
STATUTORY INSTRUMENTS

2006 No. 964

The Authorised Investment Funds (Tax) Regulations 2006

PART 3

DISTRIBUTIONS MADE BY AUTHORISED INVESTMENT FUNDS

Interest distributions

Interest distributions: general

18.—(1) Paragraph (2) applies where the total amount shown in the distribution accounts as available for distribution to participants is shown as available for distribution as yearly interest.

(2) The Tax Acts shall have effect as if the total amount were payments of yearly interest made on the distribution date by the authorised investment fund to the participants in proportion to their rights.

(3) In these Regulations an “interest distribution” means a payment of yearly interest treated as made by virtue of paragraph (2) (including a payment of interest treated as made to a participant who is not chargeable to income tax).

(4) This regulation is subject to—

- (a) regulation 19 (the qualifying investments test), and
- (b) regulation 23 (treatment of de minimis amounts).

The qualifying investments test

19.—(1) No amount may be shown as available for distribution as yearly interest unless the authorised investment fund in question satisfies the qualifying investments test throughout the distribution period.

(2) An authorised investment fund satisfies the qualifying investments test throughout a distribution period (the “relevant period”) if, at all times in that period, the market value of the qualifying investments exceeds 60% of the market value of all the investments of the fund.

(3) Regulations 20 and 21 deal with the meaning of the expression “qualifying investments”.

Meaning of “qualifying investments”

20. In these Regulations “qualifying investments”, in relation to an authorised investment fund, means the investments of that fund which fall within any of the following categories (read, as appropriate, with any applicable provision in regulation 21)—

Category 1

Money placed at interest.

Category 2

Securities.

Category 3

Shares in a building society.

Category 4

Qualifying units in another authorised investment fund.

Category 5

Derivative contracts whose underlying subject matter consists wholly of any one or more of the matters referred to in categories 1 to 4 and currency.

Category 6

Contracts for differences whose underlying subject matter consists wholly of any one or more of interest rates, creditworthiness and currency.

Category 7

Derivative contracts not within categories 5 or 6 where there is a hedging relationship between the derivative contract and an asset within categories 1 to 4.

Category 8

Alternative finance arrangements.

Meaning of “qualifying investments”: further provisions

21.—(1) This regulation applies for the purposes of regulation 20.

(2) For the purposes of category 2 “securities” do not include shares in a company.

(3) For the purposes of category 4 units in another authorised investment fund are qualifying units at any time in the relevant period if, and only if, the other authorised investment fund would itself (on the relevant assumption) satisfy the qualifying investments test throughout that period.

(4) For the purposes of paragraph (3) the relevant assumption is that the only investments of the other authorised investment fund which are to be regarded as qualifying investments are those falling within categories 1 to 3 and 5 to 8.

(5) In paragraph (4) references to investments of an authorised investment fund—

(a) in the case of an open-ended investment company are references to investments comprised in the scheme property of that company, but do not include references to cash awaiting investment, and

(b) in the case of an authorised unit trust are references to investments subject to the trusts of that authorised unit trust, but do not include references to cash awaiting investment.

(6) For the purposes of categories 5 and 6 “underlying subject matter” has the same meaning as in paragraph 11 of Schedule 26 to FA 2002⁽¹⁾.

(7) For the purposes of categories 5 and 6 underlying subject matter may consist of currency only if and to the extent that there is a hedging relationship between the contract and a qualifying investment falling within categories 1 to 4.

(8) In paragraph (7) “hedging relationship” has the meaning given by paragraph 12(14) of Schedule 26 to FA 2002⁽²⁾.

(9) For the purposes of category 6 a “contract for differences” has the same meaning as in paragraph 12 of Schedule 26 to FA 2002⁽³⁾.

(1) 2002 c. 23. Paragraph 11 of Schedule 26 was amended by Article 12 of S.I. 2004/2201.

(2) Paragraph 12(14) of Schedule 26 to the Finance Act 2002 was added by Article 9 of S.I. 2005/646.

(3) Paragraph 12 of Schedule 26 to the Finance Act 2002 was amended by Article 13 of S.I. 2004/2201 and Article 9 of S.I. 2005/646.

(10) For the purposes of category 7 a fund has a hedging relationship between a derivative contract on the one hand (“the hedging instrument”) and an asset on the other (“the hedged item”) if and to the extent that—

- (a) the hedging instrument and the hedged item are designated by the fund as a hedge, or
- (b) in any other case the hedging instrument is intended to act as a hedge of the exposure to changes in fair value of a hedged item which is a recognised asset or an identified portion of such an asset that is attributable to a particular risk and could affect the total net return of the fund.

(11) For the purposes of category 8 “alternative finance arrangements” has the meaning given by section 46(1) of the Finance Act 2005(4).