Singapore-on-Thames is coming: welcome to post-Brexit B...

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The government issued a [response] to its consultation on permitting the creation of Asset Holding Companies in the UK yesterday. In the summary it said:

At Budget 2020, the government announced a consultation on the tax treatment of asset holding companies in alternative fund structures.

Three important themes arose from the consultation responses.

First, respondents suggested that the scale of the UK's asset management sector, its good infrastructure and skilled workforce would make this a competitive location for asset holding companies (AHCs) if barriers in the UK tax system could be addressed.

Second, respondents said that the establishment of AHCs in the UK could bring economic and fiscal benefits, primarily by bolstering the asset management sector and creating additional jobs in associated service sectors.

Third, respondents set out areas where the UK tax rules currently create barriers to the establishment of AHCs. Many agreed with the suggestion that the government address these barriers through a new regime for AHCs. Respondents also proposed changes to the UK's existing Real Estate Investment Trust (REIT) regime, to better allow UK REITs to serve as AHCs for investment in real estate.

The government has carefully considered the responses and believes that there is both a clear policy justification and a strong economic and fiscal case for reform in this area.

As the consultant noted:

Asset Holding Companies (AHCs) are companies used as intermediate entities in investment fund structures. Their role is to facilitate the flow of capital, income and gains between investors and underlying investments.

The government understands that, despite the wider strengths of the UK as a financial services hub and despite the commercial benefits identified by industry to locating *these entities alongside UK fund management activities, there are barriers in the tax system to the establishment of AHCs in the UK.*

The consultation looked to improve the government's understanding of AHCs, the fund structures in which they are commonly used, the commercial drivers for their location and the fiscal and economic benefits that they bring to the jurisdiction in which they are located.

It also explored the barriers that the UK tax system might be creating for the establishment of AHCs in the UK, the merits of taking steps to remove these barriers and the different options to do so.

Let me summarise this as succinctly as I can, and without becoming too technical.

What an AHC does is facilitate tax haven activity.

They encourage the flow of funds through a jurisdiction with little or no tax being paid.

They do, as a result, hire out the benefits of a legal system to those with wealth who would rather not pay for the benefits that they secure from living in a society whose existence they would rather deny.

They fuel inequality.

They encourage a race to the bottom in corporate taxation.

They promote financialisation - that is, the extraction of value from society without adding any value to it.

They undermine the accountability of capital.

They result in the misallocation of capital by permitting the overstatement of the return to financial engineering, so undermining the return to human endeavour.

They are, therefore, an inherent abuse within a market system that is bound to reduce the overall availability of capital for productive purposes.

They can, then, only be promoted by anti-capitalists whose aim it is to undermine the effective operation of market mechanisms.

Apart from all that, they have everything going for them.

Welcome then to post-Brexit Singapore-on-Thames, where only the wealthy matter. This is the UK's brave new world.