




Wrap and Platform Open Meeting re: PAIFs & TEFs



leading on tax incentivised savings

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PAIFs and TEFs Tax Update
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Wrap and Platform Open Meeting re: PAIFs & TEFs

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Property Authorised Investment Funds

- PAIFs to be structured as OEICs
- Requires conversion of existing AUTs
- Put Investors in same position as if direct property investment
- Available to AIFs with portfolios of at least 60% comprising real property or shares in UK REITs (Property investment business condition)
- Genuine diversity of ownership condition
- 10% corporate investor limit - therefore may need feeder vehicle (AUT)
- Stamp duty land tax relief for converting AUTs



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Property Authorised Investment Funds

- Tax position investor:
 - Distributions made in three forms
 - Property Income distributions (PID)
 - PAIF distributions (Interest)
 - Property distributions (Dividends)
- Requirement to withhold tax:
 - Income tax at basic rate
 - Without deduction of tax to certain investors
 - But you cannot have mixed payments - Non residents will suffer tax withheld



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Property Authorised Investment Funds

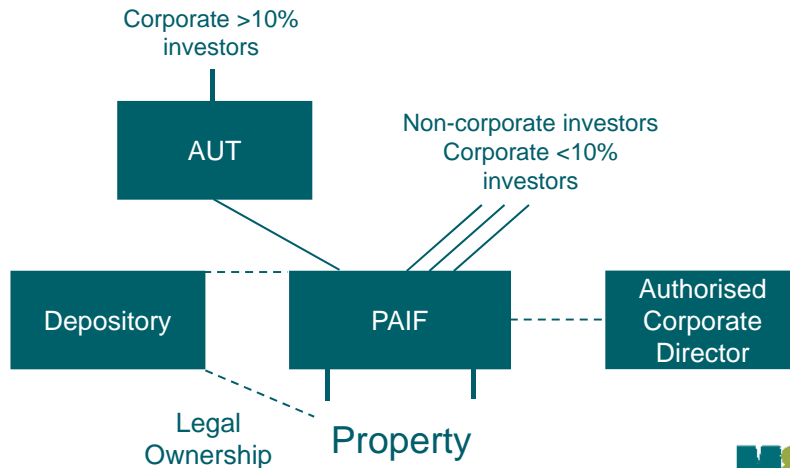
- It is beneficial having a PAIF
- Following are the disadvantages when not in a PAIF
 - UK Authorised Property Fund pays 20% Corporation Tax
 - Exempt investors cannot reclaim this tax
 - Pension Funds of Life Companies have to rely on corporate streaming to reclaim tax
 - UK Exempts to get gross have to invest in offshore GPUTS/JPUTS



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Example PAIF Structure



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Comparison of PAIF and REIT

	Property AIF	UK REIT
Property Income	Exempt	Exempt
Distributions	100% of accounting income	90% of tax exempt property income
Investments	60% real property or shares in UK REITS	75% in real property
Investment restrictions	Broadly, no one investment greater than 10% of net assets	3 or more 'single' properties
Income test	60% income from property investment business	75% qualifying rental income
Entry charge	None	2%
Capital gains exemption	Yes (but already exists for OEICs)	Yes for qualifying property
Liquidity for investors	Potential time restrictions on redemptions/constraints as open-ended	Stock exchange listing. No constraints for investors.
Gearing	Up to 10% of net assets (NURS)/100% QIS	Interest cover of a minimum of 1.25 on exempt business

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Property Authorised Investment Funds

- Issues identified:
 - Platforms will have to cope with streamed distributions for all investors
 - Cannot mix net and gross shareholdings into one holding
 - Nominees will have to split out holdings
 - Corporate holdings will have to be monitored to ensure <10%
 - Funds with large corporate holdings will have Unit Trust feeder funds – will this cause confusion for administrators/investors?



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Tax Elected Funds (TEFs)

- A new AIF regime – subject to conditions and application process
- Came into affect on 1 September 2009
- Move the point of taxation from the fund to the investor
- In general it avoids tax sticking in the fund so that it can be easily marketed to UK & Overseas investors
- Application must be made in advance



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Tax Elected Funds (TEFs)

- A TEF must meet the following conditions in respect of an AP
 - The property condition – must not hold Property direct
 - Genuine diversity of ownership condition
 - Scheme documentation condition
 - Loan creditor condition



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Tax Elected Funds (TEFs) tax treatment of TEFs

- Attribute the income between the distributions made by a TEF
- TEF Distributions (dividend)
 - Dividend income
 - Property investment income - rec'd net
- TEF Distributions (non - dividend - interest)
 - All other income



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Tax Elected Funds (TEFs) taxation of investors

- TEF Distributions (dividend)
 - Treated as receiving a dividend
- TEF Distributions (non - dividend - interest)
 - Treated as receiving a payment of yearly interest



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Tax Elected Funds (TEFs)

- Benefits:
 - Exempt investors and all overseas investors should benefit
 - Removes tax in the fund that would otherwise be irrecoverable
 - A bond fund with dividend income should benefit all tax payers



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Tax Elected Funds (TEFs)

- Issues:
 - Systems changes required
 - Dual streams of income to be reported through distribution chain
 - Investor education
 - Changes to tax vouchers
 - Increased CT61 and income tax withholding requirements
 - TEFs cannot elect to tax foreign dividends, therefore they could suffer higher withholding tax in Russia and Portugal

