

## **Extract from Hansard - Finance (No.2) Bill Committee debate Tuesday 21 May 2024**

Clause 20

Collective investment schemes: co-ownership schemes

*Question proposed*, That the clause stand part of the Bill.

### **The Exchequer Secretary to the Treasury**

(Gareth Davies)

It is a great pleasure, as always, to see you in the Chair, Mrs Latham. Clause 20 begins the process of introducing legislation for a new type of investment fund—the reserved investor fund, which I will refer to from now on as the RIF. At Budget 2020, the Government announced a review of the UK’s funds regime, covering tax and relevant areas of regulation. The review had an overarching objective to make the UK a more attractive location to set up, manage and administer funds, as well as ensuring that UK investors can access a wide enough range of investment vehicles to suit their needs. In the years since, the Government have made a number of successful reforms. In order to build on these successes, the Government announced at spring Budget 2024 that we would be proceeding with the RIF.

The RIF will fill a gap in the UK’s existing fund offering by creating an onshore alternative to existing non-UK fund vehicles that are commonly used to hold UK real estate. Clause 20 provides a definition of the RIF and provides a power for the Treasury to make detailed tax rules through secondary legislation, consistent with the approach taken when introducing tax rules for other investment funds. A later statutory instrument will set out detailed tax rules for the RIF. The regulations will set out supplementary qualifying conditions for a RIF, entry and exit provisions, and rules that deal with breaches of one or more qualifying conditions.

The UK has a world-leading asset management sector. The RIF will play an important role in supporting that leadership by making the UK a more competitive destination for our fund management industry. Indeed, stakeholders from the financial services industry have already shown considerable support for the RIF. I therefore commend the clause to the Committee.

### **Tulip Siddiq**

(Hampstead and Kilburn) (Lab)

It is a pleasure to serve on this Committee under your chairmanship, Mrs Latham. I am pleased to respond to clauses 20 to 24 on behalf of the Opposition. Clause 20, as the Minister set out, introduces the necessary powers to set the scope and design of the tax regime and rules for the RIF. Labour welcomes the introduction of the RIF, as it will add to the investment products available here in the UK, particularly for the UK commercial real estate sector. However, the trade bodies representing investment managers and real estate fund managers, the Investment Association and the Association of Real Estate Funds, have raised some concerns that I would like to put to the Minister.

There was a widely held expectation across the sector that RIF would broadly mirror the conditions of the existing authorised contractual schemes, or ACSs, but offer less regulatory supervision, freeing the RIF to become a more flexible investment vehicle for a range of more experienced investors. Due, however, to the Government’s decision to categorise the RIF as an alternative investment fund instead of a special investment fund, the RIF and the ACS will now differ in two key aspects. First, the supply of fund management services will be standard-rated at 20% as opposed to being VAT-exempt, and secondly, an alternative investment fund comes with a requirement to raise capital from a number of investors with a view to investing it in accordance with the defined investment policy for the benefit of those investors. That makes sense for large-scale, open-ended funds with an ongoing investment strategy, but it clearly is not designed for

funds that do not have a specified investment objective, such as funds of one, joint ventures, co-investment vehicles and acquisition vehicles, which instead were created for a particular purpose such as repackaging and selling existing assets to new markets. Since they do not exist to raise additional capital, the requirements associated with alternative investment funds risk being an unnecessary burden and disproportionate when applied to the RIF.

The Investment Association and the Association of Real Estate Funds have warned that the restrictions on the RIF will damage the competitiveness of the UK as a location to domicile funds. In Ireland and Luxembourg, for example, which are leading jurisdictions for these

types of products, funds are VAT zero-rated. Although the UK will not easily be able to offer RIFs without capital-raising investment, the Irish qualifying investor alternative investment fund and Luxembourg's reserved alternative investment fund have, in contrast, proven to be highly competitive products for these types of vehicles because of their cost efficiency and the market's familiarity with those models. Will the Minister set out why the Government decided to classify the RIF as an alternative investment fund as opposed to a special investment fund? Will he state whether he expects the alternative investment fund requirement to be amended further down the line?

### **Gareth Davies**

I am always grateful to see the hon. Member for Hampstead and Kilburn in her place in opposition in these forums, and I appreciate her comments. I will first set out the background to the establishment of the RIF, which was based on significant consultation with industry to fill a specific gap for an unauthorised, contractual-based vehicle. As such, it was based on specific feedback from the industry. The hon. Lady asked a very reasonable question about classification of the fund, and I can tell her that that was considered to be part of the consultation, but in the end we decided to proceed with the structure that we have gone with in the legislation. However, we will of course keep that under review and continue to engage with stakeholders, and we will issue a report on the progress of the RIF in due course. Although we have not established it in the way that some may have wished us to, it is based on consultation and will be reviewed in due course.

### **Tulip Siddiq**

I thank the Minister for his response. He said that he considered the options and decided to proceed with it as an alternative investment fund, but he did not actually set out the reasons why. Was there any reason why he decided that it made more sense to do that as opposed to a special investment fund, especially in line with the international comparisons that I gave?

### **Gareth Davies**

This is designed specifically to fill a gap that was previously or currently filled by things such as Jersey property investment trusts. Where there are unauthorised, contractual-based schemes, we do not currently have a vehicle that fills that gap. What we are introducing with the RIF fills that gap and satisfies a vast amount of stakeholders who fed into the consultation, and we are proceeding with that today.

*Question put and agreed to.*

*Clause 20 accordingly ordered to stand part of the Bill.*