HMRC - CFM95697 - x-Interest: Authorised Investment Funds And Investment Trust Companies

Authorised Investment Funds (Tax) Regulations 2006 (SI 2006/964) - regulations 18, 69Z16 and 69Z61

Investment Trusts (Dividends) (Optional Treatment as Interest Distributions) Regulations 2009 (SI 2009/2034) - regulation 12A

Authorised Investment Funds (AIFs) and Investment Trust Companies (ITCs) are forms of collective investment vehicles, which enable a number of investors to pool their assets and invest in a professionally managed investment portfolio. The generally applicable tax policy for such vehicles is to move the point of taxation on the funds’ income to investors and to tax investors in a broadly similar manner as would apply if they held the underlying investments directly, instead of through the investment vehicle.

One of the ways this is achieved is to permit AIFs and ITCs to be treated as making distributions of income from interest-producing assets as ‘interest distributions’, rather than being treated as ‘dividend distributions’. Such interest deductions are deemed to be interest for the UK tax rules, and hence treated as deductible when calculating the corporation tax liability of AIFs and ITCs. Likewise, the investors are taxed as if they received interest.

Absent specific rules, the operation of the CIR could operate so to restrict the amount of deemed interest expense taken into account for taxation purposes for the AIF or ITC. The Corporate Interest Restriction (Consequential Amendments) Regulations 2017 make consequential amendments to the regulations dealing with AIFs and ITCs to address this.

Authorised Investment Funds

The Authorised Investment Funds (Tax) Regulations provide that the following amounts are treated as not being a tax-interest expense amount for the purposes of interest restriction rules:

Interest distributions by AIFs (regulation 18(2A)).

Interest distributions by Property Authorised Investment Funds (PAIFs) (regulation 69Z16(2A)).

Interest distributions by Tax Elected Funds (TEFs) (regulation 69Z61(2A)).

Note that PAIFs and TEFs are particular types of AIF.

Investment Trusts

Regulation 12A of the Investment Trusts (Dividends) (Optional Treatment as Interest Distributions) Regulations provide that interest distributions paid by an ITC are treated as not being a tax-interest expense amount for the purposes of interest restriction rules.

Previous page

Next page