TAKE AIM FOR UK-REIT CONVERSION

The AIM will shortly become a qualifying stock exchange for UK-REIT purposes. This article reviews the opportunities that this presents to AIM companies.

The Finance Bill 2012 provides for the first significant reform of the UK-REIT regime since its introduction in 2007. The objectives of the reform are to reduce barriers to entry and encourage investment in UK-REITs. In addition to permitting UK-REITs to be listed on AIM, key reforms include abolition of the 2% entry charge and introduction of a 3 year grace period to meet the requirement that a UK-REIT is not a ‘close company’ for tax purposes.

These changes are to be welcomed and will help to both rejuvenate the sector and create significant opportunities for potential new entrants to the UK-REIT regime.

Benefits of UK-REIT conversion

Conversion to UK-REIT status will, in particular, enable a company to diversify its investor base, facilitate its ability to raise fresh equity and reduce overall gearing. The attributes of a REIT which are particularly attractive from an investor perspective are:

- Rental profits and chargeable gains on disposal of investment properties are normally exempt from corporation tax in the UK-REIT. Instead, distributions from UK-REITs are treated as property income in shareholders’ hands. For tax-exempt investors (e.g. pension funds, charities and certain institutional investors) this is a significant benefit as they will suffer no tax on their investment return.

- The UK-REIT structure is widely accepted as the favoured property ownership structure by international investors some of whom may be prevented from investing in non-REITs.

For AIM companies based offshore, UK-REIT conversion achieves similar tax-efficiencies without the need to maintain an offshore structure for holding UK properties, thereby freeing up senior management time and considerably reducing administrative costs.

The UK-REIT regime is strongly supported by both Government and HMRC. Given this fact and the positive light in which UK-REITs are viewed by a majority of investors, we consider that UK-REITs will evolve into the most attractive route for UK property investments.

Issues to consider

A property company that is a UK-REIT is distinguished from other property companies only by its tax status. However, there are a number of non-tax issues that must be considered before a decision is made to enter the UK-REIT regime, given the ongoing obligation to meet certain requirements in order to remain a UK-REIT. Questions to consider include:

- Do the commercial plans of the company make UK-REIT status attractive? This may not be the case if the group’s forecasts include significant non-property rental business income or assets.

- Is the corporate and financing structure of the group appropriate? Restructuring may be required to meet the REIT conditions and minimise the extent to which intercompany transactions could trigger tax charges.

- Is the investor base of the company appropriate? For example, a family company with no intention of diluting their interest is unlikely to be suitable for UK-REIT conversion.

- Do the company’s investors want an income or capital return? UK-REITs are required to distribute 90% of net property rental income to shareholders each year and therefore have some of the characteristics of an income product.

If you would like to discuss any of the issues raised in more detail please contact your usual BDO adviser or:

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