
REAL ESTATE INVESTMENT TRUSTS: AMENDMENTS

Who is likely to be affected?

1. Existing and future Real Estate Investment Trusts (REITs).

General description of the measure

2. Legislation will be introduced in Finance Bill 2009 to make the existing legislation clearer and more consistent following discussions with the industry.

Operative date

3. The measure will have effect on and after 22 April 2009.

Current law and proposed revisions

4. A REIT is restricted in the type of share it can issue. The measure will allow a REIT to raise funds by issuing convertible preference shares.
5. The existing legislation for the 'balance of business asset' test (where a REIT has to have 75 per cent of its assets involved in the property rental business) has different definitions of asset for grouped REITs and single company REITs. The amendment will provide an accounting based definition for all REITs.
6. When a REIT disposes of a property involved in its property rental business the current legislation allows funds from the disposal that are awaiting reinvestment to be treated, for up to 24 months, as an asset of the property rental business for the purpose of the balance of business asset test (see 5 above). The legislation allows apportionment of these funds when the asset has been partly used for the property rental business and partly for non-rental purposes. The measure will clarify how the apportionment is to be applied.

7. In addition, when a REIT elects to join the regime the legislation allows that two of the REIT conditions to be met before a company can become a REIT do not have to be met on joining the regime. Currently these two conditions are linked. The measure will uncouple the conditions with the result that either or both the conditions do not have to be complied with on joining the regime.

Further advice

8. If you have any questions about this change, please contact Tony Linehan on 020 7147 0527 (email: tony.linehan@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk