EXPLANATORY MEMORANDUM TO

THE CO-OWNERSHIP CONTRACTUAL SCHEMES (TAX) REGULATIONS 2025

2025 No. 200

1. Introduction

1.1 This explanatory memorandum has been prepared by His Majesty's Revenue and Customs (HMRC) on behalf of HM Treasury and is laid before the House of Commons by Command of His Majesty.

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

2. Declaration

2.1 Emma Reynolds MP, Economic Secretary to the Treasury, confirms that this Explanatory Memorandum meets the required standard.

2.2 Victoria Garton, Deputy Director for Financial Products and Services, at HMRC confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Wayne Strangwood at HMRC, email: financialservicesbai@hmrc.gov.uk can be contacted with any queries regarding the instrument.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 This instrument sets out the tax rules for investors in a new type of investment fund, the Reserved Investor Fund (Contractual Scheme) (RIF). A RIF is not itself a taxable person, but it is subject to qualifying criteria, conditions, and obligations to provide notices and information to its investors and to HMRC, and this instrument sets out some of those rules.

4.2 This instrument also makes minor changes to the tax rules for life insurance companies investing in Co-ownership Authorised Contractual Schemes (CoACS), a similar type of investment fund. The changes provide consistency on the interaction between parts of the capital allowances and capital gains rules that are relevant for life insurance companies investing in RIFs and CoACS.

Where does the legislation extend to, and apply?

4.3 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is the United Kingdom.

4.4 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the United Kingdom.

5. Policy Context

What is being done and why?

5.1 At Autumn Budget 2024, the Government announced that it would proceed with the introduction of the Reserved Investor Fund (Contractual Scheme) (RIF) and would make minor amendments to the tax rules in respect of Co-ownership Authorised Contractual Schemes (CoACS).

5.2 RIFs and CoACS are types of investment funds. The RIF will provide a lower cost UK investment fund vehicle when compared to the CoACS, and it will be suited to the needs of professional investors (for example, UK pension funds). Responses to a technical consultation on draft regulations published in April 2024 provided support that the RIF would be a viable alternative to similar offshore investment fund vehicles, and to the CoACS, and so deliver choice and value to investors.

5.3 These regulations are necessary to provide the relevant tax rules for investors, and an administrative framework for co-ownership schemes to enter the RIF regime.

What was the previous policy, how is this different?

5.4 The RIF is a new investment fund and will be complementary to other types of investment funds already provided in the UK.

6. Legislative and Legal Context

How has the law changed?

6.1 Section 20 of the Finance (No.2) Act 2024 gives the Treasury the power to make regulations applying provisions about tax that apply in connection with authorised co-ownership schemes to schemes that are not authorised co-ownership schemes and meet other conditions, with or without modification. These schemes are referred to as RIFs. Some of the conditions for being a RIF are set out in section 20(1) of that Act. The other conditions are set out in these regulations.

6.2 The regulations also set out the provision about breaches of the conditions, information and notification requirements, penalties and appeal procedures. They make provision about the Stamp Duty Land Tax (SDLT) consequences of becoming and ceasing to be a RIF. And they amend various Acts to apply provisions that currently apply to CoACS so that they apply also to RIFs. This instrument will be the first regulations made using the power in section 20.

6.3 Section 103C of, and paragraph 48 of Schedule 5AAA to, the Taxation of Chargeable Gains Act 1992 (TCGA) gives the Treasury the power to make regulations about the treatment of participants in collective investment schemes for the purposes of TCGA.

6.4 Section 41 of the Finance (No.2) Act 2017 gives the Treasury the power to make provision about information requirements in relation to co-ownership authorised contractual schemes.

Why was this approach taken to change the law?

6.5 The power in section 20 of the Finance (No.2) Act 2024 is a power to make regulations. The main part of the tax rules for RIFs are set out in regulations. This approach is consistent with the approach usually taken for other types of investment funds, where changes in commercial or regulatory practices can result in a need to amend the tax rules.

7. Consultation

Summary of consultation outcome and methodology

7.1 In January 2021, the Government launched a 'call for input' to seek input on proposals to increase the competitiveness of UK funds. Responses to this call for input identified a gap in the market for a UK-based unauthorised contractual scheme with lower costs and more flexibility than the existing authorised contractual scheme. In February 2022, the previous Government published its response to the 'call for input', in which it committed to explore options for the introduction of an unauthorised contractual scheme (now referred to as a 'RIF').

7.2 The Government consulted on the scope and design of tax rules for a RIF between 27 April 2023 and 9 June 2023. 37 responses were received from fund managers, accountancy and law firms, funds industry representative bodies, and other interested stakeholders.

7.3 A consultation on draft regulations took place between 2 April 2024 and 14 May 2024. 27 responses were received from a similar range of respondents. Comments related to technical matters and minor policy matters.

7.4 Since Autumn Budget 2024, the Government has continued to work with interested parties to ensure that the legislation successfully gives effect to the stated policy intent.

8. Applicable Guidance

8.1 Guidance in relation to these tax rules will be incorporated into HMRC's Investment Funds Manual, Capital Gains Manual, Stamp Duty Land Tax Manual and Stamp Taxes on Shares Manual.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A Tax Information and Impact Note was published on 6 March 2024 on the gov.uk website.[1] A further Tax Information and Impact Note is being published alongside this instrument on the gov.uk website in respect of the minor changes to the tax rules for life insurance companies investing in CoACS.[2]

9.2 There is no significant impact on business, charities or voluntary bodies. This measure will have a negligible impact on the managers of funds who may wish to use the regime. One-off costs for fund managers and operators will include familiarisation with the new regime, and continuing costs could include providing HMRC and investors with required notices and information.

9.3 The legislation does not impact small or micro businesses.

9.4 There is no, or no significant, impact on the public sector.

[1] Tax Information and Impact Note, 6 March 2024: https://www.gov.uk/government/publications/reserved-investor-fund/introduction-of-tax-rules-for-the-reserved-investor-fund

[2] Tax Information and Impact Note for CoACS: https://www.gov.uk/government/collections/tax-information-and-impact-notes-tiins

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The Treasury and HMRC will keep this measure under review through ongoing discussions with industry representatives. HMRC will also monitor entry notifications and collect further information through the annual reports submitted by RIF operators.

10.2 This instrument does not include a statutory review clause because the legislation relates to tax, and so there is no obligation to include such a clause in accordance with section 28(3)(a) of the Small Business, Enterprise, and Employment Act 2015.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 This is the first exercise of the power in section 20 of the Finance (No.2) Act 2024.

12. European Convention on Human Rights

12.1 The Economic Secretary to the Treasury has made the following statement regarding Human Rights:

"In my view the provisions of The Co-ownership Contractual Schemes (Tax) Regulations 2025 are compatible with the Convention rights."

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").