

## CTM48830 - Property Authorised Investment Funds (Property AIFs): tax treatment of Property AIFs and distributions: contents

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## **CTM48831 - Property Authorised Investment Funds (Property AIFs): tax treatment of Property AIFs and distributions: general principles**

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### **Ring-fencing of tax-exempt business (regulation 69X SI 2006/964)**

One fundamental concept underlies the structure of the Property AIF regime, which is similar to the UK-Real Estate Investment Trust, and that is the activities that qualify for exemption from tax are ring-fenced from other activities carried on by other parts of the open ended investment company (OEIC). The activity that qualifies is holding property to generate a return from investment income, as distinct from building property for sale or trading in property.

For corporation tax (CT) purposes, the tax exempt business of a Property AIF is a separate and distinct business from:

- the OEIC prior to entry into the regime - F (pre-entry)
- the residual part of the Property AIF business (not part of the regime) – F (residual)
- the OEIC post cessation of the regime – F (post-cessation)

### **Extent of the ring-fence income**

To identify activity that qualifies for the ring-fence, the rules of Schedule A, and equivalent Case V rules for overseas property business must be adopted. This limits qualifying activity to the exploitation of land as a source of rent. This means that some types of activity, while although related to land, are excluded from the ring-fence, for example farming, which is chargeable to tax as a trade under Case I Schedule D. The Property Income Manual gives further details.

However, some activities that fall within Schedule A are not within the policy objectives of the regime – one of which was to remove distortions in the rental sector, with a focus on bricks and mortar. This results in some types of business that are within Schedule A being explicitly excluded from the ring-fence. For example, rent in respect of way-leaves for oil and gas pipelines are excluded. See CTM48813.

### **Nature of the ring-fence**

The ring-fence is a barrier between the tax-exempt activities of the Property AIF and any other taxable activities it may carry out. It prevents losses or allowances generated in the tax-exempt part of the Property AIF being used to reduce the measure of income arising in the residual part. This is supported by deeming the part of the Property AIF that carries on the tax-exempt business to be a business separate from the remaining part. This caters for instances where the non tax-exempt part of the business is also in receipt of Schedule A income (such as fees for mobile phone masts).

Similarly, income accruing to the company after entry into the Property AIF regime, but relating to the business before it entered the regime can only be treated as income relating to the residual part of the business.

The same principle applies equally to expenses charges or allowances, under regulation 69X (4) SI 2006/964.

### **Transfer pricing**

The exemptions for small and medium sized enterprises in respect of transfer pricing as specified in paragraphs 5B and 5C of Schedule 28AA to ICTA are disappplied with respect to a Property AIF and its entire business.

### **Charge to corporation tax (regulation 69Y SI/2006/964)**

The net income from the tax exempt part of the Property AIF is not chargeable to CT.

The net income from the residual business of the Property AIF is within the charge to CT but the streaming provisions of the regime mean that the Property AIF is unlikely, in practice to have any liability to CT.

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## **CTM48832 - Property Authorised Investment Funds (Property AIFs): tax treatment of Property AIFs and distributions: calculation of the net income for the tax-exempt business**

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### **Definition of 'net income' of the Property AIF (regulation 69Z SI 2006/964)**

'The net income/(expense) before taxation' as stated in the statement of total return in the accounts, arrived at using UK Generally Accepted Accounting Principles (UK GAAP), is in accordance with the current Statement of Recommended Practice issued by the Investment Management Association.

### **Calculation of net income for the tax-exempt Property Investment Business (regulation 69Z SI 2006/964)**

This will be that part of the net income of the Property AIF that arises from the tax-exempt property investment business (PIB). That part of the income that arises from the Property Rental Business (CTM48813) should be calculated as if it were a calculation of taxable profit of a Schedule A business with certain conditions:

- Any overseas rental income and expenses are included in the calculation.
- The requirement in Schedule A rules (section 15(1) Income and Corporation Taxes Act (ICTA) 1988) to disregard loan relationship and derivative contract credits and debits does not apply in as far as the loan relationship or derivative contract is entered for the purposes of the tax-exempt business and, in the case of a derivative contract, is a hedging or an embedded derivative contract.
- Any capital allowance that the tax exempt business could claim if it were taxable should be treated in the calculation as claimed in full. This is so that the distributable income of the tax exempt business is calculated in the same way as the profits of a taxable chargeable property business are arrived at, and is achieved by operating what is effectively a 'shadow' capital allowances regime. To illustrate the point for the first two accounting periods of a tax exempt business, see the capital allowances example below.

### **Derivative contracts**

A derivative contract is hedging in relation to a Property AIF (in this case the deemed company which carries on the tax-exempt business) if or in so far as it is acquired as a hedge of risk in relation to an asset of the business. For example the Property AIF may have a currency derivative (under which it has a commitment to buy dollars for sterling) to hedge part of the dollar value of its USA property portfolio.

An embedded derivative and host contract take the meaning provided in the derivative contracts legislation in paragraph 2(3) Schedule 26 FA 2002. More information on these definitions can be found at in the Corporate Finance Manual at CFM16100.

An example of an embedded derivative entered into for the purposes of the tax-exempt business is where a lease contains a provision that the rent is adjusted upwards every year at five times the increase in the retail price index. The index-linking term is a derivative embedded in a host contract (the lease), and because the inflation adjustment is leveraged, the company may have to recognise the derivative separately in its accounts. Provided the lease itself is within the ring-fence, the embedded derivative will also be part of the tax-exempt business.

Where a property rental asset is hedged by a loan relationship with an embedded derivative (for example a Property Index Certificate (PIC) issued by the company owning the property), movements in the value of the PIC are within regulation 69Z1 (3) SI 2006/964 (as it relates to the tax-exempt business).

Although shares in property companies or units in property unit trusts may appear to be property-related, these assets are normally outside the ring-fence and it therefore follows that debits and credits arising on derivatives where these are the underlying subject matter are excluded for the purposes of calculating the profits of the tax-exempt business. This does not apply to those shares in property companies that are UK-Real Estate Investment Trust (UK-REITs) or their foreign equivalents as these specifically come within the PIB – see CTM48815.

A contract that is not a derivative contract for the purposes of Schedule 26 FA 2002 by virtue of paragraph 4(2)(b) of that schedule is also excluded from taken into account for the calculation of net income of the tax-exempt business (regulation 69Z1(6) SI 2006/964).

### Capital Allowances - Example

Accounting Period (A/P) ended 31/03/2008

Assume this is the final full 12 month accounting period of property rental business 'A'. Its taxable profits, before capital allowances, are £125,000 and it has a capital allowances pool with a written down value (wdv) brought forward of £32,000. Its chargeable profits are therefore as follows:

Net profits, adjusted for tax	£125,000
less capital allowances –	
wdv £32,000 x 25%	(£8,000)
Profits chargeable to corporation tax	£117,000
(wdv carried forward: £32,000 less £8,000	£24,000)

The fund then converts to a Property AIF at, say, 30 September 2008 and so the Property Rental Business has a six-month AP ended 30/09/2008. Assuming taxable profits, before capital allowances of, say, £70,000 the position is as follows:

A/P 01/04/2008 to 30/09/2008

Net profits, adjusted for tax	£70,000
less capital allowances –	
wdv £24,000 x 25% x 6/12 (short A/P)	(£3,000)
Profits chargeable to corporation tax	£67,000

The value of the capital allowances pool is now £21,000 (£24,000 less £3,000), and this is the value at which the pool is transferred when the deemed transfer of the property rental business takes place. The effect of this is that there is no further allowance or charge on the taxable Property Rental Business, and the tax exempt business bases its calculation of 'shadow' capital allowances on the deemed sale/acquisition price. This will work as follows for the tax exempt business' first accounting period to, let's say, 31 March 2009:

A/P 01/10/2008 to 31/03/2009 –

Net profits (calculated as for a taxable property rental business) £72,000

less capital allowances –

wdv £21,000 x 25% x 6/12 (short A/P) (£2,625)

'Income' of the tax exempt business £69,375

('shadow' wdv carried forward: £21,000 less £2,625 £18,375)

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## CTM48833 - Property Authorised Investment Funds (Property AIFs): tax treatment of Property AIFs and distributions: calculation of the net income for the residual business

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The income of the residual business is any income of the Property AIF apart from that part of it that is referable to the tax-exempt business.

To calculate the net income of the residual business (regulations 69Z2 and 69Z3 SI 2006/964):

1. Start with the net income of the Property AIF (see CTM48832).
2. Deduct the net income of the tax-exempt business (see CTM48832).
3. Deduct any amounts (not already deducted in calculating the net income of the Property AIF) allowed by the Corporation Tax Acts (including any income from UK dividends (section 208 ICTA)).
4. The result of this calculation is called the "**pre-distribution amount**".  
  
(The pre-distribution amount is the amount that must be distributed as Property AIF distributions (interest) – see CTM48839).
5. Finally, deduct the amount attributed to Property AIF distributions (interest).

If the result of the calculation comes to nil it does not automatically mean that there will be no charge to corporation tax. The residual business of the Property AIF can incur a tax charge in one or more of three different ways:

- Distribution to a holder of excessive rights (regulation 69Z12 SI 2006/964). Where the Property AIF has made a distribution to a corporate participant holding shares representing 10 per cent or more of its net asset value and the Property AIF has not taken reasonable steps to prevent this occurring (see CTM48834) then the Property AIF will incur a corporation tax charge in accordance with the calculation set out in this regulation
  - Excessive financing costs in the case of a Property AIF that is also a qualified investor scheme (regulation 69Z9 SI 2006/964). See CTM4835
  - Any tax assessed to the Property AIF under regulation 69Z10 SI 2006/964. This is an anti-avoidance rule and will only apply when a Property AIF does something designed to obtain a tax advantage for itself or another person. See CTM48838.
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## CTM48834- Property Authorised Investment Funds (Property AIFs): tax treatment of Property AIFs and distributions: charge to tax for distributions to holders of excessive rights

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### Charge to tax where distribution made to holder of excessive rights (regulation 69Z12 SI 2006/964)

Where the Property AIF has paid out a dividend to, or in respect of a holder of excessive rights in the Property AIF (that is, where there has been a breach of the corporate ownership condition) a tax charge is imposed on the residual business of the Property AIF. The effect of this charge is to tax such part of the distribution as arises from the tax exempt income of the Property AIF.

The residual business of the Property AIF is treated as having received an amount of chargeable income, calculated as follows by reference to the formula **I x P per cent**, where:

**I** is the net income of the tax-exempt business of the Property AIF that is distributable, and

**P** is the percentage of the rights to the net asset value of the Property AIF held by (or on behalf of) the holder of excessive rights.

This sum is charged under Case VI of Schedule D as if it were an additional part of the residual income of the Property AIF (ie that part of its income not derived from the property investment business).

No losses, deficits, expenses or allowances can be set off against the sum to be charged.

### Meaning of 'holder of excessive rights' (regulation 69Z13 SI 2006/964)

A 'holder of excessive rights' means a corporate body participant in the Property AIF that is beneficially entitled to shares representing rights to 10 per cent or more of the net asset value of the Property AIF.

### Example of charge to tax

Open-ended investment company '**A**' is a Property AIF with 100,000 units in issue as at its accounting date of 31 December 2010.

Company '**B**' owns 12,000 of the issued units in **A**. **A** has total distributable income of £10,000 for the period ended 31 December 2010 (of which £7,000 is the net income of the tax-exempt business). **A** pays distributions in proportion to its shareholder's rights on 15 February 2011.

**B** is a holder of excessive rights because it holds 10 per cent or more of the shares in the fund by net asset value (its holding is, in fact, 12 per cent). **B**'s beneficial entitlement to dividends is 12 per cent of the total distributable income of the fund, or £12,000 (= 12,000/100,000).

Here, **A** has not taken 'reasonable steps' to prevent **B** from acquiring 10 per cent or more of the net asset value of the fund. A tax charge therefore arises on **A**, and this is calculated as follows:

**I** (net income of the tax-exempt business of the Property AIF) = £7,000

**P per cent** (the percentage of the rights to the net asset value of the Property AIF held by (or on behalf of) the holder of excessive rights) = 12 per cent

The amount charged to tax charge is therefore =  $I \times P$  per cent, or £7,000 x 12 per cent = £840

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## CTM48835 - Property Authorised Investment Funds (Property AIFs): tax treatment of Property AIFs and distributions: excess financing costs in a qualified investor scheme (QIS)

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### The need for special rules for Property AIFs that are also QIS (regulation 69Z SI 2006/964)

There are special rules in place to reduce the scope for extracting profits of the tax-exempt business as interest instead of property income distributions. The rules apply to Property AIFs that are QIS. The reason that there is no need for a similar tax rule for other Property AIFs is that the Financial Services Authority restricts their borrowing to reduce risk to the investors.

### The income to financing costs calculation

Regulation 69Z9 SI 2006/964 sets a limit on the ratio of the net income of the tax exempt property investment business (PIB) to the company's financing costs. This works as follows:

- check whether the limit has been breached, 'income' is divided by 'financing costs'
- where the result of the calculation is less than 1.25 then the limit is breached
- if the limit is breached, a tax charge by reference to the excess financing costs is charged on the residual part of the business of the QIS

### The meaning of 'income'

'Income' means the amount of the net income of the PIB arising in the accounting period, before the set-off of capital allowances, losses brought forward from a previous accounting period, or amounts taken into account as debits or credits of loan relationships and derivative contracts.

### The meaning of 'financing costs'

'Financing costs' means the amount of the financing costs incurred in the accounting period that relate to the PIB (see CTM 48813).

Regulation 69Z9(7) SI 2006/964 defines "financing costs" in its wider sense and as it relates to the whole of this regulation as those which would generally be considered to be costs arising in respect of a financing transaction under **Generally Accepted Accounting Principles (GAAP)**. So, it includes all debits and credits in respect of debtor and creditor loan relationships of the company under Part IV FA1996 and derivative contracts within Schedule 26 FA 2002 and the exchange gains and losses attributable.

### The charge to tax

The rules for determining the amount of the tax charge where the limit of 1.25 is breached are detailed on the following page CTM48836.

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## CTM48836 - Property Authorised Investment Funds (Property AIFs): tax treatment of Property AIFs and distributions: tax charge where there are excess financing costs in a qualified investor scheme

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### The charge to tax (regulation 69Z SI 2006/964)

Where the result of the calculation set out in the previous page CTM48835 is less than 1.25, a charge to tax will arise. The amount of the charge is determined as follows:

1. work out what the financing costs would have been which, taking into account the actual income, would have given a result of 1.25 – this gives the ‘theoretical financing costs’
2. work out by how much the actual financing costs exceed the theoretical financing costs to give ‘the excess financing cost’
3. divide the main rate of corporation tax charged for the accounting period in question by the rate that applies to open-ended investment companies for that same period – the result of this is called the ‘multiplier’
4. multiply the excess financing costs by the multiplier

The result is the amount charged to tax. This amount is treated as income chargeable to tax under Schedule D case VI. The income is treated as arising to the residual part of the business (and not to the tax-exempt part), in the same accounting period as the limit was breached.

No loss, deficit, management charges, expenses or allowances that might otherwise be offset against an amount chargeable under Case VI, can be used to reduce the amount of income brought into charge. An example is provided in CTM48837.

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## CTM48837 - Property Authorised Investment Funds (property AIFs): tax treatment of Property AIFs and distributions: example of tax charge where there are excess financing costs in a qualified investor scheme

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### Example

The net income of the property investment business (PIB) of the Property AIF 'A' (tax-exempt) is £1,500 after deduction of £500 capital allowances and interest charges. Interest payable in respect of A's (tax-exempt) business was £8,000 for the accounting period.

The 'income' of A (tax-exempt) (as measured by regulation 69Z) is to be taken as the net income of the PIB before the set-off of capital allowances and debits or credits of loan relationships & derivative contracts, so for the purposes of the test A's income is:

	£
Net PIB income	1,500
Add	
capital allowances	500
finance charges	8,000
	<u>8,500</u>
'Income' for purposes of Reg 69Z	10,000

The top line of the fraction ('Income') would therefore be 10,000. Financing costs = £8,000 so the bottom line of the fraction is 8,000. The ratio would therefore be  $10,000/8,000 = 1.25$ . In this scenario, there is no breach of the 1.25 lower limit (a breach is when the fraction is below 1.25), so no tax charge arises.

But what if instead of £8,000 the finance charges were £9,000? In that scenario, the ratio would be  $10,000/9,000$  with the result being 1.11. This is less than the 1.25 limit, and a tax charge will therefore arise.

Regulation 69Z9 (6) sets out four steps to be followed in calculating the amount to be charged to tax.

- Step one is to work out the theoretical financing costs that would just meet the 1.25 limit (regulation 69Z9 (6) step one). The first part of the example above gives us the answer in this case, but in other circumstances the answer can be calculated as:  
Theoretical financing costs =  $4 \times P$  where P is PIB profits after capital allowances but before financing charges have been deducted. Therefore in the example P is £2000 (£1500 net PIB, plus shadow capital allowances £500) and the interest expense that just meets the limit in this example is £8,000 ( $4 \times £2,000$ ).
- Step two is to determine the excess financing costs. In this case £9,000 less £8,000 giving £1,000.

- Step three is to calculate the multiplier. Given a main corporation tax (CT) rate of 28 per cent and a rate applying to open-ended investment companies of 20 per cent, this will be 1.4.
- Step four is to multiply the excess financing costs by the multiplier.

In this case we get  $£1,000 \times 1.4 = £1,400$  which is the amount charged to corporation tax.

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## **CTM48838 - Property Authorised Investment Funds (Property AIFs): tax treatment of Property AIFs and distributions: cancellation of tax advantage**

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### **Cancellation of tax advantage (regulation 69Z10, Part 4A, SI 2006/964)**

Where a manager of an open-ended investment company (OEIC) which is subject to the Property AIF regulations has used the provisions within those regulations in order to try to obtain a tax advantage for the OEIC or another person, a notice will be issued by the Commissioners of HM Revenue & Customs (HMRC) to the Property AIF specifying the tax advantage. When this is done HMRC will also issue an assessment counteracting the advantage by an adjustment by way of one or more of the following:

- an assessment
- the cancellation of a right of repayment
- a requirement to return a repayment already made
- the computation or recomputation of profits or gains, or liability to tax, on a basis specified by the Commissioners of HMRC in the notice

A further remedy open to HMRC is to assess the company to an additional amount of income tax under Case VI of Schedule D as they think is equivalent to the value of the tax advantage.

Note that the term 'tax advantage' has the meaning given by section 709 ICTA 1988. But, an OEIC does not obtain a tax advantage by reason only of being within the Property AIF regulations unless it does something (whether before or during the application of those regulations) which is wholly or principally designed to create or inflate or apply a loss, deduction or expense (whether or not suffered or incurred by the OEIC).

### **Appeal against the issue of a notice (regulation 69Z11, Part 4A, SI 2006/964)**

Where a notice is issued for the reasons stated above, the Property AIF may appeal against the issue of the notice if it disagrees with it.

The notice of appeal must be sent to HMRC within a period of 28 days beginning with the day on which the notice under regulation 69Z10 SI 2006/964 was given. Such an appeal is made to the Special Commissioners, and they may:

- affirm, vary or cancel the notice
  - affirm, vary or quash an assessment
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## **CTM48839 - Property Authorised Investment Funds (Property AIFs): tax treatment of Property AIFs and distributions: attribution of distributions**

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In accordance with the principles explained at CTM48811 distributions made by a Property AIF must be split into three pools.

### **Attribution of distributions (regulation 69Z14 SI 2006/964)**

In accordance with Financial Services Authority (FSA) rules for Authorised Investment Funds, Property AIFs are required to distribute all their income to investors. However, to do this a Property AIF must allocate the total distribution made as follows:

Firstly, the net income from the tax-exempt business (see CTM48832) to a property income distribution (PID).

Secondly, to a Property AIF distribution (interest). The amount to be allocated to this category is the remaining income available for distribution up to the "pre-distribution amount" (see CTM48833).

Thirdly, the full remaining amount available for distribution must be allocated to Property AIF distributions (dividends).

The third amount will not necessarily correspond exactly to the amount received by the company in UK-dividends as any differences between the accounting income of the tax-exempt part of the business and the net income calculated according to regulation 69Z1 SI 2006/964 (see CTM48832) will be reflected here. See CTM48840 for an example.

Each distribution payment is treated as being made on the distribution date by the Property AIF to the investors in proportion to their rights.

### **Vouchers**

When a distribution is made the Property AIF must provide statements showing the gross amount of each allocation, any tax deducted and the net amount paid or in the case of a Property AIF distribution (dividend) the net amount and tax credit (see CTM48863).

### **Distributions made after leaving the regime (regulation 69Z21SI 2006/964)**

In the event that a Property AIF leaves the regime then the rules above applying to a Property AIF distribution still apply to any distribution made after the end of the final accounting period as a Property AIF but in respect of the income of that accounting period.

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**CTM48840 - Property Authorised Investment Funds (Property AIFs): tax treatment of Property AIFs and distributions: attribution of distributions-example 1**

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<b>Income and expenditure</b>	<b>Total</b>	<b>Notes</b>	<b>PID</b>	<b>PAIF dist (Interest)</b>	<b>PAIF dist (Divs)</b>
Rental income	18,000	<b>1</b>	18,000		
Income from ancillary services	2,000	<b>2</b>	2,000		
Income from currency hedge	3,000	<b>3</b>	3,000		
Cost of finance for properties	(5,000)	<b>4</b>	(5,000)		
Property management costs	(6,000)	<b>5</b>	(6,000)		
Repairs	(1,500)	<b>6</b>	(1,500)		
Cost of ancillary services	(1,200)	<b>7</b>	(1,200)		
Cost of currency hedge for overseas rent	(300)	<b>12</b>	(300)		
Depreciation of plant and machinery	(500)	<b>8</b>	(500)		
Property income distributions from UK-REIT shares	8,000	<b>10</b>	8,000		
Property (or undifferentiated) distributions from shares in overseas UK-REIT equivalents	5,000	<b>11</b>	5,000		
Cost of currency hedge on overseas (REIT equivalent) shares	(100)	<b>12</b>	(100)		
NON -PID dividends from UK-REITs	250				250
Dividends from other UK companies	340				340
Dividends from overseas companies (not REIT equivalent or identified as "non-PID type")	90			90	
Interest on income from deposits and bonds etc	2,600			2,600	
Investment Management Charge	(1,500)	<b>13</b>	(1,300)	(200)	

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PBT	23,180	20,100	2,490	590
<b>Adjustments</b>	<b>14</b>			
Depreciation		500		(500)
Shadow capital allowances (must use max available)		(800)		800
Total	<u>23,180</u>	<u>19,800</u>	<u>2,490</u>	<u>890</u>

See also Notes at CTM48842

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**CTM48841 - Property Authorised Investment Funds (Property AIFs): tax treatment of Property AIFs and distributions: attribution of distributions-example 2**

<b>Income and expenditure</b>	<b>Total Income</b>	<b>PID</b>	<b>PAIF dist (Interest)</b>	<b>PAIF dist (Divs)</b>
Rental income	18,000	18,000		
Income from ancillary services	2,000	2,000		
Income from currency hedge	3,000	3,000		
Cost of finance for properties	(5,000)	(5,000)		
Property management costs	(6,000)	(6,000)		
Repairs	(1,500)	(1,500)		
Cost of ancillary services	(1,200)	(1,200)		
Cost of currency hedge for overseas rent	(300)	(300)		
Depreciation of plant and machinery	(500)	(500)		
Property income distributions from UK-REIT shares	8,000	8,000		
Property (or undifferentiated) distributions from shares in overseas UK-REIT equivalents	5,000	5,000		
Cost of currency hedge on overseas (REIT equivalent) shares	(100)	(100)		
NON -PID dividends from UK-REITs	250			250
Dividends from other UK companies	340			340
Dividends from overseas companies (not REIT equivalent or identified as "non-PID type")	90		90	
Interest on income from deposits and bonds etc	2,600		2,600	

Investment Management Charge	(1,500)	(1,300)	(200)	
PBT	23,180	20,100	2,490	590
<b>Adjustments</b>				
Depreciation		500		(500)
Shadow capital allowances (must use max available)		(200)		200
Total	<u>23,180</u>	<u>20,400</u>	<u>2,490</u>	<u>290</u>

See notes at CTM48842

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## CTM48842 - Property Authorised Investment Funds (Property AIFs): tax treatment of Property AIFs and distributions: attribution of distributions- notes to examples

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### Notes

- 1** (a) Excluding any Schedule A income outside the Property Rental Business (see CTM48813)  
  
(b) Including rental income of consolidated Intermediate Holding Vehicles (IHVs) (similarly costs figures include costs of consolidated IHVs)
  - 2** These must be limited to those within Schedule A - see Property Income Manual for more details
  - 3** In this example the rental income from foreign property has been reduced by drop in value of foreign currency and a hedging instrument has provided compensation.
  - 4** Limited by FSA regulation (or if the Property AIF is a Qualified Investor Scheme then a tax charge may be incurred if tax limits exceeded - see CTM48835)  
  
See also regulation 69Z1(3) for exception to exclusion of loan relationships from Schedule A calculation)
  - 5** Management (eg agent's fees), maintenance and insurance costs
  - 6** Repairs - does not include improvements which are treated as capital expenditure and are not deductible
  - 7** Services where income recognised as property income (see note 2)
  - 8** Depreciation must be added back (follows from regulation 69Z1(2))
  - 10** Does not include non-property income distributions (PID) distributions from UK-REITS which are UK dividends included in the income of the residual business
  - 11** See CTM48813
  - 12** See regulation 69Z1(3) - inclusion of hedging instruments and embedded derivatives in so far as they relate to the tax-exempt business
  - 13** See regulation 69Z1(7)
  - 14** PAIF distribution (dividends) is adjusted to include all remaining distributable income (in this example by reversing 'tax' adjustments made to the PID amount)
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## **CTM48843 - Property Authorised Investment Funds (Property AIFs): tax treatment of Property AIFs and distributions: company tax return**

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### **General**

As with other Authorised Investment Funds, Property AIFs are within the charge to corporation tax and must submit a company tax return after the end of each accounting period.

The entries on the corporation tax return form should relate only to the residual business of the Property AIF, that is everything not within the tax-exempt ring fence.

However, whilst the return to be delivered is the same as that required from other corporate bodies, the following additional documents are required.

### **Documents to be included with company tax return (regulation 69Z25 SI 2006/964)**

The manager must include documents A and B in its company tax return:

Document A is a calculation of the net income of the tax-exempt part of the business and of the residual part of the business, in accordance with regulations 69Z1 to 69Z3 SI 2006/964.

Document B is a reconciliation between:

- the net income of the company (see regulation 69Z SI 2006/964 and CTM48832)
- the total income shown in the distribution accounts as attributed (to the three different categories of distribution ) in accordance with regulation 69Z14 SI 2006/964 (see CTM48839)

In addition to submitting a company tax return the Property AIF must also submit returns detailing tax deducted from certain distributions, as described at CTM48864.

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