HMRC - CFM97730 - Reits: Limit On Property Rental Business (PRB) Disallowance

CFM97730 Interest restriction: Property and REITs: Limit on Property rental business (PRB) disallowance

TIOPA10/S452(5)

One of the key features of the Real Estate Investment Trusts (REITs) rules is that they must pay out 90% of the profits of their exempt PRB to shareholders every year as a property income dividend (PID). In calculating these profits, it must take into account all the normal Corporation Tax rules.

There are provisions in the REIT rules to deal with a situation where a REIT has insufficient reserves to make the necessary PID. In this case the amount of the distribution requirement is limited to the distributable reserves (CTA2010/S530(3) and (5)). There is special provision in the interest restriction rules to prevent a scenario where an amount of restricted interest could lead, in the absence of CTA10/S530(3) and (5), to a REIT having to make a PID that was larger than its distributable reserves.

The interest restriction rules specify that the allocated disallowance for the PRB company must be limited so that S530 (3) or (5) CTA 2010 do not apply.

Example:

Company A has a tax-EBITDA of £20,000 and tax-interest of £12,000. It has retained profits of £10,000 and PRB profits (before interest disallowance) £7500. The maximum PID it can make is £10,000.

To ensure that it has sufficient reserves to make the PID the maximum disallowance that can be allocated to PRB is £3611. This would give PRB profits of £11,111 and therefore a requirement to make a PID of £10,000 (90% of £11,111). The balance of the disallowance would be allocated to residual

Note that the company is not required to allocate this amount to the PRB. It has flexibility to allocate disallowances so that the full amount goes to the residual business.