

QUESTIONS & ANSWERS

THREADNEEDLE UK PROPERTY FUNDS

- Threadneedle UK Property Authorised Investment Fund (Threadneedle PAIF)
- Threadneedle UK Property Authorised Trust (Threadneedle PAIF Feeder Fund)

On 14 May 2016 Columbia Threadneedle Investments converted the Threadneedle UK Property Trust into a Property Authorised Investment Fund (PAIF) to allow eligible investors the opportunity to benefit from the associated tax benefits of this fund structure.

Q: What is a PAIF?

A PAIF is an open-ended investment company, the gains of which are exempt from corporation tax. The structure was introduced by HMRC as a way of enabling eligible investors in authorised property funds to receive gross income from their investments (i.e. not taxed at source). In order to accomplish this, PAIF-compliant funds are required to report the income they pay to investors in up to three streams, what is known as streamed income.

Q: What is streamed income?

Typically, a property fund will derive its income from various sources, including property rental income and interest paid on cash held in the Fund.

An authorised property fund that is not a PAIF is subject to 20% corporation tax within the fund and distributes all income to its investors as a single payment in each distribution period. This payment is treated as a “dividend” distribution.

A PAIF is different as, although it still makes one payment in each distribution period, this payment is split into three separate “streams” for UK tax purposes (which will be shown on the tax voucher investors receive).

These separate streams are:

1. Property income
2. Interest income and
3. Other income (dividends)

Splitting the income payment into three streams allows each to be treated differently for tax purposes.

As income is not subject to 20% corporation tax within a PAIF, this allows each of those income streams to be paid gross (i.e. without the deduction of tax) to eligible investors.

Figure 1. Breakdown of PAIF payment streams

INCOME STREAM	COMPRISING OF	TAX TREATMENT	
		ELIGIBLE INVESTORS	INELIGIBLE INVESTORS
Property	Mainly property rental income	Paid gross without tax deducted	Paid with 20% income tax deducted
Interest	Any interest earned on property bonds or cash deposits		
Other (dividend)	Any dividends (and some non-taxable rental income)	Paid gross without tax deducted	

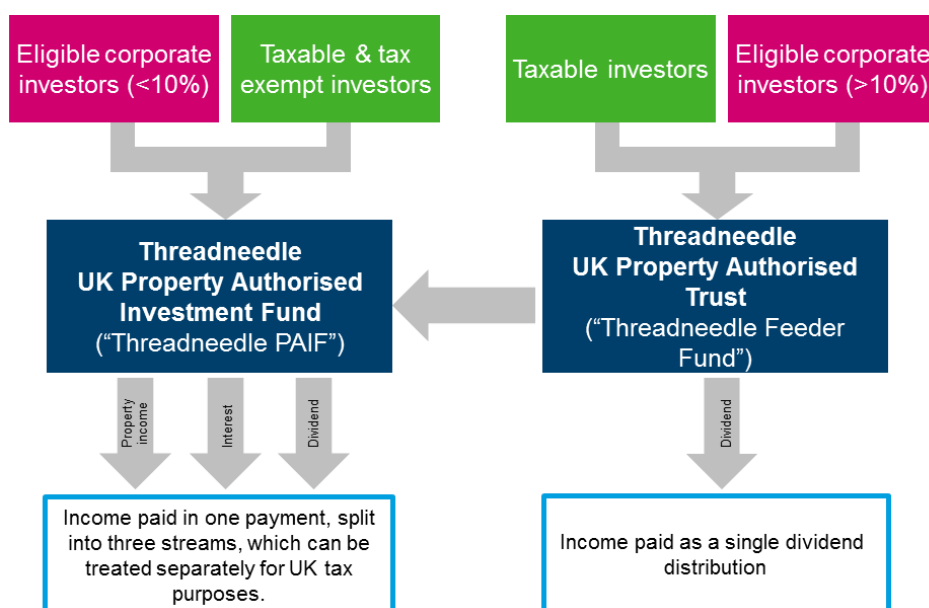
**Eligible investors are those able to receive or reclaim the tax deducted at source.*

Q: What is the Threadneedle PAIF Feeder Fund?

A feeder fund is a fund which invests solely into another fund. The Threadneedle UK Property Authorised Trust is a feeder fund which invests solely into the Threadneedle PAIF.

The Threadneedle PAIF Feeder Fund is not subject to PAIF rules and has been established for corporate investors who are not eligible to invest in a PAIF, or are unable to do so for operational reasons (for instance those unable to support streamed income). There may also be some instances where higher or additional rate taxpayers may prefer to invest in the Threadneedle PAIF Feeder Fund. For more information please speak to your financial or tax adviser.

Figure 2. Structure of the Threadneedle PAIF and Threadneedle PAIF Feeder Fund



Q: Do I qualify to receive gross distributions?

If you invest in the Threadneedle PAIF via a tax-exempt vehicle (for example, an ISA or a pension), or you are an exempt institutional investor (such as a charity), you will qualify to receive gross distributions from the Threadneedle PAIF.

If you do not fall in to the categories mentioned above, you will not qualify to receive gross distributions. However, if you do not pay UK income tax (for instance because your income is covered by your personal allowance), you may be able to reclaim some of the tax deducted from your income payments from HMRC.

Columbia Threadneedle Investments cannot give tax advice or comment on individual circumstances. If you are unsure regarding your tax position, you should consult a tax adviser.

Q: Is there a difference in the way the two funds are managed?

There are no significant differences between the investment powers, risk profiles and strategies of the Threadneedle PAIF and the Threadneedle PAIF Feeder Fund.

The Threadneedle PAIF Feeder Fund invests directly and solely in the Threadneedle PAIF and therefore accesses the same underlying investments. Please note, however, that while we aim to ensure the performance of the Threadneedle PAIF Feeder Fund and the Threadneedle PAIF are as closely aligned as possible, the impact of any operational cash balances held in the Threadneedle PAIF Feeder Fund means that the investment return from units in the Threadneedle PAIF Feeder Fund will not be an exact match to those of the corresponding share in the Threadneedle PAIF.

Q: How often will the Funds make income distributions?

Income distributions will be made quarterly.

Q: How can I find out more information?

Should you wish to find out more information, please contact our Client Services Team between 8.00am and 6.00pm (UK time) on 0800 953 0134*.

Please note Columbia Threadneedle Investments cannot offer tax or investment advice.

*Please note calls may be recorded.

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