
STATUTORY INSTRUMENTS

2006 No. 964

The Authorised Investment Funds (Tax) Regulations 2006

PART 4

**THE TREATMENT OF PARTICIPANTS
IN AUTHORISED INVESTMENT FUNDS**

CHAPTER 3

PARTICIPANTS CHARGEABLE TO CORPORATION TAX

Dividend distributions

General

48.—(1) Paragraph (2) applies if—

- (a) a dividend distribution for a distribution period is made to a participant by the legal owner of an authorised investment fund, and
- (b) on the distribution date for that distribution period the participant is within the charge to corporation tax.

(2) For the purpose of computing the corporation tax chargeable upon the participant, the unfranked part of the dividend distribution is treated—

- (a) as an annual payment and not as a dividend distribution or an interest distribution; and
- (b) as having been received by the participant after deduction of income tax at the lower rate for the year of assessment in which the distribution date falls, from a corresponding gross amount.

(3) Regulation 49 explains how to calculate the unfranked part of the dividend distribution.

Calculation of unfranked part of dividend distribution

49.—(1) This is how to calculate the unfranked part of the dividend distribution—

$$U = \frac{A \times C}{D}$$

(2) In paragraph (1)—

- U = the unfranked part of the dividend distribution to the participant;
- A = the amount of the dividend distribution;
- C = such amount of the gross income as does not derive from franked investment income, as reduced by an amount equal to the legal owner's net liability to corporation tax in respect of the gross income;
- D = the amount of the gross income, as reduced by an amount equal to the legal owner's net liability to corporation tax in respect of the gross income.

(3) Any reference in this regulation to the legal owner's net liability to corporation tax in respect of the gross income is a reference to the amount of the liability of the legal owner to corporation tax in respect of that gross income less the amount (if any) of any reduction of that liability which is given or falls to be given in accordance with any arrangements having effect by virtue of section 788 of ICTA (relief by agreement with other territories) or by way of a credit under section 790(1) of that Act (unilateral relief).

References to gross income

50. For the purposes of this Chapter the references to the gross income are references to the gross income entered in the distribution accounts for the purpose of computing the total amount available for distribution to participants for the distribution period in question.

Cases where participant is the manager of the fund

51. If on the distribution date the participant is the manager of the authorised investment fund, regulation 48(2) shall not apply in so far as the rights in respect of which the dividend distribution is made are held by him in the ordinary course of his business as manager of the fund.

Repayments of tax

52.—(1) This regulation applies if, in relation to a dividend distribution, any tax is treated as having been deducted by virtue of regulation 48(2)(b).

(2) The amount to which the participant is entitled by way of repayment of that tax must not exceed the amount of the participant's portion of the legal owner's net liability to corporation tax in respect of the gross income.

(3) In calculating the amount to which the participant is entitled by way of repayment of that tax, tax treated as having been deducted by virtue of regulation 48(2)(b) is set off in priority to any other tax under section 7(2) of ICTA and under paragraph 5 of Schedule 16 to that Act.

(4) For the purposes of paragraph (2) the participant's portion shall be determined by reference to the proportions in which participants have rights in the authorised investment fund in the distribution period in question.