

Property Authorised Investment Fund

What is a Property Authorised Investment Fund?

A Property Authorised Investment Fund (PAIF) is an Open Ended Investment Company (OEIC) in which at least 60% (40% in the first year) of its net asset value and income consists of either direct holdings in property or indirectly through holdings in UK Real Estate Investment Trusts and/or their foreign equivalents.

They were introduced in April 2008 in order to create a more flexible and tax-efficient environment for property investors and to try and replicate how investors would be taxed if they held the property directly. In particular, they removed an anomaly in which tax-exempt investors suffered a worse tax position when they invested in property through collective vehicles, such as Authorised Property Trusts, than if they held property investments directly.

What makes PAIFs different from traditional property unit trusts?

Prior to the introduction of PAIFs rental income distributed by property unit trusts were taxed within the fund itself at a rate of tax of 20%. This made property unit trusts an unattractive option for investors who were entitled to receive income distributions gross of tax such as through the use of tax advantaged wrappers such as ISAs and SIPPs as they are unable to claim the tax back.

PAIFs were introduced as a means of allowing tax-exempt investors more tax efficient access to regulated collective investment in property. PAIFs move the taxation on property investment income and interest away from the fund to the investor.

Income distributed by a PAIF is divided up and paid out under three separate types of income classification for tax purposes:

- property income distributions – these represent income from property;
- dividend distributions – these represent any UK dividends received;
- interest distributions – these represents interest and can include foreign dividends except in cases where these count as property income.

How is income distributed by a PAIF taxed?

For tax-exempt investors, all property income and interest is paid gross of tax. For non-exempt investors, the 20% tax on property income and interest is applied by the fund and paid to HMRC. In terms of any dividend distribution this is treated as any other dividend with no tax being applied within the fund and any tax due borne by the investor.

So if we had two identical property funds, one using a PAIF structure, the other an authorised property unit trust both with a net yield of 4 per cent, £10,000 investment in each could provide an Isa investor £500 in income from the PAIF versus £400 from the other. An uplift of up to 25% on income.

It is also worth noting that capital gains are exempt from tax within the fund. Investors being liable to pay tax on any chargeable gains they realise on the disposal of their PAIF shares if applicable.

Further information



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