Tax Neutrality

Tax neutrality is the concept that the structure of a fund does not lead to a duplicative layer of taxes borne by investors. In particular, the jurisdiction where it is established should not impose taxes on its income and capital gains. This does not mean that investors in tax neutral funds registered in offshore jurisdictions do not pay taxes, but only that the tax treatment does not influence investors' choice between investing directly or through a fund in the same underlying investment.

Key principles

Tax neutrality in the jurisdiction where the fund is established - whether onshore or offshore - ensures that duplication of taxation does not occur, preserving so far as possible the attributes that an investor would have if investing directly in the underlying assets rather than through an alternative fund

Investors such as pension funds, sovereign wealth funds, not for-profit organisations, charities and other similar entities (often called "sophisticated investors") can make investments directly or invest via a collective investment scheme - a fund that pools monies from a number of investors and then manages those monies on their behalf.

In the vast majority of jurisdictions, funds that are established there have statutory tax exemptions. In the UK, this is limited to regulated funds which are not able to pursue many alternative investment strategies.

Transparency / Offshore jurisdictions

The topic that has generated most controversy is whether onshore economies (such as the UK or the US) lose tax revenues through investors placing their monies in offshore funds. That assertion is incorrect as the investors remain liable to tax in their own jurisdictions. Since there are a number of tax transparency initiatives including automatic exchange of information, tax authorities will hold the information required to ensure that investors who are taxpayers pay the correct taxes on their investment returns.

Offshore jurisdictions are usually preferred to establish an alternative investment fund because:

- Offshore jurisdictions are compliant with **regulatory standards** (e.g. AML/KYC) and are cooperative and transparent in tax matters, including **exchange of information**;
- Funds can be set up as a **company or a partnership** without any additional layer of tax;
- Funds structures are available which are able to accommodate investors in a **cost efficient** way;
- They have an experienced **financial services sector** and professional **service providers**;
- They have an **English-based legal system**, established judiciary, and absence of political or sovereign concerns; and
- They encourage **good corporate governance** for funds, including the extensive use of independent directors and administrators.

AIMA efforts

In the current environment of enhanced scrutiny of tax transparency, AIMA is committed to ensure that misconceptions are countered and that continuing international tax reform does not lead to double taxation and the imposition of restrictions on legitimate arrangements

Where can I find more information?

On the AIMA website you will find:

- **Transparent, Sophisticated, Tax Neutral: The truth about offshore funds (2017)**

Please contact AIMA's tax team for more detail on any aspect of the new rules.