EXPLANATORY MEMORANDUM TO THE

THE AUTHORISED INVESTMENT FUNDS (TAX) (AMENDMENT No. 2) REGULATIONS 2007

2007 No. 794

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. Description

2.1 These Regulations implement the decision, announced on 3 November 2006 to defer the introduction of a facility for non-taxpayers to receive interest distributions from authorised investment funds without deduction of tax. (Authorised investment funds consist of unit trusts and open-ended investment companies.)

2.2 The Regulations also correct minor errors which have been identified in the Authorised Investment Funds (Tax) Regulations 2006 (S.I. 2006/964) ("the principal Regulations").

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

None

4. Legislative Background

4.1 Chapter 3 of Part 2 of the Finance (No. 2) Act 2005 provided for the rules relating to the taxation of authorised investment funds to be updated; and for those rules to be restated in regulations.

4.2 The principal Regulations were accordingly prepared. They were made on 29 March 2006, following approval by the House of Commons.

5. Extent

These Regulations apply throughout the United Kingdom.

6. European Convention on Human Rights

The Economic Secretary to the Treasury, Mr Ed Balls MP, has made the following statement regarding Human Rights:

In my view the provisions of the Authorised Investment Funds (Tax) (Amendment No. 2) Regulations 2007 are compatible with the Convention rights.

7. Policy Background

7.1 The rules relating to the taxation of authorised investment funds were restated and updated in the principal Regulations, made in March 2006.

7.2 In response to representations from industry these amending Regulations defer the introduction of one aspect of the principal Regulations. This is a facility for investors with no net tax liability to receive interest distributions without deduction of tax.

7.3 The reason for this deferral is that industry cannot immediately make the changes necessary to introduce this facility in the way envisaged by the principal Regulations.

7.4 Consultations with industry are now taking place with a view to identifying improved processes for making interest distributions gross or net as appropriate to the circumstances of the investor.

8. Impact

A Regulatory Impact Assessment has not been prepared for this instrument as it has no impact on business, charities, voluntary bodies or the public sector.

9. Contact

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