



HOUSE OF COMMONS

LONDON SW1A 0AA

Finance Bill – Mayfair Loophole

Thank you for contacting me about the 'Mayfair Loophole'.

The Government has taken decisive steps to ensure that asset managers pay their fair share of tax, both at Summer Budget and through Finance Act 2016.

Asset managers are paid in a variety of ways. Carried interest is a portion of profit made by a fund, which is paid to managers when the fund has performed well. It is dependent on the long-term performance of the underlying investments held by the fund.

It is right that when investments are held for the shorter term, and the activities undertaken are more akin to trading, then the profits that fund managers receive should be subject to income tax and not capital gains tax (CGT). That is why the Finance Act ensures that these investments are taxed as income as the same way management fees are.

The Government supports the asset management industry in the UK and believes that carried interest should be subject to capital gains tax and not income tax if the investments are held in the longer term, reflecting the underlying performance of a fund's investments. This is in line with other countries and the approach taken by successive UK Governments.

However asset managers must pay the correct amount of capital gains tax. This is why the Government has closed loopholes and ensured that asset managers do not benefit from the cut in the main rate of CGT, meaning they will continue to pay the higher rate of 28 per cent.

These reforms will make sure that asset managers pay their fair share of tax whilst continuing to make the UK an attractive place to do business.

Thank you again for taking the time to contact me.

Kind regards,

Edward Timpson MP

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