislation.
6. UK investors are treated as receiving UK dividend income (including the non payable dividend tax credit) and a payment of yearly interest.

Further advice

7. If you have any questions about this change, please contact Angela Nagarajah on 020 7147 2787 (email: angela.nagarajah@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

