Autumn Budget 2021

The UK's Asset Holding Company regime

5 November 2021

The UK Asset Holding Company (AHC) regime will be introduced from 1 April 2022 in order to provide a simplified basis of taxation for the holding companies of alternative investment funds (funds). This is part of a wider reform of the corporation tax regime for funds which aims to allow taxpayers to align their legal structures with the operational substance based commonly in London.

On 4 November 2021, the most recent draft of the proposed AHC legislation was released as part of Finance Bill 2021-22 with a series of welcome simplifications that reflect the feedback of taxpayers, industry groups, EY and other firms.

Summarised below are the aims of the regime, an overview of its key aspects, and the various benefits it offers.

What does the AHC regime seek to achieve?

The aim of this regime is to encourage funds to co-locate their legal holding structures with their existing operational substance in the UK.

The AHC regime looks to achieve this by reforming the UK corporation tax regime for holding companies to remove historic areas of complexity and bring it into line with peer jurisdictions commonly used by the funds sector. With many funds having significant economic nexus in the UK, often in the form of highly skilled investment professionals, the UK Government is hoping to attract a higher proportion of funds to use UK holding companies as well as alleviating pressure to move UK-based roles to the location of current industry standard holding countries.

The new regime offers the funds sector the scope for efficiency gains in co-locating legal and operational substance in a single country, access to talent benefits and operational costs reduction. Developments in international tax treaty law means that the new regime may also de-risk post-tax returns in some investee countries/asset classes.

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The AHC reform forms part of a broader review by the UK Treasury of the UK's taxation of the funds sector and reflects an ongoing appetite to simplify the tax compliance position for taxpayers including, for example:

- Changes to the anti-hybrid rules earlier this year, simplifying the position for transparent funds
- Changes to be made to facilitate the use by UK companies of deal contingent foreign exchange hedging
- The ongoing consultation on the tax treatment of UK fund vehicles

Who are the rules most relevant for?

The regime seeks to capture the vast majority of the funds sector and will specifically be relevant for private equity, infrastructure, credit and real estate assets held by alternative investment funds.

The rules will also apply to sovereign wealth funds, domestic and international pension schemes, UK and Overseas REITs and/or long-term insurance funds.

When will it take effect?

The rules will take effect from 1 April 2022.

The regime is elective and a decision to enter into the regime will need to be made and documented by qualifying companies in order for it to be valid.

What are the benefits of being in the regime?

If a UK tax resident company meets the conditions to be a Qualifying AHC and has elected to be so, it will be able to benefit from a variety of tax exemptions and simplifications. Together, these provisions ensure there should be no incremental taxation on yield earned beyond the taxation in the investee territory and the final taxation borne by investors.

In particular, the following changes have been introduced:

- A simplified gains exemption that applies without the any requirements in relation to the trading status of the underlying investment, holding period or ownership percentage
- An ability to return funds to investors in capital form for UK tax purposes and without incurring stamp duty
- A complete exemption from UK interest withholding tax on both third party and shareholder debt

All alongside an existing territorial tax system that features no dividend withholding tax under domestic law, a broad distribution exemption, the world's most comprehensive Double Tax Treaty network and one of the largest networks of bilateral investment treaties.

Outside of tax, the regime also allows for taxpayers to evaluate whether onshoring their holding activities may reduce operating costs and provide operational simplification given the existing operations that many already have in the UK and the availability of talent in London and the wider UK market.

What are the key takeaways that businesses should be considering now?

The introduction of the UK AHC regime is a welcome simplification to existing tax rules that will accelerate a trend that was already in motion to use UK holding company structures where possible.

EY have previously assisted with the first UK asset holding company migration projects in both the institutional and private equity fund sectors. Based on these experiences we recommend:

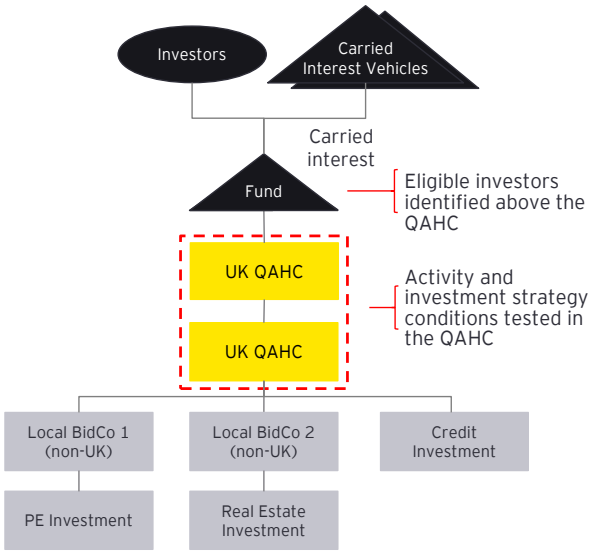
1. Businesses evaluate whether existing and new funds are eligible for the regime and satisfy the entry criteria based on historic deal precedents. Although we expect most market participants should qualify, the diversity of the investment fund sector means that this is an important point of diligence.
2. For those considering the use of a UK AHC for existing investments:
    a. Businesses should first critically evaluate the level of inherent risk in existing structures given recent case law and the potential impact on IRR from foreseeable source-country tax controversy
    b. Assess whether a transition to a UK structure impacts that evaluation
    c. Evaluate whether this transition can be done without incurring a dry-tax charge

    In our experience a restructuring to enter the regime could take a variety of forms and, in the majority of cases, can be undertaken without incurring any dry-tax cost.
3. For those launching new funds, we recommend they evaluate whether this reform creates an opportunity to establish a UK holding platform and evaluate the relative costs and benefits against their historic approach.
4. In relation to both existing and new funds/investments, evaluate whether, given existing operational activity in the UK, a master holding company structure (rather than deal-by-deal SPV) offers the best approach to demonstrate to tax authorities the existing operational substance in the UK.

We believe that some funds will migrate existing holding platforms into the UK, some will continue to use non-UK platforms, and some will use the UK for new funds and/or new investments but leave existing funds/investments 'as/is'. In most cases it will be valuable to analyse the cost vs. benefits of these broad approaches.

Appendix: Overview of the conditions to be met in order to access the regime

Whilst the conditions to be met are detailed, we have set out a high-level summary below. Please get in touch if you would like to discuss further or understand more of the detail.



A UK tax resident company is a QAHC if it meets the following criteria (and has elected into the regime):

- It is owned at least 70% by eligible investors. An eligible investor is, broadly, a widely-held collective investment scheme or alternative investment fund, or a long-term insurance business, Sovereign Wealth Fund, UK or overseas REIT, UK-property rich CIV, UK or non-UK pension scheme or charity
- It meets the activity condition. This requires that its main activity is carrying on an investment business and any other activities it carries on are ancillary to that main business and are not carried on to a substantial extent
- It meets the investment strategy condition. This requires that the company's investment strategy does not involve the acquisition of listed equity securities (outside of an IPO or public-to-private transaction)

In addition, the UK AHC must not be a UK REIT or listed or traded on a recognised stock exchange or similar.

Further information

If you have any questions or would like to understand more about the regime and the benefits it may bring to you, please get in touch with one of the following EY contacts:

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