Investment Management Association

ima

13 February 2014

Rt. Hon. George Osborne MP
Chancellor of the Exchequer
Her Majesty's Treasury
1 Horseguards Road
London SW1A 2HQ

Dear Chancellor

REPRESENTATIONS FOR BUDGET REPORT 2014

The UK Investment Management Strategy, which you launched in Budget 2013, has already brought about significant improvements to the competitiveness of UK funds and the attractiveness of the UK as a place to do business in investment management.

Over the last year, the Investment Management Association[1] has worked closely with government departments and agencies as a member of both the Asset Management Steering Committee and the Fund Management Campaign Team, under the auspices of the Financial Services Trade & Investment Board. We are grateful for the Government's significant commitment and for the energy and urgency shown by your officials, which has already brought about:

- improvements in the tax rules impacting UK funds and UK managers of funds;
- the launch of the UK's authorised contractual scheme (ACS) regime;
- shortened fund authorisation times and a clearer, but still rigorous, approval process; and
- a sustainable marketing plan for the UK's investment management industry and welcoming service for incoming firms.

The progress represented by these steps is outstanding, and significantly enhances the UK's competitive position.

As we discussed last year, this is just a first step on the road to making the UK the fund domicile of choice for UK and European fund managers. The location of fund ranges is a strategic decision that fund managers make over many years. Belief in a continued commitment is necessary in order to maintain the UK's competitive position as a fund domicile and to encourage firms to locate more of their operations in the UK. In this regard it would therefore be positive if the Government were to consider:

[1] IMA represents the asset management industry operating in the UK. Our Members include independent investment managers, the investment arms of retail banks, life insurers and investment banks, and the managers of occupational pension schemes. They are responsible for the management of over £4.5 trillion of assets, which are invested on behalf of clients globally. These include authorised investment funds, institutional funds (e.g. pensions and life funds), private client accounts and a wide range of pooled investment vehicles.

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1. Introduction of SDLT relief for seeding property funds

The UK's Property Authorised Investment Fund (PAIF) and ACS are excellent vehicles for pooling investment into UK property. However, the launch of UK property funds is being prevented because Stamp Duty Land Tax (SDLT) applies when property is seeded into new funds.

We understand that a number of UK life companies and managers of offshore funds have an interest in converting existing UK property holding into a PAIF or an ACS. A targeted SDLT seeding relief will enhance the effectiveness of and the ease of converting/re-domiciling funds, with benefits to investors that all types of income will be taxed correctly and benefits to UK plc of funds domiciling here.

2. Improvements to the QIS rules to create a viable alternative investment fund (AIF) structure for institutional investors

Improvements are needed to the UK's authorised professional fund regime (Qualifying Investor Scheme - "QIS") to make the UK even more attractive as an export domicile for AIFs as well as facilitating investment pooling vehicles, for example pension funds. In addition, this would lay a further paving stone in the UK's preparation for the introduction of European Long-Term Investment Funds ("ELTIFs") and boost the attractiveness of the ACS regime.

Specifically, we call for the introduction of an onshore "reporting fund" regime and the removal of any FCA rules for QIS that are super-equivalent to those required by the AIFMD.

3. Building on the unique strength in the UK's network of Double Tax Treaties

A key factor for encouraging the use of UK funds over offshore equivalents is the benefits that UK funds provide to their investors through the UK's network of double tax treaties.

Unfortunately, in recent years, treaty partner tax administrations have regularly put up obstacles to UK funds obtaining the treaty benefits to which they are entitled. These obstacles could be avoided by adopting the OECD's proposals on Treaty Relief and Compliance Enhancement – TRACE – which provides a framework for the simple administration of treaty benefits.

We have been strong supporters of the UK's lead role in discussions at the OECD on Automatic Exchange of Information (AEOI), which builds on the OECD's previous work on the TRACE project and incorporates many elements relevant to TRACE. The implementation of AEOI presents an urgent and unique opportunity for governments also to adopt TRACE and thereby address the difficulties for investors in funds in obtaining treaty benefits.

We believe that transparency of taxpayer information should serve not only governments' aim of combating tax evasion, but also the interests of savers and investors to be able to access the treaty benefits to which they are entitled.

We are working through the Business and Industry Advisory Committee of the OECD to look to ways to incorporate TRACE into its current framework for a Common Reporting Standard for AEOI. We urge the Government to support the adoption of TRACE as the mechanism through which the treaty benefits of funds and their investors can be secured.

Finally, the IMA is keen to ensure that the UK's long-term pensions and savings regime remains attractive for individuals to invest for their financial futures. With fiscal pressure intensifying, we note the debate as to whether more radical reform to the pensions tax regime is needed. We would urge the Government not to act in haste in making further changes, but to consider carefully how the regime can achieve the aim of encouraging greater long-term savings in a way that is consistent and durable. If tax relief and/or incentives in the form of the tax-free lump sum become a short-term revenue target, there is a danger of significant further damage to confidence and stability.

Much attention over the past twelve months has been on pensions and this is understandable in the context of the automatic enrolment initiative, strongly supported by the IMA. However, there is also an opportunity to build on the very strong brand that the Individual Savings Account (ISA) has acquired. Stocks & Shares ISAs already benefit from significant tax incentives and act as a powerful channel for capital investment in the economy. However, these incentives could be made even more compelling and the economic benefits even greater if remaining tax liabilities were to be removed. The use of the more accessible and flexible ISA alongside less flexible pension savings should become a core part of household financial planning over the lifecycle. The IMA will be discussing specific proposals with your officials.

Daniel Godfrey

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