HMRC - CFM97720 - Reits: Allocation Of Disallowances

TIOPA10/S452

REITs have significant flexibility in the way they can allocate amounts of disallowance between;

the property rental business; and

the residual business

Disallowances to the property rental business

While the property rental business (PRB) is formally exempt from Corporation Tax, the amount of the disallowance is to be taken into account in calculating the amount of the PID that the REIT must make to its investors. Note there is a limit on the disallowance that may be allocated to the PRB.

Disallowances to the residual business

The amount of the disallowance allocated to the residual business will affect the calculation of the taxable profits of the residual business, and hence will feed through to the Corporation Tax liability of the residual business.

There are special rules in respect of disallowance allocated to the residual business where groups have allocated less than the full amount of a disallowance to the PRB. This allows groups to avoid allocating restrictions to a PRB by allocating a higher amount to the residual business.

Example

A REIT company has tax-interest of £10,000 in respect of its PRB and £5,000 in respect of its residual business. The maximum disallowance it can allocate to its PRB is £1,000 as any more would mean that the principle company of the group would have insufficient reserves to make the necessary PID.

As a result:

The maximum amount of disallowance that can be allocated to the company in total across both the property rental business and residual business is £15,000.

The maximum amount of disallowance that can be allocated to the property rental business is £1,000.

The amount of disallowance that can be allocated to the residual business is the £15,000 less the amount actually allocated

So for example, if it allocated £500 disallowance to the property rental business then it could allocate up to £14,500 disallowance to the residual business.

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