

3

TAX IMPLICATIONS OF A PROPERTY INVESTMENT FUND

Chapter 3 considers the tax implications that might arise from the different PIF structures discussed in Chapter 2. It considers:

- the tax treatment at the vehicle (PIF) level;
- the tax treatment at the investor level;
- issues relating to overseas investors;
- stamp duty; and
- implications of International Accounting Standards.

3.1 This chapter considers detailed tax issues that might arise from the alternative types of vehicles discussed in Chapter 2. It takes as a guiding principle that in order to more closely align with direct holdings of property, where possible, tax should be collected at the individual rather than vehicle level.

3.2 The way in which this would be achieved depends to some extent on the structure of the vehicle and its relationship with investors, and inevitably there are a number of aspects to consider. Any final decisions on the tax treatment of PIFs would reflect the need to continue to secure a fair share of tax from the property investment market.

Taxation at vehicle level (PIF)

3.3 Issues concerning the taxation of the profits of a PIF fall into three categories; rental income; non-rental income; and realised capital gains.

Rental income 3.4 The assumption is that the PIF would pay no tax on rental income¹ it received from its property management activity, and should therefore make available all of its rental income to distribute to investors.

3.5 One way of achieving this would be to treat any income distributions made to investors by the PIF as a deductible expense when calculating taxable profits subject to corporation tax (as is the case for interest distributions of unit trusts). Any rental income not distributed would then be taxed as income from property for the PIF under Schedule A. This could either be at standard rates, or for example at some special rate applicable to the PIF, similar to the 20 per cent rate applied to authorised unit trust income.

3.6 An alternative would be for some or all of the rental income itself to be specifically exempt from tax.

3.7 Where the rental income of the PIF is not subject to a tax charge, capital allowances would not be available. The wider issues raised by the tax treatment of

¹ The measure of rental income would follow normal rules for computing Schedule A income.

capital expenditure on commercial buildings is being considered as part of the Government's consultation process on the reform of corporation tax².

Non-rental income 3.8 There may well be occasions when the PIF receives interest or other incidental income, for example from rent held on deposit prior to distribution. The aim is that a PIF would invest primarily in property. One way to encourage this could be to tax non-rental income received by the vehicle at normal tax rates.

Realised capital gains 3.9 This is another area where schemes in other countries show a range of different approaches. Consideration needs to be given to how capital gains made by the PIF would be treated.

3.10 One possible approach would be that a PIF would be exempt from tax on any capital gains it realises, but be prevented from distributing capital. Tax in relation to the PIF's realised gains would then not be chargeable until the investor's units or shares are sold. This would have the effect of deferring taxation to a time of the investor's choice. By holding on to an investment in a PIF individual investors could benefit from an increased amount of capital gains tax taper relief and spread gains over different tax years to take advantage of more than one annual exempt amount. This could reduce, or even eliminate entirely, the gains on which they are charged. Such arrangements, which exempted the PIF's realised gains from a direct tax charge, may result in loss of revenue for the Exchequer unless taxation at the investor level was certain.

3.11 A possible approach to allow greater certainty of revenue receipts would be to require PIFs to distribute all, or most of their realised capital gains, as part of the general distributions they would be required to make. For example, at present when companies distribute profits derived from capital gains (net of any corporation tax due), the amounts distributed are treated as income in the hands of the investor (including corporate investors).

Question for consultation:

To ensure no overall cost to the Exchequer, what is the most appropriate system for taxation at the PIF level? Is it appropriate to require a PIF to distribute a high proportion of realised capital gains to investors?

Taxation at investor level

Individuals 3.12 How the investor is taxed on distributions might depend on the legal form of the PIF and the nature of distributions. This was discussed in paragraphs 2.23 to 2.28.

3.13 If a PIF were required to have corporate form, the distributions may be classed as dividends, but the question remains as to how those dividends should be characterised for tax purposes. Under the present taxation arrangements no further tax would be payable for non-UK residents or UK resident lower and basic rate taxpayers on dividend distributions. UK resident higher rate taxpayers would pay the dividend rate of 32.5 per cent. Under these circumstances the overall revenue received would be expected to fall quite significantly.

3.14 It would, however, be possible to characterise the distributions as a particular kind of income in the hands of the investor. An example of this is authorised unit trusts

² Corporation tax reform: A consultation document August 2003

(AUTs) where in general, distributions are classed as dividends for tax purposes, but on election, in certain circumstances, are treated as interest.

3.15 This approach to AUT distributions reflects the nature of the assets the authorised unit trust holds, as income is derived as either dividends from shares or interest from bonds. A similar approach could be used for a PIF. Effectively the distribution could be characterised for tax purposes as ‘income from property’ chargeable to tax under Schedule A.

3.16 Individuals investing in a PIF would therefore be charged to income tax at their marginal rate on all distributions arising from income and realised gains. It would also retain the ability for tax to be withheld from such payments.

3.17 The advantage of withholding arrangements is that ownership of shares in the PIF need not trigger a self-assessment return for individuals with straightforward tax affairs.

Question for consultation:

Given the impact of characterising distributions from a PIF as dividends, would the option to treat distributions from a PIF as income from property, taxed at UK investor’s marginal rate, pose any unforeseen problems?

Corporate investors **3.18** If distributions made by a PIF were treated as dividends for tax purposes, the income would be exempt from further corporation tax in the hands of a UK company investor, unless the distributions formed part of the trading book of a financial trader.

3.19 However, if the distributions were treated for tax purposes as income from property, such income would be included in the company’s profits as property income and chargeable to corporation tax at the rate applicable to the company.

3.20 For non-resident companies, it would seem appropriate to mirror the tax treatment for individuals, as is currently the case with direct investment in UK property.

Non-UK residents **3.21** For non-residents investing directly in UK property, income from such property can be paid gross if the investor satisfies a number of conditions including that any tax due will be paid in full and on time. The Government would be interested in suggestions for whether and, if so, how the concepts inherent in the non-resident landlord scheme could be satisfactorily adapted to investment made in a PIF by non-UK residents.

3.22 At present, non-UK resident investors are exempt from capital gains on the disposal of UK property³. To continue such an exemption for non-resident investors in a PIF would depend partly on decisions made on distribution rules for PIFs.

3.23 If no distributions arising from capital were permitted, the exemption would, in effect, apply equally to those investing indirectly via PIFs as it does to direct UK investors. Any capital gains made by the PIF would be reflected in increased share value and any gains made by non-resident investors on the sale of the shares would, as the law currently stands, fall outside the charge to UK tax.

3.24 If, however, there were a requirement to distribute realised capital gains, these would need to be characterised as income from property. Otherwise, the present capital

³ Unless the disposal falls within the scope of section 10 or 10a Taxation of Chargeable Gains Act 1992

gains exemption for non-residents would require what could be quite complex sourcing rules to establish the factual composition of each distribution to distinguish between distributions arising from capital gains and distributions arising from income.

Other types of institutional investor **3.25** Tax treatment of distributions to other types of institutional investor would need to be considered once a clearer idea of the structure of the PIF itself has been developed. This would include charities, pension funds and life companies.

Stamp duty

3.26 Stamp Duty Land Tax (SDLT) applies when an interest in property ownership changes. The charge, which varies from 1 per cent to 4 per cent, depending on the property value, applies to properties bought and sold by existing property investment vehicles.

3.27 On 1 December 2003 the Government replaced the stamp duty regime with a more modern system that is fairer across all types of property transaction. The Government is committed to ensure that any PIF structure is consistent with the new Stamp Duty Land Tax system. As such, it does not envisage any special arrangements applying to the transfer of land involving PIFs.

3.28 Stamp Duty Reserve Tax (SDRT) is levied at 0.5 per cent on the value of share dealings.

3.29 The main areas for consideration are:

- purchase and sale of property by a PIF – it is anticipated that such transactions should follow the normal SDLT charge;
- the treatment of existing investment vehicles choosing to convert to PIF form, or merge with a PIF;
- the treatment for ‘seeding’ of a PIF, where the founding investors transfer property they already own to a PIF in return for shares or units;
- the treatment for ‘in specie’ transfers, where an investor transfers property in exchange for shares or units in a PIF; and
- the SDRT treatment for the PIF itself and for investors trading in units or shares in a PIF.

3.30 A key consideration is that if a PIF is successful in encouraging more property to be held in indirect form, there could be a fall in trading of the underlying asset (the property), while trading in the indirect market (shares of a PIF) would increase. Any subsequent fall in SDLT receipts would need to be taken into account in the overall assessment of the impact on the Exchequer and conversion charge:

Question for consultation:

In the context of the modernised stamp duty system, and the wider tax implications for different types of property investment, the Government invites views on what the appropriate liability for Stamp Duty Reserve Tax (SDRT) and Stamp Duty Land Tax (SDLT) should be for a PIF and investors in a PIF. This should reflect the objective to ensure no overall cost to the Exchequer.

International Accounting Standards

3.31 There may be further issues arising from the adoption of International Accounting Standards in respect of investment in property and the concept of distributable profits for Companies Act purposes.

Question for consultation:

What implications would International Accounting Standards (IAS) have for a PIF?

4

TRANSITIONAL ISSUES AND A CONVERSION CHARGE

Chapter 4 considers transitional arrangements that would be needed for conversion to a PIF and the nature and scale of the conversion charge that would arise.

A CONVERSION CHARGE

4.1 In those countries that have introduced property investment vehicles similar to a PIF, a number of different approaches have been adopted on conversion from existing forms of property ownership.

4.2 Many countries have applied a conversion charge to those bodies seeking to convert from a vehicle that falls within the current tax rules, to one that has a different tax treatment. In the UK context, and to ensure fairness to all taxpayers, a conversion charge is particularly important to ensure that there is no overall cost to the Exchequer.

4.3 In France, in order to obtain the SIIC¹ status, a conversion or exit charge equal to 16.5 per cent of the accrued unrealised capital gains on the eligible assets to be transferred is charged. This represents a 50 per cent discount on the normal tax payable on realised capital gains, and is payable in four equal annual instalments. Other examples include the Netherlands, where conversion to BI² status is subject to ordinary capital gains tax rates, and the US where any property transferred into a REIT is subjected to corporation tax on the gain accrued to the date of transfer. This charge can be eliminated if the REIT holds the property for at least 10 years, and all of the earnings and profits accumulated before conversion are paid out to shareholders within the first year.

4.4 An alternative approach may be to impose a one-off entry charge based on the value of property assets transferred into a PIF.

The Exchequer impact and conversion charge for the UK

4.5 The 2003 Pre-Budget Report³ stated “...in order to protect the Exchequer against loss of revenue, the Government intends to apply a charge on conversion of property into a new vehicle.”

4.6 While the models from different countries provide a guide to the design of a conversion charge, the Chancellor of the Exchequer will set the exact level and nature of any UK conversion charge, taking into account other tax consequences that may occur on conversion, including the stamp duty issues discussed in Chapter 3. The Government is keen to ensure fairness for all taxpayers, while ensuring that a PIF is appropriately designed.

¹ Societes d'investissements immobiliers cotees (SIIC)

² Fiscale beleggingsinstelling

³ Pre-Budget Report: 'The strength to take the long-term decision for Britain' December 2003, HM Treasury (Cm6042)

Impact of no longer meeting the PIF requirements

4.7 In paragraph 2.2 consideration is given to the tax treatment of any vehicle that no longer met the PIF criteria. Similar consideration would also need to be given to the treatment of any discount and capital gains tax given on conversion to a PIF. For example, if after becoming a PIF, the vehicle ceased to qualify there would need to be some mechanism to recover any discount on tax liabilities that had been allowed on conversion to a PIF.

4.8 The French SIIC has an arrangement such that if a company ceases to qualify, the 16.5 per cent rate on unrealised capital gains is retrospectively increased back to the standard rate.

Question for consultation:

The Government is interested, in the context of ensuring no overall cost to the Exchequer, in the factors it should take into account in setting the scale, nature and timing of the conversion charge to a PIF.

Chapter 5 considers the wider implications for any reform to the taxation of property investment, and the impact on collective investment vehicles.

5.1 As the 2003 Pre-Budget Report announcement made clear, the possible introduction of a PIF needs to be considered alongside existing property investment products. Unit trust schemes (both authorised and unauthorised), investment trust companies, limited partnerships and direct investment all offer alternative vehicles for investing in property. In addition, offshore funds also have significant investments in UK property.

5.2 Each of these is founded on a different legal structure, and subjected to different tax treatments. To the extent that they invest (or intend to expand) the major proportion of their funds in property, with the objective of delivering similar returns to investors, the different tax treatments may impact on the investors' final return. Any such distortions, between what might be described as close substitutes for investor choice, will be dependent on the particular circumstances of individual investors.

Authorised investment funds

5.3 Traditionally, investment funds authorised by the FSA have been able to hold only 80 per cent of their assets in direct property. The remaining 20 per cent had to be held in more liquid assets in order to provide operational flexibility to meet any redemption requests from investors.

5.4 However, the FSA have been consulting¹ on proposals to allow authorised investment funds to hold up to 100 per cent in property, and then to permit a six-month deferral on any redemption. Effectively this would allow time for fund managers to balance investments with investor demand.

5.5 As discussed in Chapter 2, an advantage of such funds might be the requirement to calculate net asset values by reference to the regulatory guidelines. However, being open-ended vehicles, this may also cause difficulties for managers who have to balance the investment portfolio with investor demand. From the Government's public interest perspective, a closed-ended listed vehicle has been shown to be a good model for property investment in other countries, with an excellent track record in governance, transparency and stability.

5.6 At present, property rental income received by AUTs/OEICs² is subject to corporation tax at 20 per cent. There are also certain circumstances when they can make "interest" distributions under withholding tax arrangements, when the qualifying investment test is met. However, property rental income cannot be included in an interest distribution.

¹ FSA Consultation Paper 185 'The Collective Investment Scheme Sourcebook: A new approach' www.fsa.gov.uk

² Authorised Unit Trusts / Open-Ended Collective Investment Schemes

Question for consultation:

With no other changes in taxation, what impact might the introduction of a PIF have on alternative options for property investment? What, if any, are the implications for the distribution rules of authorised investment funds?

Unauthorised Unit Trust regime

5.7 Unauthorised Unit trust (UUT) schemes are currently major participants in property investment. However, in the event that a PIF were introduced, it might reasonably be expected that UUTs investing in property would seek to convert to a PIF. In these circumstances, it is unclear what role the UUT tax regime might continue to play.

Question for consultation:

What role and contribution can Unauthorised Unit Trusts (UUTs) continue to make to the wider objectives of reform set out in this document?

Investment trusts participating in housing

5.8 While consideration is being given to the possibility of establishing a new vehicle for property investment, it is interesting to note that the taxation arrangements applying to Investment Trusts participating in housing have not been utilised. It is understood that this is partly because of the restrictive nature of the present criteria, including the threshold value limits, £125,000 in Greater London and £85,000 elsewhere, that apply to each acquisition.

Question for consultation:

What are the main reasons for the lack of interest of Investment Trusts participating in housing? Is there any reason why this legislation should not be repealed?

Evaluation

5.9 In the event of a PIF being introduced, the Government would be committed to evaluating its impact on the objectives stated at paragraph 1.22.

Question for consultation:

If a PIF were introduced, what would the most appropriate method for evaluation be?

Regulatory burden

5.10 A partial regulatory impact assessment has been published in Annex B of this consultation document. This has been produced in accordance with Cabinet Office guidelines.

Question for consultation:

The Government would welcome views on whether these proposed changes would significantly increase regulatory burden and compliance costs, and if so how?

A

SUMMARY OF CONSULTATION QUESTIONS

Responses to the following questions are welcomed. Please provide supporting analysis where appropriate. Consultees must not necessarily provide comments on all the questions.

Chapter 1: The economic context

A.1 To what extent would a PIF (a) help to promote structural reform in the commercial property market and (b) encourage greater institutional investment and stimulate new development in the residential sector.

Chapter 2: Possible structures for a PIF

A.2 To what extent would a listed PIF close the gap with net asset value and enable a wide retail investor base? How would an unlisted PIF meet these objectives? What additional investor restrictions might be necessary?

A.3 Should the property management arrangements of a PIF be prescribed through legislation?

A.4 Should the minimum gross income distribution requirement be 90 per cent (before depreciation)?

A.5 What level of borrowing should be permitted in order to best deliver increased market scrutiny and stability in the property investment market?

A.6 In order to meet the Government's stated objectives, and as a condition for different corporation tax treatment, should there be restrictions on the development and investment activity of a PIF, and the definition of allowable property? How should this be achieved? Any recommendations should provide a clear link to the rationale for its inclusion.

A.7 How could the structure of a PIF be designed to ensure a better quality of stock? Is a minimum holding period appropriate, and if so how long should the period be?

A.8 How could a PIF deliver high quality residential property for the entire range of rented accommodation, and what features of a PIF would help to achieve this aim, while meeting the objective to ensure no overall cost to the Exchequer?

A.9 How could a PIF be structured to encourage greater flexibility for occupiers in the commercial sector? What conditions could be set for PIF landlords to ensure high standards in both residential and commercial sectors?

Chapter 3: Tax implications of a PIF

A.10 To ensure no overall cost for the Exchequer, what is the most appropriate system for taxation at the PIF level? Is it appropriate to require a PIF to distribute a high proportion of realised capital gains to investors?

A.11 Given the impact of characterising distributions from a PIF as dividends, would the option to treat distributions from a PIF as income from property, taxed at UK investor's marginal rate, pose any unforeseen problems?

A.12 In the context of the modernised stamp duty system, and the wider tax implications for different types of property investment, the Government invites views on what the appropriate liability for Stamp Duty Reserve Tax (SDRT) and Stamp Duty Land Tax (SDLT) should be for a PIF and investors in a PIF. This should reflect the objective to ensure no overall cost to the Exchequer.

A.13 What implications would International Accounting Standards (IAS) have for a PIF.

Chapter 4: Transitional issues and a conversion charge

A.14 The Government is interested, in the context of ensuring no overall cost to the Exchequer, in the factors it should take into account in setting the scale, nature and timing of the conversion charge to a PIF.

Chapter 5: Wider implications

A.15 With no other changes in taxation, what impact might the introduction of a PIF have on alternative options for property investment? What, if any, are the implications for the distribution rules for authorised investment funds?

A.16 What role and contribution can Unauthorised Unit Trusts (UUTs) continue to make to the wider objectives of reform set out in this document?

A.17 What are the main reasons for the lack of interest of Investment Trusts participating in housing? Is there any reason why this legislation should not be repealed?

A.18 If a PIF were to be introduced, what would be the most appropriate method for evaluation?

A.19 The Government would welcome views on whether these proposed changes would significantly increase regulatory burden and compliance costs, and if so how?.

B

PARTIAL REGULATORY IMPACT ASSESSMENT

PROMOTING MORE FLEXIBLE INVESTMENT IN PROPERTY: A CONSULTATION DOCUMENT

B.1 This annex contains a partial regulatory impact assessment (RIA) designed to provide an initial assessment of the likely costs and benefits of the proposed reform, and the impact on different sectors of the economy.

Background and introduction

The 2003 Pre-Budget Report announced that in line with the interim recommendations of the Barker Review¹, the Government has concluded that reform to the tax treatment of property investment would improve liquidity, transparency and scrutiny, provide access to property for long-term savings, and could expand the private rented sector.

B.2 The Government's consideration of whether or not to introduce a new vehicle to facilitate investment in property arises from concerns that there may presently be inefficiencies in the property investment market, and follows the recommendations in Kate Barker's Interim report on Housing Supply.

B.3 In considering issues concerning the efficiency of the market, comparisons have been drawn with other countries, where the introduction of bespoke property investment vehicles play an important role in the property investment market.

The problems being addressed

B.4 The Government believes there are a number of features of the market that are resulting in it operating inefficiently, thereby reducing the full potential for productivity growth for the UK economy. These inefficiencies can be summarised as:

- **lack of choice for small investors** – who tend to access property in higher risk ways, such as buy-to-let investments or direct ownership, and therefore cannot diversify their portfolio to reduce risk;
- **poor liquidity** – which is a reflection of the nature of property itself as an asset. The commercial property market is dominated by large investors and pricing and investment decisions are largely determined by individual transactions among a small number of players;
- **potential for more efficient use of property** – a high proportion of commercial property in the UK is owner-occupied, and this tends to be used less intensively than property in the investment market. More indirect investment may allow increased efficiency through economies of scale;
- **high levels of debt financing** – which increase the sector's sensitivity to interest rate changes, coupled with lower transparency and scrutiny in the private sector, may lead to instability in the wider economy;

¹ Review of Housing Supply: Securing our Future Housing Needs (Interim report) by Kate Barker in December 2003. [www.barkerreview.org.uk]

- **tax distortions** – as investors are taxed differently depending on how they invest in property, it is not easy to compare performance of different investment choices. This may result in investors undertaking more risky, less stable investments than if it were possible to make a simple and direct comparison; and
- **variable standards of provision in the private rented sector** – with the lowest quality housing stock and management at the bottom end of the market. Improvements and expansion to this sector could enhance efficiency and flexibility in the housing market.

POLICY OBJECTIVES

B.5 There are a number of objectives against which reform will be assessed. Any new structure should:

- **improve the quality and quantity of finance for investment in both commercial and residential property in a manner that promotes economic stability and market flexibility and helps to increase the supply of property;**
- **expand access to a wider range of savings products on a stable and well regulated basis, and therefore promote long-term savings for individual investors;**
- **protect all taxpayers, by ensuring that a fair level of taxation continues to be paid by the property sector, and reduce opportunities for tax avoidance; and**
- **support structural change in the property markets to reduce the costs and improve the quality and flexibility of commercial property to business users, and to improve the efficiency, affordability and professionalism in the private rented sector for residential tenants.**

B.6 The Government believes that tax reform could help to address many of the inefficiencies that currently impact on the property investment market. A more efficient market should contribute to the long-term objective of raising the level of productivity and economic growth in the UK, as well as being consistent with the Government's objective of promoting savings.

B.7 The consultation document considers the most appropriate structure for the creation of a Property Investment Fund (PIF), and invites comments. The broad principle is to consider a vehicle that would provide a liquid market in property investment that is widely accessible by the private investor. Such a vehicle needs to fit alongside existing savings opportunities, and should be designed to enable investors to have clarity in the tax treatment of alternative vehicles.

OPTIONS FOR REFORM

B.8 Preliminary research by reference to international experience shows that property investment vehicles that have worked well are closed-ended, publicly listed and internally managed, with a requirement to distribute a high level of income and capital to investors.

B.9 Alternative structures could include externally managed, open-ended collective investment type schemes.

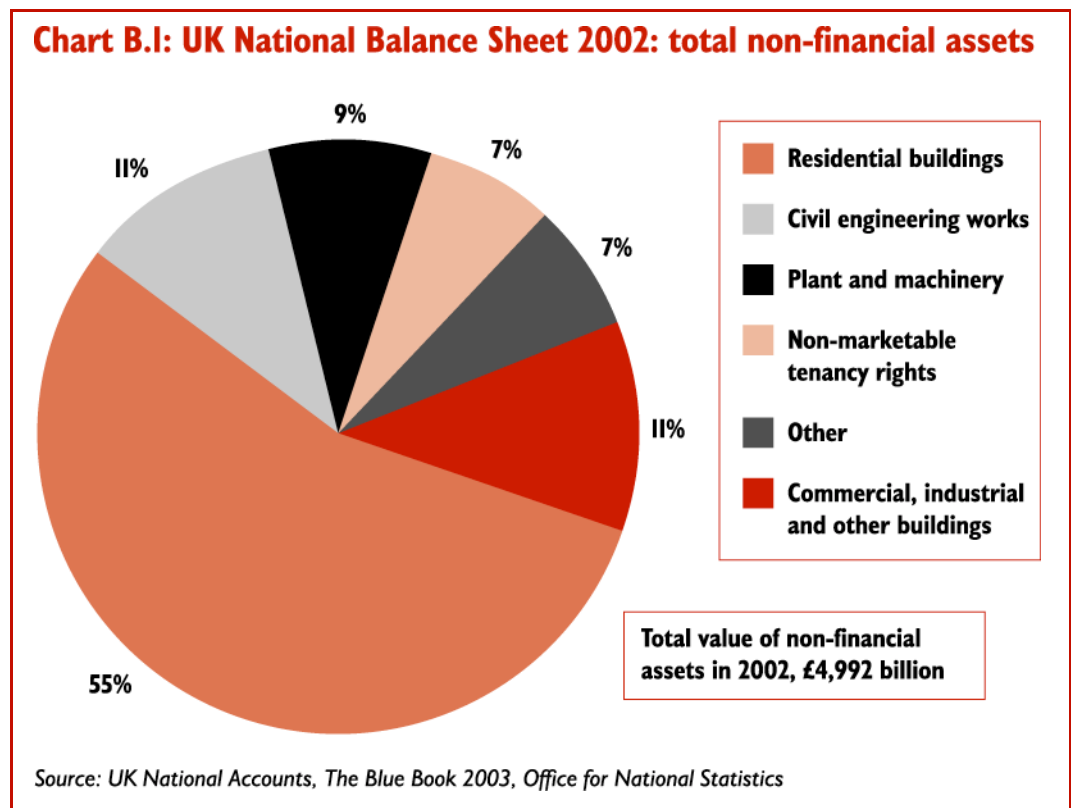
B.10 If it is concluded that the objectives stated at paragraph B.5 cannot be delivered by the introduction of a PIF, or that the structure proposed would result in an overall cost to the Exchequer, no changes will be made. This would be the “do nothing” option.

PARTIAL REGULATORY IMPACT ASSESSMENT

Business sectors affected

B.11 The main business sectors that would be affected are the property industry and the savings investment industry. There would also be potential wider economic benefits for all UK business, resulting from lower rents and better quality accommodation.

B.12 The property sector makes a significant contribution to the UK economy. The 2003 UK National Accounts ‘Blue Book’ published by the Office for National Statistics Data shows that the two sectors combined represented around two thirds of total non-financial assets on the national balance sheet in 2002. Chart B.1 below shows that residential buildings accounted for £2,744 billion and commercial and industrial buildings accounted for £565 billion.



B.13 The introduction of a PIF is likely to result in a shift from owner-occupied property into the property investment (indirect) market.

Issues of equity and fairness

B.14 Issues of equity and fairness arising from this potential reform occur in relation to the tax treatment of other companies and investment vehicles. The exact impact will largely be determined by the design of a new Property Investment Fund, and any restrictions that are placed upon it as a condition for different corporation tax treatment. The Government will keep equity and fairness issues under review as the consultation process develops.

Benefits

B.15 This proposal would potentially have several benefits:

- small investors (retail and smaller institutions) would have greater access to property through a diversified savings portfolio;
- business would be expected to benefit from an improved supply of good quality well maintained, competitively priced accommodation;
- the UK economy would be expected to benefit through greater efficiency in the allocation of investment resources; and
- property investment activity previously offshore would be expected to return to the UK.

B.16 These potential benefits will be assessed in more detail as part of the full RIA if these proposals are taken forward.

Costs

Policy costs B.17 The costs to the industry of converting to, or establishing, a PIF would depend on its final structure.

Implementation costs B.18 Again, the ongoing implementation costs, and how these compare with existing vehicles, would also depend on the final structure of any new vehicle.

Exchequer effect B.19 In the short term the introduction of a PIF would be likely to reduce revenue receipts. In order to offset this and ensure there is no overall cost to the Exchequer, a “conversion” or “entry charge” would be levied. In the medium to long term some additional revenue would be expected to flow from the increased size of the property investment market.

Distributional impact B.20 Any distributional impact would depend on the final structure of a PIF and would be assessed in the full RIA.

Other costs and benefits B.21 It is not anticipated that there would be significant costs, but the extent to which any might arise will be assessed in the full RIA if these proposals are taken forward.

B.22 It is not anticipated that there would be any specific impact on small businesses although they would benefit from the wider economic gains from the policy. This consultation will be drawn to the attention of representative bodies of small and medium enterprises (SMEs) for them to comment on.

Competition assessment

B.23 The Government has reviewed this proposal in light of its competition assessment process, which indicates that a full competition assessment is not required at this time. The Government does not anticipate that new businesses in these markets would be disadvantaged by this proposal. Competition issues will be kept under review as the consultation process develops.

Other impacts

B.24 It is not anticipated that there would be any other impacts on devolution, human rights, e-policy, the environment or rural issues.

Securing compliance

B.25 The compliance requirements would depend on the final structure of the PIF. It is expected that the appropriate existing requirements would apply.

Consultation

B.26 The consultation document seeks comments on the most appropriate structure, and conversion charge, that a Property Investment Fund might take. This consultation also considers how a PIF would sit alongside the taxation arrangements of existing savings vehicles.

Implementation

B.27 The consultation period will run until 16 July 2004.

Monitoring and evaluation

B.28 The Government is keen to evaluate the success of any possible reform. The method for evaluating and quantifying any impacts will need further consideration, and the consultation document seeks views on what data could be used to assess the impact of a PIF against the objectives stated at paragraph B.5.

SUMMARY AND RECOMMENDATIONS

B.29 Recommendations on the possible structure for a new property investment fund will depend on the outcome of this consultation. A full regulatory impact assessment (RIA) would be produced at that stage.

For further queries relating to this partial regulatory impact assessment please contact:

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