

**EXPLANATORY MEMORANDUM TO  
THE AUTHORISED INVESTMENT FUNDS (TAX) (AMENDMENT)  
REGULATIONS 2012**

**2012 No. 1783**

1. This explanatory memorandum has been prepared by Her Majesty's Revenue and Customs and is laid before the House of Commons by Command of Her Majesty.

This memorandum contains information for the Select Committee on Statutory Instruments.

2. **Purpose of the instrument**

To amend the Authorised Investment Funds (Tax) Regulations 2006 (S.I. 2006/964) ("the principal Regulations") to make provision as to the tax treatment of certain transactions entered into by, or in respect of, property authorised investment funds ("PAIFS").

3. **Matters of special interest to the Select Committee on Statutory Instruments**

3.1 None

4. **Legislative Context**

Part 4A of the principal Regulations make provision as to PAIFs. This instrument amends the principal Regulations so that where a) a fund converts to being a PAIF or b) units in the dedicated feeder fund of a PAIF are exchanged for units in the PAIF itself (or vice versa), the disposal does not attract capital gains tax or corporation tax, where certain conditions are met. This instrument defines "dedicated feeder fund" for these purposes.

5. **Territorial Extent and Application**

This instrument applies to all of the United Kingdom.

6. **European Convention on Human Rights**

As the instrument is subject to the negative resolution procedure and does not amend primary legislation, no statement is required.

7. **Policy background**

- *What is being done and why*

7.1 The instrument makes minor changes to the way in which the capital gains rules apply to investors in a fund that goes through a conversion process to become a PAIF and to investors whose investment in a PAIF (or in an

investment fund becoming a PAIF) is switched to an investment in a dedicated feeder fund for that PAIF or vice-versa.

7.2 The purpose, in both cases, is to remove a tax barrier to the conversion of authorised investment funds to PAIFs by ensuring that such a change will not create a charge to tax on capital gains where there is no real change in the underlying investment.

- *Consolidation*

7.3 There are no plans to consolidate the revised Regulations in the immediate future.

## **8. Consultation outcome**

The Government's intention to make these Regulations was announced in December 2011 following informal consultation with industry. The regulations were published in draft for industry comment in March 2012 and the final version as made reflects comments made in discussion by industry experts on that draft.

## **9. Guidance**

Draft guidance will be published for comment by HM Revenue and Customs as soon as possible and subsequently will be incorporated into the HMRC Corporation Tax manual

## **10. Impact**

10.1 The impact on business, charities or voluntary bodies is negligible as the regulations provide a relief for investors in certain funds that convert to PAIF form.

10.2 The impact on the public sector is negligible.

10.3 A Tax Information and Impact Note covering this instrument will be published on the HMRC website at <http://www.hmrc.gov.uk/thelibrary/tiins.htm>.

## **11. Regulating small business**

11.1 The legislation applies to small business.

11.2 The measure is entirely relieving and will apply to investors undertaking the relevant types of transaction without the need for any special processes. There will therefore be no compliance impact on small business

## **12. Monitoring & review**

The Government keeps the AIF regulations under review and intends to continue to work with industry to develop these Regulations.

### **13. Contact**

John Buckeridge (Tel: 020 7147 or e-mail [john.buckeridge@hmrc.gsi.gov.uk](mailto:john.buckeridge@hmrc.gsi.gov.uk)) at HM Revenue and Customs, 100 Parliament Street, London, SW1A 2BQ can answer any questions