TRAVERS SMITH

Funds Briefing – Today's Budget

Emergency Budget: 28% for now …

For the UK funds industry, the headline from today's Budget is the rise in the capital gains tax ('CGT') rate to 28% for 40%+ tax payers. The increase takes effect from midnight tonight and taxpayers will be able to use their annual exempt amount (£10,100) and capital losses in the way that is best for them. Carried interest holders in limited partnerships may still benefit from what is known as the base cost shift, but further change is on the agenda - HMRC's summer consultation on geared growth arrangements will look specifically at carried interest.

The Coalition Government has attempted to sweeten the CGT pill by increasing the lifetime limit for Entrepreneurs' Relief to £5 million, but this relief does not normally apply to carried interest structures. The BVCA issued an immediate statement calling on ministers to review the scope of Entrepreneurs' Relief. The higher CGT rate means there is likely to be an increased focus on Entrepreneurs' and other CGT reliefs.

For investee companies, lower corporation tax rates will be welcome: corporation tax will reduce at a rate of 1% each year from 1 April 2011 until it reaches 24% in 2014. These corporation tax rates may provide planning opportunities for investment managers set-up as limited liability partnerships who pay income tax and national insurance contributions at 51% (the 50% rate will remain in place "for the time being").

The detailed Budget papers also provide clues about future tax policies which may be relevant to the funds industry.

The Government will press ahead with its review of the taxation of non-domiciled persons although it has not announced a time-frame for this. The review will ensure that non-doms "make a fair contribution to reducing the deficit, in return for greater certainty and stability for those bringing skills and investment to the UK". One immediate change is that non-doms claiming the remittance basis will not be able to access the 18% CGT rate available to basic rate taxpayers.

For authorised funds, the Government will consult with asset managers on the implementation of UCITs IV, a proposal to introduce a new tax transparent UK fund vehicle and the current tax regulations which are intended to encourage funds of hedge funds to base themselves in the UK. Travers Smiths' funds tax team will be getting involved in these consultations.

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