Qualifying Assets Holding Companies (QAHCs) Regime

A new tax regime for Asset Holding Companies (QAHCs) has been proposed by the government, allowing the UK to compete with non UK jurisdictions (principally Luxembourg) as a tax efficient host for such structures. The policy objective is to create a structure that will take advantage of the UK's extensive double tax treaty network whilst ensuring that returns on investments do not suffer further tax as they are passed up through the structure.

The regime aims to both support the UK funds industry and encourage UK holding when commercially viable, for example, when the investment manager is based in the UK.

The Proposed Regime

Instead of altering corporation tax, the government is proposing a separate QAHC regime.

To qualify, QAHCs must be at least 70% owned by Category A investors. These include all collective investment schemes and alternative investment funds that meet the conditions for genuine diversity of ownership. These also include life insurance businesses, REITs and their overseas equivalents, pension funds, sovereign investors and various other QAHCs.

QAHCs will have following tax advantages:

No stamp duty on sharer buybacks

Stamp duty and SDRT will not apply to share buybacks by a QAHC. They will, however, still apply to dealing in shares held by the QAHC.

Remittance basis users

The possibility of remittance basis users being able to invest in QAHCs using a modified business investment relief - that prevents a remittance from being triggered - is being considered. Promisingly, this relief may be extended to other UK funds which would be extremely helpful.

Abolition of interest withholding tax

No withholding tax will be applied to the interest paid on securities held by investors in the QAHC. This relief will not, however, extend to third party lenders.

Exemption from tax on capital gains

There will be no Capital Gains tax on the disposal of shares (other than shares in the UK's property-rich companies) or overseas real estate. This applies to the disposal of stakes of any size, regardless of how long the shares have been held, provided the QAHC remains an investment company and not a trading company.

This is structurally similar to the substantial shareholdings exemption that applies to stakes in trading companies but, firstly, it is wider. Also, it allows for QAHCs to be used for non-trading private equity holdings of European real estate investment. The absence of a holding period condition makes this structure advantageous compared with other jurisdictions.

Capital gains tax treatment for share buybacks

Under normal circumstances, the premium on share buybacks is taxed as dividend income to the individual UK shareholder. This rule means that capital proceeds, following the disposal of an underlying investment, can turn to dividend income. This is a major disincentive for investment managers who hold either co-investments or carried interest in their fund.

For a QAHC, though, the buy back of shares will be taxed as capital, subject to anti-avoidance legislation. Rules will be introduced to ensure that these changes are not used to convert income into capital but, for now, this is subject to further discussion with industry. This remains a key area to watch as, in the event that a simple solution cannot be found, there is a risk of significant complexity being added to the regime.

Conclusion

This is an exciting opportunity for the UK funds industry to both expand and enhance its offering on the world stage. Please do not hesitate to get in touch if you would like any detailed, one-to-one advice about the QAHC regime.