Tax information for	**United Kingdom**
Applicable to	**Property Authorised Investment Fund ('PAIF')**
Last review	**March 2021**

General		
1	Background	PAIFs are Open Ended Investment Companies ('OEICs') which invest in property. They are collective investment schemes authorised and regulated under the Financial Services and Markets Act 2000 ('FSMA 2000'). An OEIC is a collective investment scheme which is structured as a company with variable capital and satisfy the property and investment condition in s236 FSMA 2000. Once authorised by the Financial Conduct Authority ('FCA'), it is incorporated as a company under The Open-Ended Investment Companies Regulations 2001 (SI 2001/1228). The regime applicable to PAIFs came into effect from 6 April 2008. The main aim of the regime is to move the tax point from the OEIC to its investors to ensure that investors are placed in a similar tax position as if they had invested directly in the underlying property.
2	Legal form	Open ended investment company with variable capital.
Tax treatment		
3	Tax status	In order to benefit from the PAIF tax regime, a PAIF must be an OEIC and satisfy a number of conditions, includingin respect of the nature of its property investment business and how its income arises, that its shares are diversely held with no corporate investors holding 10% or more, that its borrowing are on commercial terms and that notification to HMRC to join the PAIF regime has been provided. Subject to satisfaction of the conditions, the PAIF is exempt from UK tax on property income and gains (see below).
4	Tax treatment at entity level	The income of the PAIF is divided into pools: property income from the ring-fenced property business; other taxable income (to be distributed as interest) and UK dividends. Property income from the ring-fenced property business (including income from UK REITs), and capital gains, are specifically exempt from UK tax in the hands of the PAIF. Interest income is technically within the charge to UK corporation tax at 20% (the rate applicable to OEICs) although a deduction is allowed for distributions to investors so that the taxable amount will usually be reduced to £nil. Dividend income is likely to be exempt under normal rules applying to UK corporate recipients.

5	Tax treatment of investors	A PAIF will distribute three types of distributions to investors: ***Property income distributions*** (‘*PIDs*’) – these represent distributions from the ring-fenced property business and are taxed on investors as property income. Individual investors will pay income tax at their respective income tax rate(s) andcorporate investors will be subject to corporation tax on PIDs, with credit for the withholding tax suffered. UK tax exempt investors should be able to reclaim any tax withheld from PIDs and any non-resident investors may be able to to reclaim all or part of the relevant withholding tax on dividends under the relevant double tax treaty. ***Distributions (interest) from residual business*** – these will represent the remaining income less any dividend income that qualifies for exemption. From 6 April 2017, the PAIF is no longer required to withhold UK income tax at 20% from interest distributions. The payments will be treated in the hands of the investors as yearly interest for tax purposes. UK individual investors are subject to income tax at their respective income rate(s) on such distributions and UK corporate investors are subject to corporation tax. Non-UK resident investors should not have any UK tax liability in respect of interest distributions from the residual business. ***Dividend distributions –*** these will represent the exempt dividend income received by the PAIF and will be treated in the hands of the investors as if they were dividends on shares. UK individual investors will be taxed on such dividends at their respective income tax rate(s) applicable to taxation of dividend income. No charge to corporation tax should arise for UK resident corporate investors on receipt of dividend distributions as the distributions should be exempt from a charge to corporation tax. Non-UK resident investors are treated as receiving income on which tax at the dividend ordinary rate has been paid and have no further UK tax liability.***Capital gains on sale of PAIFs shares*** - Any capital gain arising to a iUK or non-UK resident investor on a disposal of the PAIF shares will be subject to UK tax, subject to exemptions available for bodies such as pension funds and charities, and subject to the provisions of any relevant double tax treaty. For non-UK resident investors however, it is only the gain arisng post 5 April 2019 which is within the scope of UK tax (non-UK residents having not generally been within the charge to UK tax on gains on direct or indirect disposals of UK immoveable property before 6 April 2019). Corporate investors are subject to corporation tax, and individuals and trusts are subject to capital gains tax on any capital gain arising on a disposal of the PAIF shares.
6	Treaty status	As PAIFs are technically within the charge to UK tax in respect of their residual income, they mayl be entitled to treaty benefits subject to them meeting any qualifying requirements under the terms of the relevant double tax treaties.
7	EU tax directive status	Yes
8	Withholding tax	In general, PID distributions are subject to UK withholding tax at 20%. Residual income (interest) distibutions were also historically subject to UK withholding tax at 20%, but this requirement was withdrawn for interest distributions made on or after 6 April 2017. However, UK taxable and exempt investors should not be subject to withholding tax

		subject to satisfaction of certain requirements relating to their tax status by PAIFs. Non-residents investors may be able to reduce the UK withholding tax rate depending on the requirements of the relevant double tax treaty.

Requirements		
9	Minimum level of investment	Unless stipulated in an offering document, there is no minimum level of investment limit for investors to invest in PAIFs. Under one of the six conditions that must be satisfied by PAIFs, it is imperative that shares in the PAIFs must be genuinely available to a large number of unconnected persons. A clearance can be obtained from HMRC whether or not this condition has been met.
10	Filing obligations	PAIFs are required to deliver a single company tax return within 12 months of the end of each accounting period. They are also required to deliver a return to HMRC for each return period in which they make a PID and/or an interest distribution to investors. The return must be submitted and any tax withheld from the distributions must be paid to HMRC within 14 days from the end of the return period.
11	Investor requirements / obligation	A PAIF is required to take "reasonable steps" to ensure that no single corporate investor has a beneficial entitlement of 10% or more of its net asset value. This requirement effectively preserves the UK taxing rights as far as non-residents investors are concerned as it limits the ability of non-UK corporate shareholders to access reduced dividend withholding tax under double tax treaties.
12	Entity qualification requirements	US check the box election cannot be filed for an OEIC in view of the opaque nature of the entity.
13	Activity limitations	60% of a PAIF's net income must be derived from property investment business and at the end of an accounting period 60% of its total assets by value must be involved in the property investment business. Both percentages are reduced to 40% in the first accounting period of newly established PAIFs.
14	Regulation	An OEIC will typically have a single authorised corporate director ('*ACD*') authorised by the FCA. In addition, the OEIC must also have an independent depository which is responsible for the safekeeping of the OEIC's property and also has certain functions covering oversight and monitoring of the ACD's activities.
Pros & Cons		
15	Pros	Onshore regulated vehicle for investment in UK property and/or in UK REITs or non-UK entities equivalent to UK REITs
		Effectively tax transparent and minimal or no tax leakage at the PAIF level
		Attractive for UK institutional, exempt and taxable investors
		No withholding tax on interest distributions with effect from 6 April 2017
16	Cons	Regulated and costly to administer
		Not as common as other types of investment vehicles investing in real estate

		Widely held and corporate ownership conditions can be very cumbersome to monitor and comply
Other information		
17	Additional information	

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