

## **Investment Trusts investing in UK-REITS**

The AITC has received a numbers of queries recently regarding whether dividends from a UK-REIT will be treated as income from shares and securities for the purposes of the income test under section 842 ICTA 1988. This is likely to be most relevant to investment trusts which currently invest in listed property companies which may convert into UK-REITs in the future.

The query arises because dividends paid from a UK-REIT's tax exempt business will be taxed as profits of a Schedule A business (i.e. much as if it were rental income). However, following discussions with HM Revenue & Customs, the AITC can confirm that Schedule A income arising in this way will be treated as income from shares and securities.

For confirmation, a UK-REIT may also pay dividends out of its non-exempt business. In such cases, the dividend will be treated as any other dividend from a UK listed company. It will remain non-taxable in the hands of the investment trust, and will form part of an investment trust's income from shares and securities in the normal way.

August 2006