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REITs - Tax Consequences for UK Shareholders

Important note

This summary of tax consequences for shareholders is intended to provide only a general outline of the subjects covered. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional tax advice. Hammerson plc accepts no responsibility for any loss arising from any action taken or not taken by any person using this material. If you are in any doubt as to your tax position or if you may be subject to tax in a jurisdiction other than the UK, you should consult your own professional advisors.

Dividend payments

A Real Estate Investment Trust ("**REIT**") may pay dividends as either a Property Income Distribution ("**PID**") or a normal dividend ("**Non-PID**") or a combination of both. The amount a REIT must pay as a PID is determined by reference to its tax exempt property profits as determined by the REIT regulations. Hammerson expects that the majority of its dividends will be paid as a PID, but the level of the PID will vary from year to year.

It is possible for a PID to be paid either as a cash dividend or a scrip dividend. Hammerson has in the past offered shareholders a scrip alternative and considers on a dividend-by-dividend basis whether to offer this to shareholders.

Where a scrip dividend alternative is not offered, shareholders who prefer to receive dividends in the form of shares are able to elect for the Dividend Reinvestment Plan ("DRIP") under which the cash dividend (whether paid as a PID or a Non-PID) is converted into shares at the prevailing market price.

For some years, Hammerson has been paying its interim dividend entirely as a PID with the final dividend being paid partly as a PID and partly as a Non-PID. These dividends have usually been paid entirely in cash with shareholders wishing to receive dividends in the form of shares being offered the DRIP.

UK tax treatment of dividend receipts

For UK shareholders, Non-PID dividends received from REITs, paid either as cash or in the form of shares, are taxed in the same way as normal dividends from other UK companies. Since April 2016, these have qualified for a tax-free dividend allowance which is currently set at £2,000.

By contrast, UK shareholders are taxed on PIDs as property letting income separate from any other property letting business. The gross amount of the PID is subject to tax with a credit for withholding tax deducted from the payment (see further below). On the 2018 Self Assessment tax return SA100, dividends paid as PIDs should be declared gross in Box 17 with the tax withheld in Box 19. This applies to PIDs whether paid in cash or shares. The tax-free dividend allowance does not apply to PIDs.

Withholding tax on PIDs

For most shareholders, PIDs are paid after deducting withholding tax at basic rate income tax, currently 20%. So, if a PID of £100 is paid, the company will pay £20 to HMRC and £80 to the shareholder.

Because of the withholding tax, a UK individual taxable at the basic rate will have no further tax to pay. Higher rate taxpayers (40%) and additional rate taxpayers (45%) will have an additional tax liability of 20% and 25% of the gross PID respectively.

Someone who does not pay tax, perhaps because of personal allowances, may reclaim the tax withheld from HMRC.

Gross payment of PIDs for certain categories of shareholder

Under the REIT rules, certain categories of shareholder are entitled to receive PIDs without deduction of tax. Shareholders qualifying for gross payment are principally UK resident companies, UK public bodies, UK charities, UK pension funds, and the managers of ISAs, PEPs and Child Trust Funds. Most shareholders, including all individuals and all non-UK residents, do not qualify.

Shareholders who qualify for gross payment are required to complete one of the two forms included on Hammerson's website. The first form is to be used when the registered owner is also the beneficial owner and the second form is for a registered owner to certify that the underlying beneficial owner or owners qualify. Where a registered holding has mixed beneficial owners including non-qualifying shareholders, the certification cannot be given and all the PID is paid net.

The completed forms should be submitted to the Company's Registrars, Link Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. It is only necessary to complete a form once. For qualifying shareholders who have not previously submitted a form, this must be received by the Registrars by the record date to qualify for gross payment of the PID element of upcoming dividends.

Foreign shareholders

Non-resident shareholders in countries with double tax treaties with the UK, which provide for lower rates of withholding tax on dividends than 20%, may be able to make claims for repayment of the difference from HMRC. Claim forms for non-resident individuals and companies may be downloaded from the HMRC website at http://www.hmrc.gov.uk/international/dta-claim.htm#1 or by contacting HM Revenue & Customs, Residency, Fitz Roy House, PO Box 46, Nottingham, England NG2 1BD.