Amendments 1 to 6 to Schedule 2: Qualifying asset holding companies

Summary

1. These six amendments are required to address four technical points to better reflect the original policy intention of the new regime for qualifying asset holding companies. These four technical points are explained below.

Details of the amendments

2. Amendments 1 and 2 expand the definition of 'investment management profit-sharing arrangements' in paragraph 5(6) to include entitlements to performance-based rewards (known as 'carried interest' or 'carry') that are not held by the person providing the investment management services to which they relate. This aligns with other rules for the taxation of carried interest, and will expand the scope of the rule in paragraph 5(5) to enable calculations regarding relevant interests to work correctly regardless of who holds the entitlements to carried interest.

3. Amendments 3 and 6 replace the condition in paragraph 9(2)(c) that must be met for a fund to meet the diversity of ownership condition if it is closely held and does not meet the genuine diversity of ownership test in paragraph 9(2)(a). The new condition is that at least 70% of ownership interests in such a fund must be held by category A investors. This ensures that the requirement at paragraph 3 that at least 70% of the ultimate ownership of a qualifying asset holding company sits with category A investors cannot be circumvented through the use of an intermediate fund vehicle.

4. Amendment 4 will allow existing funds marketed before the commencement of the QAHC regime to be treated as meeting regulation 75(2) of the Offshore Funds (Tax) Regulations 2009 if certain information has been produced by the fund and has been made available to HMRC.

5. Amendment 5 makes an adjustment to the rules for determining whether a fund is close, to better reflect the circumstances applicable to funds of the type with which the wider provisions are concerned.

Background note

6. Clause 14 and schedule 2 of Finance (No. 2) Bill 2021 introduce a new regime for asset holding companies that meet certain conditions, in order to deliver an effective, proportionate, and internationally competitive tax regime for investment activity.

7. The robust eligibility criteria limit access to the new regime to the intended users, namely investment structures where funds are managed for the benefit of a broad

pool of investors or beneficiaries.

8. The new regime limits the tax liability of a qualifying asset holding company (QAHC) to an amount commensurate with its role, and ensures that investors are taxed so far as possible as if they had invested in the underlying assets directly.