Qualifying Asset Holding Company ("QAHC") regime

The United Kingdom is to introduce an elective tax regime for certain companies holding investments.

WHY?

The incoming QAHC regime aims to enhance the UK's competitiveness by making it a more attractive location for asset holding. By so doing, it is hoped that the QAHC regime will provide a welcome and broader boost to the UK asset management industry.

The intention is to provide a UK resident, double tax treaty ("DTT") eligible company that pays UK tax proportionate to the activities it performs. The QAHC regime is also designed to be 'tax neutral', in as much as it is intended for UK investors to be taxed as if they invested in the underlying assets directly.

WHEN?

The elective QAHC regime comes into effect in April 2022.

WHO MIGHT ELECT?

The regime is targeted at private equity and other asset managers (including real estate, infrastructure and credit).

An Asset Holding Company ("AHC") needs to be held by at least 70% 'good' investors. Investors are separated into categories, and the 70% threshold must be held by, for example, QAHCs, diversely-owned funds/CIS, REITs or institutional investors.

The AHC must also mainly carry out investment activity. It must have no more than insubstantial, ancillary trading.

A UK REIT cannot itself be a QAHC and the regime is not applicable to investments in UK land. As noted above though, a REIT is a 'good' investor when determining if an AHC is a QAHC.

WHAT ARE THE UK TAX BENEFITS?

The changes introduce a specific regime for the UK taxation of QAHCs and certain payments that they may make.

As a result, the benefits include (for example) UK tax exemption in respect of:

- gains arising from disposals of certain shares and overseas property. This exemption will include shares that do not derive at least 75% of their market value from UK land; and
- profits of an overseas property business, provided those profits are subject to income or corporation tax outside of the UK.

In addition, there will be technical changes to certain UK tax provisions (e.g., deemed distributions, purchase of own shares, late paid interest rules and the Corporate Interest Restriction) to facilitate the QAHC regime.

A QAHC will also be able to pay interest without UK withholding tax (that might otherwise arise). This will apply to all QAHC debt, and not just loans from shareholders.

WHAT ABOUT TAX TREATY ACCESS?

While those investing in credit, for example, may note the QAHC regime as positive, concerns may exist regarding post Brexit, EU Directive equivalent benefits. Her Majesty's Revenue & Customs is prioritizing renegotiation of European DTTs to reproduce the benefits of, for example, the Interest and Royalties Directive. Until this exercise is complete, reliance will have to be placed on the existing, bi-lateral UK to EU Member State specific DTT.

WHAT ABOUT OTHER ASSET HOLDING LOCATIONS?

The QAHC regime does have entry requirements (e.g., the 70% 'good' investor test) not always found in more typical asset holding jurisdictions. Readers may also be aware, however, of the EU's proposal to introduce a tax directive aimed at preventing the "misuse of shell entities". The QAHC regime's relative appeal may therefore in part depend upon where people and infrastructure are already located/can be added.

It should also be noted that the EU is expected to publish a proposal on non-EU 'shell entities' during 2022.

HOW CAN CENTRALIS HELP?

As a market-leading outsourced corporate services provider, our dedicated experts are committed to delivering first-class solutions so your business functions as efficiently as possible.

With regard to the QAHC regime, we can provide:

- independent UK directors
- UK company secretarial support
- entity level accounting
- loan administration
- cash management

CONTACT US

Adam Hewitson
UK Country Head
adam.hewitson@centralisgroup.com

Jon Hanifan
Business Development Director
jon.hanifan@centralisgroup.com