Position Paper on the Scottish Government Consultation: Property Investment Funds

August 2025

Introduction

INREV strongly supports the harmonisation of the tax treatment of the RIF regime in Scotland with that of England. The RIF is a flexible, tax-efficient vehicle for professional and institutional investors, with the potential to channel significant capital into Scotland's housing, regeneration, and infrastructure projects.

Specifically, the LBTT treatment in Scotland must mirror the Stamp Duty Land Tax (SDLT) treatment in most other jurisdictions in the UK. Without parity, Scotland risks losing substantial inward investment, with capital being redirected to England, Northern Ireland, or offshore jurisdictions.

Exemption of Transfers of Units within RIFs from LBTT

INREV believes that the transfer of units within RIFs should be outside the scope of LBTT, in line with unit trust schemes, co-ownership authorised contractual schemes (CoACS), and shares in companies.

If transfers of units were subject to LBTT, every change of investor participation would trigger a tax charge. This would disincentivise the use of RIFs to acquire Scottish property, reduce the competitiveness of Scotland relative to other UK regions, and limit the flow of institutional capital into housing and regeneration projects.

Given that eligible investors in RIFs are identical to those in CoACSs, namely professional investors, large-scale institutions, and high-net-worth individuals with minimum commitments, there is no policy rationale for treating RIFs differently under LBTT.

Alignment with SDLT Treatment

We strongly recommend that RIFs are treated as "opaque" for LBTT purposes, with their units treated as shares. This mirrors the SDLT approach and would provide consistency across the UK tax landscape, simplify fund management and administration, and minimise the risk of inadvertent non-compliance.

Fund managers are already familiar with the principle of treating certain non-corporate vehicles as companies for property transfer tax purposes. Extending this to RIFs under LBTT would therefore be both practical and easily implementable.

Seeding Relief under LBTT

Seeding relief is essential to enable the transfer of assets into a RIF without incurring an uneconomic upfront LBTT charge. Without such relief, funds would be unable to pool assets efficiently or convert into RIFs, undermining the viability of the regime in Scotland.

We recommend replicating the SDLT seeding relief framework, with two key refinements:

1. The portfolio test should apply UK-wide, rather than being restricted to Scottish properties.
2. HMRC should retain authority to confirm the "genuine diversity of ownership" condition, with Revenue Scotland bound by HMRC clearances.

Introducing seeding relief would ensure that Scottish property is not "stranded" in legacy vehicles and would open the door for long-term investment into regeneration, affordable housing, and other socially beneficial projects.

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Risks of Divergence

Failure to align LBTT treatment with SDLT would have serious negative consequences:

- Reduced Investment in Scotland: Investors would avoid Scottish property due to recurring LBTT charges on unit transfers.
- Loss of Competitiveness: Offshore structures such as Jersey Property Unit Trusts (JPUTs) and Guernsey Property Unit Trusts (GPUTs) already benefit from LBTT opacity. Treating onshore RIFs less favourably would push capital offshore.
- Negative Impact on Housing and Regeneration: A lack of parity would replicate the experience with CoACSs, where Scotland was effectively excluded from investment flows.

For fund managers, LBTT reliefs on unit transfers and seeding are not optional "nice-to-have" measures; they are indispensable to ensuring that Scotland remains a viable market for institutional investment.

Addressing Concerns on Residential Property

The consultation raises concerns about potential negative impacts of seeding relief on the residential property market. We respectfully submit that such concerns are misplaced:

- Seeding applies only where properties are already owned by institutional investors and transferred into a RIF in exchange for units.
- It does not reduce the stock of housing available to first-time buyers.
- On the contrary, by unlocking capital, it enables investment into improving housing stock and delivering affordable, mid-market, and build-to-rent housing.

Restricting seeding relief to non-residential property would therefore undermine one of the key potential benefits of the RIF regime.

Safeguards and Anti-Avoidance

We support mirroring the SDLT safeguards already in place, which have proven effective against avoidance risks. In particular:

- The requirement for genuine diversity of ownership or non-close status;
- The three-year clawback provisions;
- The oversight of regulated alternative investment fund managers (AIFMs) and depositaries.

In combination with the Scottish GAAR, these safeguards ensure that RIFs cannot be misused for enveloping or avoidance purposes.

Conclusion

INREV recommends that the Scottish Government align LBTT treatment of RIFs with SDLT by excluding unit transfers from LBTT, treating RIFs as opaque entities, and introducing seeding relief applicable to both residential and non-residential property. A UK-wide portfolio test and HMRC clearance mechanism would further strengthen the framework. Ensuring UK-wide parity will make Scotland more competitive for institutional investment, supporting housing delivery, regeneration, and net-zero goals. Without alignment, Scotland risks deterring capital and undermining the growth of its asset management sector.