



UK Budget 2023 – Sovereign Wealth Funds Not Subject to Corporation Tax



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As part of the Spring 2023 Budget, Chancellor Jeremy Hunt has scrapped plans to require sovereign wealth funds to pay corporation tax on property and commercial enterprises.

The United Kingdom (“UK”) government had launched a consultation on 4 July 2022 to “modernise and improve the tax treatment it provides to foreign sovereign investors, such as heads of state and sovereign wealth funds.” In connection with the consultation process, Treasury had planned to introduce **these changes** in April 2024.

However, the position was reversed at **paragraph 4.64 of the Budget**:

“The government has carefully considered the responses to the consultation on sovereign immunity from direct taxation. It has decided that there will be no change to the current exemption, and that it will continue to operate as it does now. The government welcomes the constructive engagement with sovereign investors during the consultation, and over the longer term.”

The effect of the Budget announcement is that the current position will remain, so that taxpayers benefiting from sovereign immunity will continue to be exempt from UK direct taxes (*i.e.*, income tax, capital gains tax and corporation tax on all UK-source income and gains). Further, eligible taxpayers will continue to be treated for the purposes of the real estate investment trust (“REIT”) and qualifying asset holding company (“QAHC”) regimes as “Qualifying Investors,” and as “Qualifying Institutional Investors” for the purposes of the substantial shareholding exemption from corporation tax on chargeable gains.

Very broadly, our initial response to the Budget announcement is that it is helpful that the Government has taken on board comments and worked with "stakeholders" before making any changes or, as here, not proceeding with the proposed changes to the current exemption. The current rules for sovereign immunity are relatively generous, and therefore it might be considered that the current rules are aligned from a tax policy perspective with the Chancellor's approach of encouraging investment into the UK (*i.e.*, via REITs and QAHCs).

Please feel free to get in touch with the Cadwalader team to discuss the contents of this update.