



Investment managers: disguised fee income

Who is likely to be affected?

Individuals involved in investment management for a private equity fund or other investment fund, who are members of a limited partnership or limited liability partnership, or involved in arrangements including partnerships. These individuals will be affected if they receive what are, in substance, management fees that are not otherwise chargeable to income tax.

General description of the measure

Sums received by these individuals which are for investment management services will be charged to income tax and Class 4 National Insurance contributions (NICs), however they are described and whatever the legal form of payment. The measure will not affect returns reflecting performance of investments under management, commonly known as carried interest, nor investments by managers known as coinvestment.

Policy objective

This measure makes the tax system fairer by putting beyond doubt that amounts received by individuals in respect of fund management services are charged to income tax and NICs.

Background to the measure

This measure was announced at Autumn Statement 2014.

Detailed proposal

Operative date

This measure will have effect on all disguised fees arising on or after 6 April 2015, whenever the arrangements were entered into.

Current law

Sums received by individuals who are partners in firms that manage investments are under current law taxable as trading income, subject to income tax and Class 4 NICs. Sums received as partners in firms that make investments are taxed according to the nature of the profits made by the partnership.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to introduce a new Chapter 5E in Part 13 of Income Tax Act 2007 to confirm the treatment of sums received by managers for investment management services.

New sections 809EZA to 809EZD will provide that where an individual provides investment management services for a collective investment scheme through an arrangement involving partnerships, then any sums received for those services will be treated as profits of a trade, unless already charged to income tax.

Sums will not be caught if they represent a return which varies by reference to profits on funds, or represent a return on investments by the managers.

The legislation will apply to amounts described, for example, as partnership profit shares or advances in anticipation of expected future profit shares.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	negligible	+160	+80	+65	+55
	These figures are set out in Table 2.1 of Autumn Statement 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals, households and families	<p>This measure will have an impact on a small number of individuals in private equity firms or elsewhere in the investment management sector who are currently in arrangements to avoid paying income tax on income from managing funds.</p> <p>The measure is not expected to impact on family formation, stability or breakdown.</p>					
Equalities impacts	This measure will affect individuals receiving management fees from investment funds. These are likely to share protected characteristics with others of above average means, and equality groups represented in lower income groups are less likely to be affected.					
Impact on business including civil society organisations	This measure will have no impact on business and civil society organisations who are undertaking normal commercial transactions; it will only impact on the businesses that are using the avoidance schemes affected by this measure.					
Operational impact (£m) (HMRC or other)	The costs to HM Revenue & Customs will be negligible.					
Other impacts	<p><u>Small and micro business assessment</u>: small and micro businesses will only be affected if they participate in tax avoidance schemes.</p> <p>Other impacts have been considered and none have been identified.</p>					

Monitoring and evaluation

HMRC will assess the impact of the measure by monitoring information collected from tax returns and receipts.

Further advice

If you have any questions about this change, please contact Chris Murrucane on 03000 585953 (email: chris.murrucane@hmrc.gsi.gov.uk) or contact Richard Rogers on 03000 585521 (email: richard.rogers@hmrc.gsi.gov.uk).