

**EXPLANATORY MEMORANDUM TO
THE REAL ESTATE INVESTMENT TRUSTS (JOINT VENTURE GROUPS)
REGULATIONS 2007**

2007 No. 3425

- 1.** This explanatory memorandum has been prepared by Her Majesty's Revenue and Customs (HMRC) 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**

The regulations extend the provisions of Part 4 of the Finance Act 2006 (Real Estate Investment Trusts) to joint ventures carried on by groups of companies.

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

Although the regulations have retrospective effect, the effect of the retrospection is to allow Real Estate Investment Trusts already using joint venture structures covered by these regulations to elect to extend the benefit of the regime to those joint ventures retrospectively. The application of the regime is entirely voluntary, as companies choose to elect into the regime.

- 4. Legislative Background**

The powers to make the regulations are in section 138 of the Finance Act 2006, as amended by section 52 and paragraphs 1 and 14 of Schedule 17 to the Finance Act 2007. The amendments extend the powers in section 138 to include provision having retrospective effect in respect of the calendar year in which the regulations are made. Paragraph 4 of Schedule 17 to the Finance Act 2006 provides for a general modification of Part 4 of that Act so that references to a company include references to groups of companies. This ensures that the powers in section 138 apply equally in the context of a company or groups of companies.

- 5. Territorial Extent and Application**

This instrument applies to all of the United Kingdom.

- 6. European Convention on Human Rights**

As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy background

7.1 Real Estate Investment Trusts, a special tax regime for property investment companies, were introduced in Finance Act 2006, with effect from 1 January 2007. The aim of the regime is to move the burden of taxation from the vehicle to the investor in order to correct a number of inefficiencies in the operation of the UK property rental market. Extensive consultation has taken place since then on both the primary and secondary legislation to ensure that the regime is and remains fit for its intended purpose.

7.2 Property investment companies commonly use joint venture structures to carry out their activities. These Regulations allow Real Estate Investment Trusts to elect for the regime to apply to joint ventures carried on by groups of companies.

8. Impact

This instrument falls within the scope of a Regulatory Impact Assessment that was prepared by HM Revenue and Customs in respect of Part 4 of the Finance Act 2006. It is available on the HMRC website at www.hmrc.gov.uk/ria/ria

9. Contact

Rosemary Danielian at the HM Revenue and Customs Tel: 020 7147 2623 or e-mail: Rosemary.Danielian@hmrc.gsi.gov.uk can answer any queries regarding the instrument.