HM Treasury

Modernising Taxation of Foreign Sovereign Investments

Sovereign Tax Status Regime

October 2026

HM Treasury

Modernising Taxation of Foreign Sovereign Investments

Sovereign Tax Status Regime

October 2026

© Crown copyright 2026

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3.

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

This publication is available at: www.gov.uk/official-documents.

Any enquiries regarding this publication should be sent to us at public.enquiries@hmtreasury.gov.uk

ISBN: 978-1-80994-006-3

PU: 3694

Contents

Chapter 1	Introduction	6
Chapter 2	Key features of the new sovereign tax status	8
Chapter 3	Eligibility	12
Chapter 4	Principal tax consequences	17
Chapter 5	Application of specific tax rules and regimes	19
Chapter 6	Commencement and transition	22
Chapter 7	Administration	25
Annex A	List of questions	28
Annex B	Consultation privacy notice	30
Annex C	Glossary of terms	34

Chapter 1
Introduction

1.1 As announced at Budget 2026, the government will modernise the taxation of foreign sovereign investments from 1 January 2029 with a new sovereign tax status.

1.2 The government wants the UK to continue to be an attractive location from which sovereign investors can manage their global investments and can invest over the long term. We value the role that sovereign investors play in the UK as important providers of capital across a wide range of UK investments.

1.3 The current regime is not codified and is based on principles of international law that HMRC have interpreted through administrative practice. It provides a broad exemption from UK direct taxes for foreign sovereign states and certain entities connected with them.

1.4 From 1 January 2029, the current non-codified sovereign immunity from direct tax regime will be modernised with a new sovereign tax status. The sovereign tax status regime will put the UK taxation of sovereigns on a statutory footing for the first time to support transparency, certainty and the sustainability of the regime. It will bring certain returns into the charge to tax, whilst introducing new beneficial arrangements.

1.5 Where sovereigns currently invest in the UK through UK companies, income and gains of those companies will already be liable to the normal Corporation Tax regime, and the introduction of the sovereign tax status regime will have no impact. The government expects that, in practice, the main effect of the modernisation will be to bring sovereigns' returns from directly held UK real estate into the charge to tax for the first time, as well as trading income in limited circumstances.

1.6 The impact of the modernisation on sovereigns' wider investment and activity in the UK is also expected to be limited for reasons that are covered in more detail in this document.

1.7 Recognising the unique circumstances of sovereign investors, the revised regime will provide important benefits for sovereigns including bespoke rules to access a Real Estate Investment Trust (REIT) structure which will enable sovereigns to hold a controlling interest in a REIT through a UK company whilst obtaining a 15% tax rate on income from a property business held in that REIT. A new status for State-operated Overseas Pension Funds (SOPFs) will give comparable treatment to overseas pension schemes, and sovereigns will benefit from an exemption for their UK-located investment offices.

1.8 The changes will take effect from 1 January 2029. The government wishes to ensure that the revised regime is robust and effective, given the complex nature of legislating for the sovereign tax status regime. This consultation is an opportunity for those affected, or who may be affected, by the modernisation to ensure that the policy set out here works appropriately, fairly and as intended.

1.9 The current consultation will therefore be followed by technical consultation on draft legislation ahead of final legislation being introduced in Finance Bill 2027-28. This will allow time for detailed engagement with expert stakeholders.

1.10 This will also allow sovereigns time to adapt to the changes, and as part of the modernisation, the government will introduce transitional provisions to allow restructuring.

1.11 Taken together, the new sovereign tax status regime and the wider strengths of the UK as an investment location – a competitive, stable, and certain tax regime, competitive markets, and strong rule of law – will ensure that the UK continues to be an attractive place for sovereigns to invest and support valuable long-term investment in the UK.

1.12 While the current exemption will change, overall, the benefits available under the sovereign tax status regime will be comparable to, or more generous than, those provided by most other countries.

Chapter 2

Key features of the new sovereign tax status

Who will qualify?

2.1 The government intends to legislate a new concept of sovereign tax status. This status will apply to:

- foreign sovereign states and constituent territories of federal states;
- heads of state acting in their sovereign capacity;
- governments and integral parts of government;
- certain wholly owned state entities;
- sovereign wealth funds;
- SOPFs; and
- certain other governmental organisations and central banks.

2.2 The government also intends to align the tax treatment of foreign sovereigns and the Crown overseas within a single statutory framework.

2.3 Please see further detail in Chapter 3.

What will continue to be exempt?

2.4 It is common practice internationally to exempt sovereigns' passive income. In line with this, entities with sovereign tax status will continue to be exempt from tax on UK source interest income.

2.5 The government will also legislate further exemptions. To ensure appropriate taxation of global investments managed from UK investment offices, there will be an exemption from Corporation Tax for UK investment management activities carried on by investment offices of sovereign tax status investors for the benefit of that investor.

2.6 Pension funds qualifying as SOPFs will receive an exemption from chargeable gains, in line with treatment of other overseas pension funds.

2.7 State property situated in the UK held by a foreign sovereign or head of state will continue to be exempt from Inheritance Tax.

2.8 Please see further detail in Chapter 4.

2.9 The new sovereign tax status will not disrupt the UK's competitive tax regime for non-resident investors into UK companies, including the absence of taxation on dividends in most cases, and the benefits of the world's largest network of tax treaties.

What will be taxed?

2.10 Other than the express exemptions listed above, following the modernisation, those eligible for sovereign tax status will be liable to UK tax in the same way as other non-resident investors. In particular, those eligible for sovereign tax status will become taxable on:

- income arising from UK land;
- chargeable gains on disposals of direct holdings of UK land and interests in certain UK property rich vehicles; and
- UK trading income.

2.11 Please see further detail in Chapter 4.

Investment funds and REITs

2.12 The government recognises the important role sovereign investors play in UK investment markets, and the importance of reducing the impact of these changes on co-investors alongside sovereigns.

2.13 Accordingly, those eligible for sovereign tax status will be qualifying institutional investors (QIIs) for the purposes of certain investment regimes including Qualifying Asset Holding Companies (QAHCs), Long-Term Asset Funds (LTAFs), and the non-resident capital gains rules for collective investment vehicles. SOPFs will be eligible investors for Exempt Unauthorised Unit Trusts (EUUTs).

2.14 Those with sovereign tax status will be able to invest in, control and wholly own UK REITs through a UK company whilst obtaining a 15% tax rate on property income distributions (PIDs). Please see further detail in Chapter 5.

Administration

2.15 The government intends to offer certainty in the regime by introducing a formal statutory application process for sovereign tax status. While existing sovereigns who currently benefit from sovereign immunity from direct tax will be required to apply under the new regime, the government will explore ways to streamline this process.

2.16 Please see further detail in Chapter 7.

Box 2.A Taxation in the UK under sovereign tax status

Taxation in the UK under sovereign tax status from 1 January 2029	
UK source interest	Exempt
Profits from investment management activities of UK investment offices	Exempt
Chargeable gains	Exempt for State-operated Overseas Pension Funds (in line with overseas pension schemes); taxable for others
Inheritances of state property	Exempt
Dividends	Generally exempt (in line with other non-resident investors)
Income arising from UK land	Taxable
Chargeable gains (direct and indirect disposals of UK land)	Exempt for State-operated Overseas Pension Funds (in line with overseas pension schemes); taxable for others
PIDs paid by a UK REIT	Taxable under new framework, see Chapter 5 below; controlling shares of REITs permitted
Inheritances (non-state property)	Taxable on UK situs assets

Transitional provisions

2.17 The government acknowledges the changes associated with this modernisation, and the need for those affected to have time to prepare, including restructuring their existing holdings where necessary.

2.18 All assets held by sovereigns brought newly within the charge to UK tax on chargeable gains will benefit from rebasing to their market value on 1 January 2029.

2.19 To allow sovereigns to restructure existing UK real estate holdings to reflect their UK tax position under the sovereign tax status

regime, the government will introduce the following (in each case subject to conditions to prevent misuse):

- time-limited relief from Stamp Duty Land Tax (SDLT);
- certain relief from the debt and derivatives anti-avoidance rules; and
- provisions to allow pre-trading characteristics to be transferred to post-restructuring entities.

2.20 Please see further detail in Chapter 6.

Commencement

2.21 The new sovereign tax status regime will take effect from 1 January 2029.

Next steps

2.22 The government welcomes stakeholders' views on points of technical detail in connection with the sovereign tax status regime as set out in this document, including, but not limited to, the specific questions asked.

2.23 Please send any written comments via email to sovereigntaxstatus@hmtreasury.gov.uk by no later than 20 January 2027.

2.24 If you think you will be impacted by the introduction of the sovereign tax status regime and wish to discuss, please get in contact through sovereigntaxstatus@hmtreasury.gov.uk.

Chapter 3
Eligibility

Background

3.1 This chapter provides more detail on who will be eligible for sovereign tax status and how eligibility will be determined.

Who will be able to benefit from sovereign tax status?

3.2 Sovereign tax status will apply to:

- foreign sovereign states and constituent territories of federal states;
- heads of state acting in their sovereign capacity;
- governments and integral parts of government;
- the central bank, currency authority or monetary authority of the sovereign state;
- a separate entity incorporated and resident in the foreign sovereign's home country where the state owns 100% of the shares;
- sovereign wealth funds;
- SOPFs – see further details below;
- organisations fulfilling a government function on behalf of the government and which are subject to direction by the government; and
- government export credit agencies, where these are 100% owned by the government.

Which states and territories will be able to qualify for sovereign tax status?

3.3 A foreign sovereign state will be eligible for sovereign tax status. A foreign sovereign state is a country recognised by the UK government.

3.4 Some states are federal, such as the United States of America or Switzerland. In federal systems, the individual territories that make up the federation are called in this document "constituent territories", using the language of the State Immunity Act 1978.

3.5 Under the UK's current practice, the federal state itself currently qualifies as a sovereign state for the purpose of sovereign immunity from direct tax. Whether a particular constituent territory is deemed to

be sovereign for the purposes of sovereign immunity from direct tax is currently considered on a case-by-case basis with reference to the circumstances of the territory in question.

3.6 Under the new sovereign tax status regime, all constituent territories of a federal state will be eligible for sovereign tax status. This will remove the need for the current case-by-case consideration, will be simple to apply, and easily understood by those affected. References in this document to a sovereign state should be taken to include each constituent territory of a federal sovereign state.

3.7 The government will not extend the scope of sovereign tax status to municipal authorities. Municipal authorities are authorities below the level of constituent territories.

3.8 There may be cases where there is genuine uncertainty as to whether a state is recognised or not, or whether a territory is a constituent territory of a federal state. If that is the case, a certificate from the Secretary of State of the Foreign, Commonwealth and Development Office (FCDO) can be sought to confirm its status. That process is prescribed by section 21 of the State Immunity Act 1978; the government is not seeking to alter that existing process.

Which persons or manifestations of sovereign states will be eligible for sovereign tax status?

3.9 The head of state, whether hereditary monarch or elected president, including the head of state of each constituent territory, where the constituent territory has such a role, will be able to qualify for sovereign tax status. Sovereign tax status will not apply if such persons are acting in a private or personal capacity. As with the determination of a sovereign state, if there is genuine uncertainty as to whether an individual is a head of state, a certificate can be sought from the Secretary of State of the FCDO to confirm that a person is a recognised head of state.

3.10 Members of a head of state's family forming part of their household, for example a spouse or minor children, will not be eligible for sovereign tax status.

When will heads of state be acting in a sovereign capacity?

3.11 The government appreciates the interest many individual heads of state have in how the new sovereign tax status regime will determine when a head of state is acting in a sovereign capacity or holding state assets. The government is keen to work with stakeholders to ensure that these definitions work appropriately, including considering the complexity of different approaches in different jurisdictions and the application of international law.

State-operated Overseas Pension Funds (SOPFs)

3.12 The government will introduce a new status, that of "State-operated Overseas Pension Fund". SOPFs will be eligible for sovereign

tax status and will be a specific sub-category of those with sovereign tax status.

3.13 Eligibility as a SOPF will be assessed using a standalone definition separate from the existing definition of "overseas pension scheme" (OPS) under Finance Act 2004. This will not depend on registration or recognition under the existing pensions tax regime. The government will allow SOPFs to continue to qualify as an OPS or a registered pension scheme (RPS), subject to them meeting the relevant conditions.

3.14 To qualify as a SOPF, the fund will need to be established outside the UK by or under an enactment of a foreign sovereign state or constituent territory of a federal state. Funds established by local authorities or municipalities will be excluded.

3.15 The fund will need to be established and operated exclusively or almost exclusively to administer or provide retirement benefits and ancillary or incidental benefits. Those benefits must be provided to individuals employed exclusively or almost exclusively in the provision of government, public or social services to the relevant state or constituent territory. The "almost exclusively" formulation is intended to allow for limited participation by non-public-sector employees without disqualifying the fund as a whole.

3.16 The definition of SOPFs will extend to funds for national insurance, social security funds, workers compensation funds where these are state mandated, and state pension funds for the general population.

3.17 The definition will include entities or arrangements established and operated exclusively or almost exclusively to invest funds for the benefit of a SOPF. This is intended to cover wholly owned subsidiaries, wholly owned pooled investment vehicles, and wholly owned special purpose vehicles used for commercial, regulatory or legal reasons. The definition will apply even where gains accrue at the level of such vehicles rather than directly to the pension fund.

3.18 Personal pension arrangements and non-public-service occupational pension schemes will be excluded.

3.19 SOPFs will benefit from an exemption from UK tax on chargeable gains not available to others with sovereign tax status.

How will sovereign non-natural persons be treated for UK tax purposes?

3.20 The government will treat foreign sovereign non-natural persons as non-UK resident companies chargeable to Corporation Tax on taxable UK source income.

How will sovereign natural persons be treated for UK tax purposes?

3.21 The government will charge foreign sovereign natural persons (i.e. human beings) Income Tax and Capital Gains Tax at standard rates on taxable UK source income. Should they wish, it is open to sovereign natural persons to structure their holdings of UK assets through corporate entities chargeable to Corporation Tax.

International organisations

3.22 The government will amend applicable legislation to maintain the existing tax exemptions for international organisations to ensure the UK remains compliant with its international obligations.

Crown immunity

3.23 Crown immunity is a well-established principle that the Crown is not bound by a statutory provision except by express words or necessary implication. The Crown has a direct constitutional role not only at "country level" in respect of members of the Commonwealth where the King is Head of State, but also in relation to each of Australia's six states and Canada's ten provinces.

3.24 This is reflected in the current practice ("Crown immunity for the Crown overseas") of granting Crown immunity from direct tax to each of those states and provinces, as well as to Canada and Australia at the federal level.

3.25 The government will legislate one clear, consistent set of rules which will replace the tax treatment of the Crown overseas with the new sovereign tax status. This will be in line with the government's commitment to a clear, transparent, and easy to administer tax system.

Questions on this chapter

Question 1. Are there types of sovereign entity or governmental organisation that the categories described in paragraph 3.2 do not clearly accommodate? Do the proposed conditions for SOPFs accommodate the principal structures used by public-service pension funds, social security funds, national insurance funds, and state pension funds? Please provide examples and explain their ownership, structures, governance and functions.

Question 2. Regarding sovereign tax status in respect of a separate entity where the sovereign owns 100% of the shares, what is the impact of the limit on the country of incorporation and residence to that of the sovereign's home country?

Question 3. How will these changes impact individuals with sovereign tax status, including the types of assets and income that may be brought into charge? Please provide examples of assets and income that may be brought into charge where possible.

Question 4. Are there situations where a single asset might have varying degrees of private and state use? Are there legal and cultural

considerations that the government should be aware of in designing a test of whether an asset is being used for state purposes? This is particularly relevant for the exemption from Inheritance Tax for state property (Chapter 4) and the transitional relief from Stamp Duty Land Tax (Chapter 6).

Chapter 4
Principal tax consequences

Background

4.1 This chapter provides more detail on the principal tax consequences for sovereigns moving from sovereigns' current immunity from direct tax to the new sovereign tax status regime.

How will those with sovereign tax status be taxed under the new regime?

4.2 Other than the areas where the government will provide specific treatment for those eligible for sovereign tax status (as set out below) following the modernisation, those eligible for sovereign tax status will be liable to UK tax in the same way as other non-resident investors. In particular, those eligible for sovereign tax status will be liable to UK tax on:

- income arising from UK land;
- chargeable gains on disposals of direct holdings of UK land and interests in certain UK property rich vehicles; and
- UK trading income.

4.3 See Chapter 5 for further details of how UK taxation will apply to PIDs from REITs in the context of the new sovereign tax status regime.

What specific exemptions will apply to those with sovereign tax status?

UK source interest

4.4 Those with sovereign tax status will be exempt from tax on UK source interest income. This will align the UK sovereign tax status regime with the approach taken by international peers.

4.5 Payments of UK source yearly interest to non-residents are generally subject to withholding tax representing the basic rate of Income Tax (savings basic rate from April 2027). Payers of UK source yearly interest to sovereigns will be relieved of their withholding tax obligation, on receipt of authorisation by HMRC.

UK source dividends

4.6 The UK generally does not levy tax on dividends paid by UK companies to non-resident investors. Those with sovereign tax status will continue to benefit from this treatment, in line with other non-resident investors.

Activities of UK sovereign investment offices

4.7 The government is aware that some sovereigns undertake significant investment management activities from UK offices, including in relation to their global investment portfolios. These offices contribute to the UK's investment management ecosystem. The government recognises the importance of maintaining the UK's attractiveness as a location from which international investors can manage global assets.

4.8 It is not the government's intention that sovereigns' investment returns in relation to assets located outside the UK be brought into the charge to UK tax simply because investment management functions are undertaken from the UK in relation to those assets. Where the investment returns are UK source and derived from UK assets, such as UK trading income and returns from UK real estate, these returns will be subject to UK tax under the new sovereign tax status regime.

4.9 UK investment management activities carried on by investment offices of sovereign tax status investors specifically for the purpose of managing, and for the benefit of, the investment portfolio of that investor will be exempt from Corporation Tax on profits that might otherwise be attributable to such activities. This exemption will apply equally to investment offices structured as UK branches or UK subsidiaries.

Question 5. With regard to the exemption for the activities of sovereign investment offices, does the approach set out in this chapter cover all relevant activity appropriately, or are there other cases (such as co-investment or management of investments for any third parties who are not themselves sovereign) that may require additional rules?

Chargeable gains - State-operated Overseas Pension Funds only

4.10 As set out in Chapter 3, SOPFs (including their controlled subsidiary structures – see para 3.17) will benefit from an exemption from UK tax on chargeable gains. This will align treatment of SOPFs with UK tax treatment of OPSs and RPSs.

Inheritance Tax

4.11 State property situated in the UK held by an individual with sovereign tax status will continue to be exempt from Inheritance Tax.

4.12 As is the current position, where personal private property situated in the UK is transferred by a foreign sovereign or head of state, it will be in scope of Inheritance Tax.

Chapter 5

Application of specific tax rules and regimes

Investment funds

5.1 The government recognises that sovereigns play a vital role in UK investment markets. As a result, the government will provide for those with sovereign tax status to be QIIs for the purposes of most fund tax regimes, including the rules applying to QAHCs, and LTAFs, as well as the non-resident capital gains tax rules for non-UK collective investment vehicles. This will enable sovereigns to continue to wholly own or control investment funds and benefit from advantages provided by those vehicles.

5.2 EUUTs are investment vehicles intended to be limited to investors who are exempt from tax on chargeable gains (other than because they are non-resident). The government therefore does not intend to make any changes to the definition of "eligible investors" in the EUUTs rules. As a result, those with sovereign tax status who are not exempt from UK tax on chargeable gains (that is, all other than SOPFs) will not be eligible investors for the purposes of the EUUTs regime.

Substantial shareholdings exemption (SSE)

5.3 The extension of the substantial shareholdings exemption in 2017 has enabled many sovereigns to invest their capital through UK platforms. This also involves investments alongside other QIIs and through limited partnership collective investment scheme funds. The government acknowledges that, without careful consideration, a change in status for sovereigns may affect the position of those vehicles, potentially impacting the tax treatment of other investors.

5.4 Those with sovereign tax status will remain QIIs for the purposes of QII SSE.

5.5 This is with the exception of disposals of interests in UK property rich vehicles, for which investors with sovereign tax status will not qualify for the SSE. This is consistent with the treatment of a direct disposal of UK real estate by those with sovereign tax status.

5.6 SOPFs will continue to benefit from QII SSE, including for disposals of interests in UK property rich vehicles.

5.7 Those with sovereign tax status will be entitled to rebasing of any assets newly brought within scope of UK chargeable gains to 1 January 2029 (see paragraph 6.3).

Investments in UK REITs

5.8 The government recognises the important role sovereign capital plays in the UK real estate market, often investing alongside other, non-sovereign investors. At the same time, the government wishes to ensure that the UK is able to effectively tax returns from UK real estate.

5.9 Reflecting this, the government will provide unique access for those qualifying for sovereign tax status to a REIT structure which will enable them to hold a controlling interest in a REIT through a UK company whilst still benefiting from the 15% tax rate on PIDs typically provided for non-resident investors in the UK's tax treaties.

5.10 The government will introduce two significant, linked changes to the REIT rules to deliver on these objectives.

5.11 First, the government will modify the REIT rules as follows to ensure they apply appropriately to sovereign REIT structures:

- **QII status**: Those with sovereign tax status will be treated as QIIs for the purposes of the REIT regime.
- **HoER rules**: Typically, the holders of excessive rights (HoER) rules may charge tax on a REIT where one person has an interest of 10% or more in that REIT. The HoER rules will be modified so that:
    - where a person with sovereign tax status has an interest of 10% or more in a REIT, the interests held by connected persons, including special purpose vehicles or holding companies through which the sovereign holds its REIT interest, will be aggregated; and
    - a person with sovereign tax status, or a connected person through which that person holds its REIT interest, will not be excluded (under the excluded holder rule) from the HoER charge.

5.12 **Sovereign REIT holding company**: Second, the government recognises that a HoER charge would make REIT investment less attractive for sovereigns and could negatively affect co-investors. It will therefore introduce an optional UK-resident REIT holding company regime for those with sovereign tax status. This will be known as a "sovereign REIT holding company". Where a sovereign chooses to hold a substantial interest in a REIT through such a company, the REIT would not be subject to a HoER charge on distributions to that company because the sovereign REIT holding company would be an excluded holder.

5.13 A sovereign REIT holding company will be required to be UK tax resident, wholly owned by a person with sovereign tax status, used only to invest in one or more REITs, and notified to HMRC. Its permitted income will be limited to PIDs and non-PIDs from REITs, together with gains or losses on disposals of interests in REITs.

5.14 The sovereign REIT holding company will be subject to bespoke Corporation Tax rules so that it is taxed at 15% on the gross amount of PIDs received from REITs with no deductions allowed. Other amounts, including non-PID REIT distributions and gains on disposals of REIT shares, will remain subject to the normal Corporation Tax rules. Distributions from the sovereign REIT holding company to the sovereign will be treated in the same way as distributions from other UK companies.

5.15 The effect of this approach is that a person with sovereign tax status will be able to control or wholly own a UK REIT. Where that person holds an aggregated interest of 10% or more in a REIT, either the REIT would be subject to the modified HoER rules or the person with sovereign tax status could choose to hold that interest through a qualifying UK-resident sovereign REIT holding company that is taxed at 15% on PIDs.

5.16 The government will continue to work with stakeholders to develop the detailed design of these rules before legislating, including considering how the rules for the new sovereign REIT holding company will apply in practice.

Questions on this chapter

Question 6. How will these two changes affect existing REIT structures?

Chapter 6

Commencement and transition

Background

6.1 The government acknowledges the changes associated with this modernisation, and the need for those affected to have time to prepare, including restructuring their existing holdings where necessary.

Commencement

6.2 The sovereign tax status regime will apply from 1 January 2029. Prior to 1 January 2029, sovereigns' current immunity from direct tax will continue to apply.

Transitional provisions

Chargeable gains rebasing

6.3 All assets held by those with sovereign tax status brought newly within the charge to UK tax on chargeable gains will benefit from rebasing to their market value on 1 January 2029. For UK property rich vehicles, the government will mirror the approach taken when non-residents were first brought into UK tax on chargeable gains on disposals of UK land.

Time-limited SDLT relief

6.4 The government is aware that in order to benefit from sovereign immunity from direct tax, many sovereigns currently hold UK real estate assets in such a way as to ensure that the income and gains arising from those assets accrue directly to them. To the extent those assets are eligible for the new regime, and where those sovereigns may be newly liable to UK tax on income and gains arising from those real estate assets, the government wants to allow them to restructure to benefit from the tailored benefits available to sovereigns under the sovereign tax status regime, including the REIT structure discussed at Chapter 5. In England and Northern Ireland, in many cases, such restructuring would result in an SDLT charge based on the market value of the property transacted.

6.5 The government has considered the need for a transitional relief from SDLT to aid restructuring for sovereigns and will legislate for a time-limited SDLT relief. The relief will apply from 2028 to give sovereigns sufficient time to restructure their real estate holdings ahead of the sovereign tax status regime commencing from 1 January 2029. The relief will continue until at least 31 December 2030. Officials

will engage with stakeholders to understand when restructuring will take place in order to determine the exact commencement and cessation dates appropriate to the needs of the sector.

6.6 The relief will:

- apply to residential and commercial real estate assets;
- apply to real estate held directly or indirectly by sovereigns, including where the sovereign only holds a partial share of the real estate; and
- apply to acquisitions by qualifying companies and collective investment vehicles held directly or indirectly by those qualifying for sovereign tax status. This will include UK REITs to allow those with sovereign tax status to benefit from the REIT structure described in Chapter 5. Officials will engage with stakeholders to understand the types of holding structure currently used by sovereigns, and which they plan to use, to determine which acquisition entities will qualify for relief.

6.7 Acquisitions of property made with relief will be subject to a clawback of that relief if the purchasing entity is subject to a change of control post-transaction. This is to ensure that the relief cannot be used to envelop the property followed by a sale of the holding entity shortly thereafter without SDLT being incurred. The government proposes to claw back relief within three years from the date of the transaction for which relief is claimed, similar to the clawback rules which already apply for claims to SDLT group relief.

6.8 As SDLT is only charged on acquisitions of land and property in England and Northern Ireland, relief will only apply to property assets located in those regions. Property located in Scotland and Wales is liable to Land and Buildings Transaction Tax in Scotland, and Land Transaction Tax in Wales, and any changes to those taxes are a matter for the Scottish and Welsh governments respectively.

Corporate debt and derivatives – anti-avoidance provisions on transition

6.9 The government recognises that, as part of reorganisation of existing structures that were established at a time when sovereigns were generally exempt from UK direct tax, sovereigns may seek to hold UK property through corporate vehicles funded by an appropriate level of shareholder debt or other financing.

6.10 The government will provide that certain financing arrangements entered into as part of a commercial restructuring triggered by the introduction of the sovereign tax status regime are treated in accordance with dedicated statutory rules. These transitional provisions will introduce targeted relief from the application of the UK's debt and derivatives anti-avoidance rules in relation to the restructuring of existing UK real estate holdings by those qualifying for sovereign tax status. These anti-avoidance rules will apply to post-

restructuring sovereign structures in the same way as they apply to other non-resident investors, including in respect of any restructuring undertaken after the transitional period. These transitional provisions will provide certainty for taxpayers undertaking commercial restructuring while ensuring that the transition cannot be used to generate inappropriate tax advantages.

Derivatives – imported losses on transition

6.11 The government intends to include provision to protect against losses on derivatives referable to pre-commencement periods being brought into account after commencement. This is expected to be designed in a similar way to the rule that targets imported losses in respect of loan relationships.

Pre-trading expenditure

6.12 The government will allow pre-trading characteristics acquired by sovereigns directly under the existing sovereign immunity from direct tax regime to be transferred to any new entity created as part of restructuring following introduction of the new regime in a similar way to on incorporation.

Questions on this chapter

Question 7. We expect the most common structure that sovereigns will use to restructure existing UK real estate holdings as a result of the introduction of the sovereign tax status regime will be a corporate holding company or a REIT structure. Are there any other types of structures that sovereign investors are anticipated to use? How will these structures likely be financed?

Question 8. What would be the expected stages and timescales for completing those restructurings?

Question 9. Do you have any comments on the proposed approach to financing arrangements and the corporate debt and derivatives anti-avoidance provisions during the transitional period following introduction of the sovereign tax status regime? Do you have any comments in relation to the proposed approach to imported derivatives losses on transition?

Chapter 7
Administration

Background

7.1 This chapter sets out the approach the government will take to the administration of the sovereign tax status regime, and the compliance obligations of sovereigns under that regime.

7.2 The government is committed to ensuring that the new regime is clear, predictable and proportionate. In designing these arrangements, the government has sought to balance the need for effective administration and compliance with the importance of providing certainty to sovereigns and minimising unnecessary administrative burdens.

7.3 The government will, wherever possible, build on existing tax administration processes and frameworks rather than creating entirely new systems.

Application for sovereign tax status

7.4 Sovereign tax status will be accessed through a formal application process administered by HMRC.

7.5 The government considers that an application process is appropriate given the value of the exemptions available under the regime and the need to provide certainty regarding eligibility. A formal process will also assist sovereigns in demonstrating their status to withholding agents and other parties where relevant.

7.6 The government intends that applications may be submitted before the commencement of the new regime. HMRC expects to begin accepting applications no later than six months before the new rules take effect.

7.7 The government will seek to ensure that the application process is straightforward and proportionate. Applicants will generally be required to provide sufficient evidence of the following to demonstrate that they are eligible for sovereign tax status:

- the basis on which eligibility is claimed;
- where relevant, the relationship between the applicant and the relevant sovereign state; and
- such additional information as HMRC reasonably requires to determine eligibility.

7.8 The government will work with sovereigns to ensure that the information sovereigns are required to provide is proportionate, and to minimise - to the extent possible - the need for sovereigns to provide sensitive information. Any sensitive information provided by sovereigns will be handled as set out under “Confidentiality and security” below.

7.9 The government does not intend to require annual reapplication. However, taxpayers with sovereign tax status may be required periodically to confirm that the facts and circumstances relevant to their eligibility have not materially changed.

7.10 Applicants will also be required to provide additional information where they hold interests in UK REITs as part of the application process.

Existing sovereign investors

7.11 The government recognises that many sovereigns currently benefit from sovereign immunity from direct tax.

7.12 While existing sovereigns will be required to apply for sovereign tax status under the new statutory framework, the government intends to work with stakeholders to ensure that this transition is as streamlined as possible and to minimise duplication of information already provided to HMRC.

Payment and collection of tax

7.13 Sovereigns that become liable to UK tax under the sovereign tax status regime will generally be required to account for tax in accordance with ordinary UK tax rules.

7.14 The government recognises that some sovereigns may become UK taxpayers for the first time. To support transition to the new regime, taxpayers with sovereign tax status will not be required to enter the quarterly instalment payments regime for Corporation Tax during their first accounting period following commencement.

Interest payments

7.15 Taxpayers eligible for sovereign tax status will be exempt from UK tax on UK source interest income.

7.16 HMRC will provide a mechanism to enable those that have obtained sovereign tax status to receive qualifying yearly interest payments gross where appropriate. Further information concerning administrative procedures will be published before commencement of the new regime.

7.17 The government does not currently intend to extend the Double Tax Treaty Passport Scheme to those with sovereign tax status.

Property income and the Non-Resident Landlord Scheme

7.18 Following commencement of the sovereign tax status regime, income from UK real estate received by those with sovereign tax status will be within the charge to UK tax.

7.19 As a consequence, sovereigns receiving UK property income may fall within the scope of the Non-Resident Landlord Scheme in the same way as other non-resident investors receiving income from UK real estate.

7.20 Where appropriate, sovereigns will be able to apply to receive rental income gross and account for their liabilities directly through the relevant UK tax return process.

7.21 The government will consider what transitional arrangements may be required for sovereigns currently receiving rental income gross under the existing approach to sovereign immunity from direct tax.

Compliance and customer support

7.22 HMRC will administer sovereign tax status using existing risk-based compliance approaches.

7.23 The government does not propose to establish a separate compliance regime for those with sovereign tax status. Instead, sovereigns will generally be subject to the same compliance obligations as other taxpayers with comparable activities and risk profiles.

Confidentiality and security

7.24 The government recognises the importance of protecting sensitive information provided by sovereigns.

7.25 HMRC will continue to apply its statutory confidentiality obligations to information obtained under the sovereign tax status regime.

7.26 In addition, the government intends that information relating to sovereign natural persons who are required to engage with the UK tax system will continue to be subject to enhanced security handling arrangements within HMRC.

Jurisdictional immunity

7.27 The government will legislate to remove jurisdictional immunity in respect of tax liabilities to which those with sovereign tax status are liable. This will ensure that HMRC and the courts and tribunals of the UK have the jurisdiction necessary to determine disputes and enforce liabilities arising under the sovereign tax status regime.

Annex A
List of questions

A.1 **Question 1.** Are there types of sovereign entity or governmental organisation that the categories described in paragraph 3.2 do not clearly accommodate? Do the proposed conditions for SOPFs accommodate the principal structures used by public-service pension funds, social security funds, national insurance funds, and state pension funds? Please provide examples and explain their ownership, structures, governance and functions.

A.2 **Question 2.** Regarding sovereign tax status in respect of a separate entity where the sovereign owns 100% of the shares, what is the impact of the limit on the country of incorporation and residence to that of the sovereign's home country?

A.3 **Question 3.** How will these changes impact individuals with sovereign tax status, including the types of assets and income that may be brought into charge? Please provide examples of assets and income that may be brought into charge where possible.

A.4 **Question 4.** Are there situations where a single asset might have varying degrees of private and state use? Are there legal and cultural considerations that the government should be aware of in designing a test of whether an asset is being used for state purposes? This is particularly relevant for the exemption from Inheritance Tax for state property (Chapter 4) and the transitional relief from Stamp Duty Land Tax (Chapter 6).

A.5 **Question 5.** With regard to the exemption for the activities of sovereign investment offices, does the approach set out in this chapter cover all relevant activity appropriately, or are there other cases (such as co-investment or management of investments for any third parties who are not themselves sovereign) that may require additional rules?

A.6 **Question 6.** How will these two changes affect existing REIT structures?

A.7 **Question 7.** We expect the most common structure that sovereigns will use to restructure existing UK real estate holdings as a result of the introduction of the sovereign tax status regime will be a corporate holding company or a REIT structure. Are there any other types of structures that sovereign investors are anticipated to use? How will these structures likely be financed?

A.8 **Question 8.** What would be the expected stages and timescales for completing those restructurings?

A.9 **Question 9.** Do you have any comments on the proposed approach to financing arrangements and the corporate debt and derivatives anti-avoidance provisions during the transitional period following introduction of the sovereign tax status regime? Do you have any comments in relation to the proposed approach to imported derivatives losses on transition?

Annex B

Consultation privacy notice

Introduction

B.1 This Privacy Notice should be read alongside HM Treasury's (HMT's) Personal Information Charter. The Charter sets out:

- the standards you can expect from HMT when we use your personal information;
- the contact details for our Data Protection Officer;
- how to exercise your Data Protection Information Rights (including access);
- how to exercise your right to complain to the Information Commissioner's Office.

https://www.gov.uk/government/organisations/hm-treasury/about/personal-information-charter

B.2 This Privacy Notice supplements the Personal Information Charter and outlines additional information in relation to Consultation and Calls for Evidence responses from all interested parties and stakeholders.

B.3 This Privacy Notice should be read in conjunction with the relevant consultation guidance, as the consultation documentation will provide additional information about how consultation responses will be used. Where this Notice and the consultation documentation differ, the latter will take precedence.

Data Controller

B.4 A data controller makes decisions about processing activities. They exercise overall control of the personal data being processed and are ultimately in charge of and responsible for the processing.

B.5 The data controller for this processing activity is HMT, unless otherwise stated. We sometimes issue consultations in partnership with other agencies and government departments, which will be apparent in the branding and wording of any joint consultations.

Data Processors

B.6 A data processor is an organisation or company that handles personal information on our behalf, following our instructions. Data

processors do not use your information for their own purposes; they only process it as directed by us.

B.7 The following organisations are directed to process your personal information on our behalf:

Processor Name	Function
Microsoft	Provision of enterprise IT services including email, document storage, collaboration tools, and infrastructure support

Who we process personal data about

B.8 The table below outlines the categories of individuals whose personal data we will process in this activity, alongside the types of personal data we will use.

Category of Individual	Types of Personal Data
Members of the public Representatives of businesses or organisations	Name Postal address Email address Telephone number Job title and employer (where an individual is making representations on behalf of an organisation) Personal opinion

B.9 Respondents are asked not to include information that identifies them or others unless it is necessary for their representation. We recommend that you do not include personally identifiable information in free-text fields. We do not ask respondents to provide special category data or criminal offence data for this activity. If you volunteer such information in a free-text response, HMT may process it only to the extent necessary to consider your representation.

- Special categories of personal data may include:
- Data about racial or ethnic origin
- Political opinions

- Religious or philosophical beliefs
- Trade union membership

Source of Your Personal Data

Personal data of the individuals listed above will be collected in the following ways:

Directly - from Respondents (you)

Indirectly - from other agency and government department-led consultations, where HMT has policy interest

Purpose and Lawful Basis

B.10 We will process your personal data for the following purposes and using the specified lawful bases:

Purpose	Lawful Basis	Further Information
Obtaining opinions about government policies, proposals, or an issue of public interest.	Article 6(1)(e) of the UK GDPR – Public task Article 9(2)(g) of the UK GDPR – Substantial public interest Schedule 1, Part 2, Paragraph 6(2)(b) of the Data Protection Act – necessary in the exercise of a government department.	To help HMT understand who has responded to this consultation and, in some cases, contact respondents to discuss their response.

Who we share your personal data with

B.11 We will share your personal data with the following types of recipients:

- HMT staff and Ministers - who have a business need to access the data as part of the consultation process
- Other government departments – who have policy functions relevant to the consultation topic. Sharing in this context will

ordinarily be anonymised unless information about the respondent is necessary to inform policy.

- HMT will share consultation responses and analysis (which may include personal data) with HM Revenue and Customs (HMRC) for feedback purposes.
- Please be aware that if we receive correspondence or communication which we consider threatening in nature or suggests a possible risk to you or a third party, we may share this correspondence (along with your personal data) with relevant law enforcement / safeguarding authorities.

International Transfers

B.12 Your personal data will not be transferred to an international recipient during this activity.

How long we hold your personal data

B.13 We will retain your personal data only for as long as necessary to fulfil the purposes for which it was collected.

B.14 For consultations and calls for evidence, personal data will typically be held for the duration of the consultation and review period.

Automated Decision-Making and Profiling

B.15 Although an HMT-owned AI tool may be used to support search, analysis, and summarisation of responses, this activity does not involve automated decision-making or profiling. AI is used to assist staff and does not replace human judgement or make automated decisions. Decisions that may affect you will not be made solely by automated means, and the AI tool will not be used to evaluate or predict your behaviour, preferences or interests. Reasonable efforts will be made to remove personal data (such as email addresses and telephone numbers) before analysis takes place.

HM Treasury
October 2026

Annex C
Glossary of terms

Acronym	Full term
EUUT	Exempt Unauthorised Unit Trust
HoER	Holders of excessive rights rules
LTAF	Long-Term Asset Fund
OPS	Overseas pension scheme
PID	Property income distribution
QAHC	Qualifying Asset Holding Company
QII	Qualifying institutional investor
REIT	Real Estate Investment Trust
RPS	Registered pension scheme
SDLT	Stamp Duty Land Tax
SOPF	State-operated Overseas Pension Fund
SSE	Substantial shareholdings exemption

HM Treasury contacts

This document can be downloaded from www.gov.uk

If you require this information in an alternative format or have general enquiries about HM Treasury and its work, contact:

Correspondence Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 5000

Email: public.enquiries@hmtreasury.gov.uk