

UK launches consultation to upgrade Sovereign Investor tax-treatment

- UK government launches consultation to modernise and improve its tax-treatment of foreign sovereign investors
- consultation proposes reforms from April 2024 that would clarify the rules and ensure they deliver better value for money for UK taxpayers
- the government does not expect the proposals to have a material impact on foreign investment into the UK

The consultation, which runs from 4 July to 12 September, will look to provide more clarity to investors by putting the UK sovereign investment tax regime into statute law.

To ensure the UK's regime delivers the best value for money for UK taxpayers, the consultation also looks to improve the targeting of exemptions that are available to sovereign investors, bringing the UK into line with other major economies such as US and Germany.

The government does not expect the proposals to have a material impact on foreign investment into the UK.

Financial Secretary to the Treasury Lucy Frazer MP said:

“As the world continues to evolve, we are committed to ensuring the UK keeps pace and remains a competitive, attractive place for foreign investors.

“Our reforms will provide more clarity on the tax exemptions on offer to sovereign investors, while also ensuring they deliver better value for money for UK taxpayers.”

Investors want a safe environment for their long-term investments. The UK provides this – it maintains a strong rule of law, safe regulation and stable market conditions to bring in investment and ensure competitiveness on the global stage.

As with many other countries, such as the US, France, and Australia, the UK provides exemptions from some taxes, such as corporation tax and income tax, to sovereign investors, reflecting their unique status as government-backed institutional investors.

These exemptions, however, are not codified into UK law, but are based on case law and common practice. The UK government is therefore looking to codify its regime into statute law to make the UK system more predictable and certain for foreign sovereign investors.

Reforms will look at what types of income are exempt of tax to ensure they are more targeted towards income that relates to investment rather than trading activities, and income that is more passive in nature. It will also ensure the UK's tax exemptions remain as competitive as those of comparable

countries.

The proposed changes demonstrate the government's wider ambitions for a tax system that is fair, modern, certain, and supportive of the UK's objective to be a world-leading investment destination for the future.

This includes the Chancellor's commitment to reform and cut taxes on investment in the autumn, which the government is currently working with industry on how best to do.

The government does not expect the proposals in the consultation, which would apply from April 2024, to negatively impact overall investment. This is because they are narrow changes that are not expected to undermine overall investment into the UK.

Further information

Currently, foreign sovereign persons – including heads of state, monarchs, and sovereign wealth funds (SWFs) – are exempt from direct taxation on all their UK income. The consultation published today sets out the government proposal to legislate and narrow this exemption.

[Read the consultation](#)