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The UK — a passport to a brighter future

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Christopher Groves
PARTNER | UK

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With Theresa May settling into Number 10 and facing what must be the one of the most daunting in-trays in history, we have set out below our thoughts as to how she and Chancellor Philip Hammond could enact essential changes to make the UK an attractive place for international investors to do business and make the most of the advantages of being outside the European Union.

London has been a mercantile centre for global trade since the Romans built the first bridge across the Thames in the first century AD. In the twenty first century it has become a hub for international banks, financial and professional service firms, as well as being a base for the globally wealthy (whether resident in the UK or not). The UK needs to continue to attract these industries and individuals and the capital that they have historically invested. The UK has the people and the skills; all that is needed is the right legislative environment.

These are the key changes that we think the UK should prioritise:

1. Promote the UK as a place of residence for international wealth creators

At the start of this Parliament George Osborne proposed significant changes to the taxation of long term non-domiciliaries. These rules, which are unlikely in themselves to raise significant revenue, are likely to deter many long-term non-domiciled UK residents from living and investing in the UK.

The current restrictions on non-domiciled residents investing in the UK – cutting the UK off from a source of capital from those most likely and most able to provide it – should be eliminated.

Policy points:

- Retain the remittance basis for longer term (more than 15 years) non-dom residents and the associated £90,000 per annum charge
- Allow non-doms to freely invest in the UK without tax charges

2. Strengthen the fund management industry and the City

The UK has a well reputed fund management industry. However complex planning has to be gone into to ensure funds are not accidentally made subject to UK tax. These complexities should be overcome and the UK should allow funds under management to be located in the UK on a tax favoured basis. At a time when banks are concerned about passporting rights, this would add to the strength of the City.

Press coverage has focussed recently on the use of offshore financial centres as holding jurisdictions for international capital. The UK should introduce a tax exempt fund and partnership regime that will allow the structures which are currently established offshore to be relocated onshore to the UK.

Applying the same logic to personal asset holding structures, the UK should introduce a tax exempt trusts regime that would allow trusts established by non-residents to be administered by professionals in the UK. This would bring into the UK asset holding structures that have hitherto been maintained outside the scope of onshore, mainstream regulation.

Through the introduction of the 'Patent Box' and the progressive reduction in the rate of corporation tax, the Government has worked to make the UK more attractive as a jurisdiction for holding companies. Further work should be done to promote the UK in this respect.

Policy points:

- A new tax exempt fund and partnership regime
- A new tax exempt trust regime

3. Lead the world in the regulation of corporate and personal wealth

If the UK is to seek to attract asset holding structures onshore, then it needs to do so on the basis of a world leading regulatory regime. This should be one that promotes transparency, but is proportionate to its goals, and that allows business to thrive while reducing the scope for money-laundering and the concealment of the proceeds of crime.

Policy points:

- An enhanced regulatory regime to cope with the expansion of the structures that can be established in the UK under 2 above, but proportionate to the ends of addressing money-laundering and tax evasion concerns, rather than simply pandering to the desire to make public the affairs of companies and investors.

4. Stimulate investment in the UK

Measures should be introduced to stimulate investment in the UK by reducing the tax hurdles faced by non-residents. This is particularly the case in the residential property sector, where successive increases to the levels of tax, particularly for non-resident investors, have significantly reduced investment in the UK.

In negotiating new trade deals the Government should focus on the reduction of withholding taxes, facilitating the movement of capital into the UK.

Increases to SDLT and ATED have made property transactions unattractive for purchasers. At a time when London needs commitment from investors, we would recommend reducing SLDT and simplifying the taxation of property holding structures.

Policy points:

- Roll back the recent increases in the taxation of real estate to stimulate demand for new housing
- Introduce a new regime to encourage investment in residential house-building and to develop the private rental sector

Finally, and above all, what is required now is certainty. If the UK is to be a stable long-term home for international capital, then investors need to have confidence that tax rules will not change with the shift of political winds. Philip Hammond should set out a long-term tax framework for stimulating investment in the UK against which future changes should be judged and justified.

Authors

Christopher Groves

PARTNER | LONDON

Private client and tax

+44 20 7597 6127

christopher.groves@withersworldwide.com