HMRC

By email: distributionsreform@hmrc.gov.uk

14 September 2026

# Consultation on modernising the taxation of distributions and repayments of capital from companies

## Introduction

UK Private Capital (formerly the British Private Equity and Venture Capital Association, or BVCA) represents 600 firms including the wider ecosystem of professional advisers and investors. Private capital consists of private equity and venture capital which makes long-term investments to grow British businesses and build a better economy. Private credit and venture debt also provide active and engaged debt finance to businesses.

The private capital industry backs 13,000 UK businesses, nine in ten of which are small or medium-sized enterprises. Businesses backed by the industry employ 2.5 million people across the UK and contribute 7% to GDP.

In 2025, £25bn was invested by private capital into UK businesses in sectors across the UK economy, ranging from consumer products to emerging technology. This increased investment has fuelled the growth of businesses across the UK, with six in ten (57%) of the businesses backed in 2025 located outside London. These investments are long term, with an average investment period of six years, in contrast to less than a year in public markets. UK-based private capital specialists have raised £207bn of funds, known as dry powder, expected to be invested over the next three to five years.

## Executive summary of our response

We urge the Government not to take forward the proposals in Chapter 4, concerning the income tax treatment of distributions from non-UK resident companies. These proposals risk cutting off a crucial source of capital for businesses across the UK. While we support the Government's objective of ensuring that income returns are taxed appropriately and that avoidance is effectively prevented, we do not believe these proposals are a proportionate way to achieve that aim.

The private capital industry provides vital backing to businesses of all sizes across the UK's nations and regions: £25bn in 2025 alone. This ability to deploy capital into growing businesses depends on attracting investment from a highly international investor base, and operating structures that are recognised and understood by investors globally. For commercial, regulatory and legal reasons, those structures frequently involve holding companies.

Private capital funds invest in businesses with the objective of long-term capital growth. Investors commit capital for extended periods, assume significant investment risk, and ultimately realise returns when companies are sold. Those returns are, in substance and economic reality, capital gains. The use of intermediate holding companies does not alter the underlying nature of this return. Recharacterising these genuine capital gains as income would break the link between the economic substance of an investment and its tax treatment. This would be a major deterrent for investors, who would therefore be less likely to supply the capital UK businesses need to start, scale and grow.

The proposals would also create significant uncertainty for existing and future investors, at a time when the UK is competing internationally to attract both capital and talent. A fundamental change to the treatment of returns from structures that have been used for many years would be highly destabilising, and would risk making the UK a less attractive destination for investment. This would run counter to the Government's wider objectives to stimulate growth and encourage investment into UK businesses.

It is unlikely that restructuring existing arrangements would provide a practical solution. Private capital funds have a global investor base, and fund structures are designed to accommodate investors from multiple jurisdictions. In many cases, changes that might improve outcomes for a subset of UK investors would not be commercially feasible because of the broader international investor population. Even where restructuring is possible, the cost, complexity and disruption would be substantial.

The consequence of these proposals would therefore not simply be additional administrative burdens for fund managers. Rather, they risk reducing the attractiveness of investing in UK private capital funds, thereby reducing the flow of capital available to UK businesses. At a time when private capital continues to provide significant funding to companies across the UK's nations and regions, including many smaller and growing businesses, we are concerned that the proposals would have adverse effects on investment, growth and competitiveness that are disproportionate to any policy benefits they seek to achieve.

The consultation document states that the Government will only move forward with these proposals if commercial activity is not adversely affected, and that the wider impacts on growth and investment must be fully considered. In our view, the proposals in Chapter 4 would, indeed, have an adverse effect on commercial activity, for the reasons we explain more fully in our response below.

We therefore strongly recommend that the existing treatment of distributions from non-UK resident companies be retained, and that any identified avoidance concerns be addressed instead through amendments to existing anti-avoidance measures. This would protect the integrity of the tax system while avoiding unintended consequences for investment, growth and the UK's international competitiveness.

We are grateful for the opportunity to respond to this consultation. We would welcome meeting you to discuss these issues further, and would be pleased to provide additional information to support future consideration of this topic.

Our detailed responses to the consultation questions that are most relevant to the private capital industry are set out below.

## Chapter 2 – Reduction of capital

### Question 2: What general comments do you have on the proposal to modernise the rules determining the size of a distribution on a reduction of share capital or share buyback?

The issues raised by the proposed changes to reductions of capital and demergers do not impact the private capital industry disproportionately when compared with others, and so we have not commented on these in detail. However, we would note that any change which results in individuals incurring significant tax costs when implementing commercial transactions is very likely to result in fewer of those transactions, rather than the transactions going ahead with that higher tax cost. This would therefore be likely to reduce economic activity and make the UK a less attractive jurisdiction in which to conduct business.

We support the Government's aim of preventing the extraction of income profits in capital form, but as with our comments on distributions from foreign companies below, we believe this can be achieved through a more powerful anti-avoidance rule. This would enable the collection of the tax that is rightly due, while preventing unintended knock-on consequences for the wider economy.

## Chapter 3 - Demergers

### Question 7: What comments and suggestions do you have regarding the amendments suggested above to the statutory demerger legislation?

Please see our response to question 2. We would also note that the statutory demerger condition that there be no disposal for five years would make this option commercially unviable in most cases.

## Chapter 4 - Income Tax treatment of distributions from non-UK resident companies

### Question 11: Do you have any general comments on aligning the charge to Income Tax on distributions from non-UK resident companies with the rules that already apply to distributions from UK-resident companies?

The proposals set out in Chapter 4 would, in our view, represent a very significant shift in UK tax policy with materially adverse consequences for the UK private capital industry, and we urge the Government not to implement this change.

The difference between the income tax and capital gains tax treatment of dividends from UK and non-UK resident companies is a well-known and established feature of the UK tax system which has been in existence for many decades. This long-standing treatment is critical for private capital funds, where the primary goal is capital growth over the long term, and the use of non-UK resident companies in investment holding structures is extremely common.

Private capital funds are long term capital investors. A typical private capital fund invests in businesses by buying shares, holding these for a period of three to five years, and then selling the shares to a third-party buyer. The funds are close ended and illiquid. As such, investors' capital is locked up for the life of the fund (typically ten to twelve years), is at risk during this time and returns are contingent on the disposal proceeds derived when the investments are sold.

The primary intention of a private capital fund is to generate capital returns, and investors invest on the basis that they will receive capital gains and not income. The tax outcome sought aligns with the economic reality, in that it preserves the underlying capital nature of the disposals. Fund prospectuses will typically describe the investment strategy in this way, and while they do not guarantee the type of return (or the tax treatment), it is implicit that investors will have made their investment decision based on the understanding and expectation of being returned capital gains.

Amounts received by investors from share disposals by a private capital fund are genuinely capital gains. Any change which would result in these returns being taxed as income, rather than as gains, is likely to be a significant deterrent to UK investors investing into UK private capital funds, which provide a crucial source of capital for UK businesses.

For the reasons explained in more detail below, we fundamentally disagree with the Chapter 4 proposals and strongly recommend that the existing rules for amounts received from non-UK resident companies remain unchanged. We recognise that the Government wishes to ensure that an underlying return that is income in nature cannot be changed into a capital return. However, we consider that this would be better addressed through the use of existing anti-avoidance legislation, rather than a wholesale change in the treatment of distributions.

*Preserving the underlying treatment of investment returns*

A core principle of any fund structure is to put investors in the same position that they would have been in had they invested directly in the underlying investment. The aim is for the fund structure itself to be tax neutral. This is the reason that most private capital funds are structured as limited partnerships, which are transparent for tax purposes.

While a fund's strategy is to acquire, hold and dispose of shares in businesses over the long term, these shares tend to be held through one or more holding companies to manage a range of regulatory, commercial and legal requirements. For example, financing terms may require security and enforcement arrangements to be met through additional layers of holding companies, and tax exempt institutional investors, such as pension funds, will often require the maximum possible protection from any risk that local tax filing or administrative burdens could arise to them directly.

The necessity of using holding companies means that much consideration, thought and expense is put into establishing the holding structure and repatriation mechanism at the time an investment is made. The typical objectives of this structuring include putting investors in the same position as they would have been in had they invested directly, and making the fund attractive to a wide range of investors by ensuring that no particular class of investors is adversely disadvantaged compared to the others.

We note that the principle of preserving the underlying treatment of investment returns for investors is already one that is recognised in UK tax rules. Specifically:

1. The **Reporting Funds Regime ("RFR**") provides capital gains treatment for any offshore fund which reports undistributed income in the fund structure to investors on an annual basis. If an offshore fund is not registered for the RFR and this reporting is not undertaken, the investors' capital gain on redemption or sale of shares is taxed as an "offshore income gain". This regime therefore recognises the importance of allowing investors to be taxed in a manner that is consistent with the character of underlying investment returns.

2. The **Qualified Asset Holding Company ("QAHC")** regime includes provision at Para 47 Sch 2 FA2022 to treat payments on redemption, repayment or purchase of own shares by a QAHC as <u>not</u> being a distribution for income tax purposes. This effectively provides capital dividend treatment for returns from a UK resident company, notwithstanding the company is a QAHC, and was included following HM Treasury's consultation in 2020 on asset holding companies.

*Impact on UK individual investors and co-investors*

UK individual investors would be materially impacted if their returns from a private capital fund, which are ultimately derived from the sale of shares in a business, were taxed at dividend tax rates rather than as capital gains. Such an outcome would be a material deterrent for UK individual investors investing into private capital funds, and indeed any retail or other platforms, the vast majority of which use non-UK corporates.

In the private capital industry, this matters because managers have been increasingly raising capital from high-net-worth individuals in recent years. A number of new investment platform businesses have been established to facilitate this. These platforms are universally established as non-UK corporate entities of various types. The UK tax treatment is governed by the offshore fund rules (resulting in them typically either being reporting funds or having a requirement to distribute income as income) and their entire existence and structure is predicated on returning capital gains on redemption of shares.

These new platforms have facilitated the raising of capital from investors who may not have otherwise had access to private capital funds, and so support the Government's objective to make the UK an attractive place to invest. The proposed change would make these structures unusable, as investors would not accept income tax on their capital gains and would invest elsewhere. This would, therefore, shut off a major source of investment capital for the UK private capital industry, which would be directly contrary to the broader policy aims of delivering growth and supporting capital investment.

Further, the proposals would have a negative impact on the individuals who work in the private capital industry and who, as is standard practice, invest their own money in the funds which they manage. As set out in our responses to previous consultations, the industry has a highly international talent base and has recently seen a number of significant tax changes, including to carried interest and the non-dom rules. An outcome which results in taxation of underlying capital gains as dividends would be a negative factor in any decision about where individuals may wish to base themselves, and is likely to have an adverse impact on the UK's ability to attract and retain highly skilled talent.

*Fund investments are fundamentally different from a corporate group*

We understand that HMRC are interested in how investments in a private capital fund differ from disposals of subsidiaries in a stand-alone UK headed corporate group, where profits from such a disposal may be distributed to shareholders by way of a dividend (albeit that this rarely happens where there are significant individual shareholders, as returns being taxed at dividend tax rates materially erodes the shareholder value: see our comment above about fewer transactions taking place rather than more tax being paid).

A company or group of companies sold through a private capital fund structure is a fundamentally different scenario:

1. The fund investments that are sold are usually an interest in the entirety of a business and are more akin to a shareholder selling its shares in a corporate group, rather than receiving a distribution of the proceeds of sale of a single entity within the group.

2. While the investment is held through holding companies, this is not akin to a "normal" corporate group, as the holding companies are used specifically for the purpose of holding the investment and not for the purposes of continuing to grow a group of companies. The holding companies established for the purposes of making particular investments are only ever established/made with a view to selling on the investment in a number of years, and these holding companies are essentially an extension of the fund structure, rather than of the underlying portfolio group that is sold.

3. While the gain on disposal of fund investments needs to be repatriated through holding companies quickly (because the profit must be passed back to investors quickly to maximise the investors' internal rate of return, or IRR), ultimately the alternative may be (in certain situations) to liquidate holding companies. Typically, liquidation of the holding stack is not a quick process and therefore, gains are passed back to the fund by way of other legal mechanisms (as set out above) with the liquidation of holding companies taking a longer time to complete.

*Capital treatment for underlying capital transactions*

As explained above, it is critical for the underlying treatment of disposals (within the fund holding structure) to be preserved for investors who sit several levels above.

It is usual for investors to receive some allocations of profits from the fund that comprise interest income or dividend income (e.g. where these are the receipts paid to the fund from the topmost holding company). We understand that HMRC will wish to ensure that what is ultimately an income return from an underlying investment is taxed as such and is not converted to capital.

However, we do not believe that a change in the rules applying to non-UK resident companies is the best way to resolve this issue. We consider that a more targeted way to ensure that income is not converted to capital in these circumstances would be to amend existing anti-avoidance measures, such as the rules on Transactions in Securities (as discussed below).

*Adverse impact of Chapter 4 on the private capital industry*

It is difficult to overstate the negative impact the proposals in Chapter 4 would have on the international competitiveness of the UK private capital industry. It would make other helpful initiatives, such as the consultation on individual members of LLCs[1], redundant given the overwhelmingly adverse tax treatment it would create for individuals receiving amounts that are genuinely capital gains.

If the Chapter 4 proposals were implemented, existing funds with investors who were affected by the changes would need to consider whether it would be possible to restructure. In many cases, restructuring would not be commercially possible, because it would be for the sole benefit of UK investors. The investor base of the UK private capital industry is highly international, and managers have a fiduciary duty to act on behalf of the investors as a whole rather than any distinct subgroup. Even in those cases where restructuring would be possible, this is expected to cause significant complexity, time and cost.

We also have doubts as to the efficacy of any carve-out provisions for specific scenarios or types of funds. The QAHC regime has demonstrated how difficult it is to legislate for the universe of complex private capital structures which have already been created in light of the (until now very well settled) existing position. The complexity of the legislation which would be required and the high cost of compliance would have a materially adverse effect on the industry in their own right.

Our strong recommendation, therefore, is not to change the tax treatment of amounts distributed by a non-resident company. If the proposals are nonetheless taken forward, we would urge further consultation and the gathering of information on impacts, and consider that grandfathering provisions would be required to minimise the effects on existing investors.

**Question 12: Can you foresee this proposal having any impact on obtaining relief for double taxation where the distribution is subject to tax in another state?**

We are not able to provide a detailed response on this point until such time as the proposals are more refined. However, we would note that any regime which seeks to recharacterise receipts under domestic corporate law risks creating double taxation issues and further complexity, as the recent changes to the taxation of carried interest have demonstrated.

**Question 13: Do you anticipate this proposal deterring any commercial corporate actions? If so, please provide details and suggestions of how this impact could be addressed.**

As mentioned above, a key objective of a private capital fund is to adopt a long term, capital appreciation investment strategy and to ensure that investors receive a return that is taxed in line with that investment strategy. Should the proposals be adopted, this would, as we have

[1] Consultation on reform to taxation of UK-resident members of LLCs and other reverse hybrids - GOV.UK

already noted, be likely to act as a significant deterrent to investment by UK investors in UK private capital funds, which provide a crucial source of capital for businesses across the UK economy.

**Question 18: Do you have any comments on the potential tensions between the definitions used in the UK distributions rules and non-UK corporate legislation, especially with regard to the distinction between income and capital? In particular, are there any difficulties around what constitutes a 'repayment of capital'? How could these be addressed?**

The legal mechanisms for the return of amounts to shareholders and the corporate law treatment of these differ from country to country. Therefore, it is not unusual for there to be differences between the treatment of a return from a UK incorporated company as compared to a non-UK incorporated company. This difficulty is, in part, the reason for the distinction in treatment between UK and non-UK companies.

**Question 20: Are you aware of any particular existing difficulties around whether a distribution from a non-UK incorporated company is a 'dividend'? Should the government consider introducing provisions to clarify the treatment where the non-UK company law is unclear?**

While the rules are complex, in the private capital funds context, they are generally well understood. Notably, a deliberate decision was taken to preserve the distinction between distributions of an income and capital nature when s402 ITTOIA was enacted as part of the Tax Law Rewrite project.

It is also important to note that the complexity arises as a result of the need to apply UK tax principles to company law principles, which vary widely between jurisdictions. It is difficult to envisage any solution that would provide certainty of application in all circumstances.

Where a non-UK incorporated company makes a payment that is clearly not a dividend, then regard has to be had to the local corporate law as to the nature of the payment and how the distribution rules apply. While UK company law is built around capital maintenance, many other jurisdictions (particularly civil law countries) operate differently and relevant concepts such as 'share premium', 'paid-up capital' and 'repayment of capital' do not always map neatly to UK equivalents.

We consider that codifying case law principles for non-UK dividends into domestic legislation is unlikely to be a simple matter, and so would still require their application to be subject to tax advice from professional advisers. This would also involve a degree of judgment on how non-UK legal concepts fit into UK case law principles. If provisions were introduced to provide certainty on the matter, then we expect these would need to cover all potential entities.

HMRC guidance maintains a foreign entity classification list at INTM180030 but this is not part of UK tax law. We anticipate extensive consultation would be required to legislate such a list of foreign dividends. Overall, at this time, we see no benefit in specific provisions.

**Question 21: When calculating what amount of a distribution is a repayment of capital, would it be effective to permit small shareholders in widely held or quoted companies, who do not have access to the necessary information, to simply use the nominal value of the interest they hold on a share buyback? Are there any difficulties with calculating the nominal value of the share in some jurisdictions?**

As discussed above, we recommend the existing regime for capital dividends from non-UK resident companies remains unchanged.

We note that the proposed introduction of the concept of frozen capital in Chapter 2 would introduce an additional burden on those structures, where the difference between legal capital (such as share capital and share premium) and frozen capital (based on tax rules) has historically not needed to be tracked, but going forward would need to be tracked and determined. Furthermore, corporate law regimes in some territories have changed over time and do not readily align with the UK. For example, Jersey company law now includes the concept of no par value shares.

## Chapter 6 - Loans and other temporary extractions from non-UK resident companies

**Question 27: Given that the tax would need to be paid by individuals rather than by the companies making the loans, would this result in particular administrative difficulties? If so, please provide examples.**

The loan to participator rules normally apply to UK companies under the control of a private capital fund where the fund entity is a partnership, because the attribution rules in the close company legislation result in these companies being treated as close. Further, if a non-UK resident company is controlled by a UK resident close company, a s455 charge would also apply to any loan made by the non-resident company to a participator (s460) that is outstanding at the relevant time. Here the proposal is to apply the loan to participator rules to a non-UK company where there is no controlling UK company and for any resulting charge to be the liability of the individual participator, rather than the company.

This scenario may occasionally arise in a private capital context where proceeds need to be returned to investors more quickly than can be achieved through the formal legal process of liquidating holding companies. An interim upstream loan would be made, then unwound once the holding entities can be formally liquidated.

If the proposed rules were to apply to this situation (e.g. because there is a UK member of management or a UK director), we would anticipate that the complexity of the close company rules and the lack of UK nexus would lead to difficulties for UK resident taxpayers. The individual may not be able to establish close company status without access to detailed information on the ownership of the non-resident group, and the non-UK company/any non-UK based fund managers are unlikely to be familiar with the UK close company rules. This would also place a high burden on individual taxpayers to be aware of the rules in this area, and the obligation they have to make a s455 charge.

While loans to participators may occur occasionally in a fund context, we note that because fund investments are made for the benefit of the third party investors in the fund, it would be unusual for profit to be extracted from investments by way of loan on a permanent basis. The fund manager has a fiduciary duty to return profits to the investors and so the making of a non-arm's length loan to a participator would be extremely unusual. In addition, these arrangements would be picked up as part of the tax and financial due diligence on exit. This is a structural feature of this industry that would naturally discourage this type of arrangement.

Where upstream loans do arise, as described above, and given the formalities may take some time to complete (e.g. to formally liquidate a holding company), we would suggest that the most appropriate approach would be to have a longstop date of five years before a s455 tax charge arises. We note that the consultation document refers to a three-year period, but on occasion liquidations can become protracted for reasons outside the control of the parties involved (for example where there is underlying litigation or other unresolved matters). In light of this, a five-year period would provide greater certainty and accommodate a broader range of commercial situations. If there are concerns about the potential for extended time limits to be used inappropriately, this could potentially be addressed through a targeted anti-avoidance rule so that delays are not artificially prolonged to obtain a tax advantage.

**Question 28: What general comments do you have on the proposal to introduce a temporary tax on loans received from non-UK resident closely controlled companies?**

Please refer to our response to question 27.

**Question 29: Do you have any specific comments on the four options outlined above? Do you have any suggestions as to what time periods would be appropriate?**

Where upstream loans are made, as described in our response to question 27, practical considerations may mean that they remain outstanding for a period while the necessary formalities are completed (for example, the liquidation of a holding company). If the policy objective is to address the long-term extraction of profits through loans, rather than arm's length loans that will be repaid in full in due course, option 3 would appear to be the most proportionate approach. Under this option, no charge would arise unless the loan is released or written off.

We would also support option 4 being implemented alongside option 3, with a longstop date of five years before a s455 charge arises. This would accommodate the practical timing issues associated with liquidating holding companies while still addressing cases where loans remain outstanding for an extended period.

We note that option 1, which triggers a temporary tax charge after making the loan, would result in a dry tax charge for the individual which may affect their ability to pay the tax, especially if they were not aware of this rule at the time the loan was made. We would therefore not be supportive of option 1.

### Question 33: If we expand the exclusion for loans or advances made in the ordinary course of business, what changes would be necessary to avoid curtailing normal commercial activity?

The current exception applies to a narrow class of lending which does not accord with commercial practice in corporate groups today, where cash is lent intra-group to efficiently manage the cash requirements across the group. While no charge under s455 falls on intra-group loans where the cash does not end up in the hands of a participator, groups need to ensure they keep detailed and contemporaneous records to demonstrate the flow of payments did not result in a s455 charge. This introduces an unwelcome practical and administrative burden on groups at times when cash needs to be transferred at short notice to manage the wider liquidity position of the group.

Therefore, we recommend that the exclusion in s456 should be extended to include intra-group lending within closely held groups.

## Chapter 7 – Purchase of Own Shares rules

Purchase of own shares is not common in private equity fund structures so we have limited comments at this time.

### Question 34: What general comments do you have on the proposals set out in this chapter?

Under existing UK tax legislation, the purchase of own share (or share buyback) rules include conditions which are almost impossible to satisfy in a private capital context. The current conditions at s1033 CTA 2010 include a 'trade benefit test', and the seller must meet the five year ownership requirement prior to the buyback. The current conditions are difficult to meet, particularly the trade benefit test for an investment company. In addition, a fund may hold an asset for less than five years, so the ownership requirement may not be met.

The proposed changes to the purchase of own shares rules move away from the trade benefit test, which appears to be helpful. However, the proposal is to introduce new conditions related to a departing shareholder, such that the departing shareholder needs to have worked for the company and also needs to meet further requirements on ownership. These proposed conditions would be difficult to meet in a private capital context.

If the Government is seeking to make the share buyback rules more widely accessible, in ways that would support growth and improve the ease of doing business in the UK, a possible angle to explore would be in connection with management incentive arrangements. At present, employing companies may need to implement complex and expensive warehousing arrangements to accommodate the shares of departing employees. If share buybacks could be used in this context, it would make these arrangements easier to operate, and so potentially enable employers to offer them to a wider range of people across the UK.

### Question 35: What unintended consequences do you anticipate as a result of these changes?

As discussed in our response to question 34, the purchase of own share rules has limited use in private capital situations. This means that we have limited comments on unintended consequences at this time.

## Chapter 8 - Updated capital extraction anti-avoidance

### Question 36: What general comments do you have on the proposal set out in this chapter?

We recognise that the Transactions in Securities ("TIS") rules have been in existence for a long time and understand that these rules may be revised in light of other changes proposed under this consultation.

As set out above, we have significant concerns about the proposals outlined in Chapter 4 and the knock-on implications for the private capital industry, and the jobs and businesses it supports. We have suggested above that relevant anti-avoidance measures are considered instead, to counter situations of concern.

We support the Government's objective of tackling avoidance and ensuring that the correct amount of tax is paid, and consider that there may be scope to update the TIS rules to achieve that aim. A simplified rule, including a motive test, that has to be applied on a self-assessed basis and maintains a clearance process would, in our view, drive positive behavioural change in small businesses, which HMRC analysis[2] indicates is responsible for the majority of the tax gap.

We would, however, highlight that private equity fund structures, which are widely held, are in general well governed and are not vulnerable to the same dynamics as closely held stand-alone groups. The fund manager is regulated, and has a fiduciary duty to third party investors to ensure profits are fully returned. As investments will be subject to tax and financial due diligence on sale, there is a strong incentive to ensure that the tax governance of investee groups is well managed, and that tax risks are minimised. While we would therefore not expect those rules to be triggered by private capital structures in practice, their existence should give HMRC confidence that avoidance activity is actively policed and discouraged.

We would be happy to discuss HMRC's further views on any reforms to the TIS rules or other anti-avoidance measures.

### Question 37: What unintended consequences do you anticipate as a result of this proposal?

We await further details of proposals in this area before providing further thoughts.

For all the reasons we have given, we urge the Government to retain the existing treatment of genuine capital returns and to pursue any policy concerns through amendments to existing anti-

[2] HMRC Official Statistics - Tax gaps summary 23 June 2026 - Tax gap by customer group

avoidance measures, to avoid changes that could deter investment into the businesses that drive growth throughout the UK.

We would welcome the opportunity to discuss these proposals with you further as the Government's policy objectives develop.

Yours sincerely

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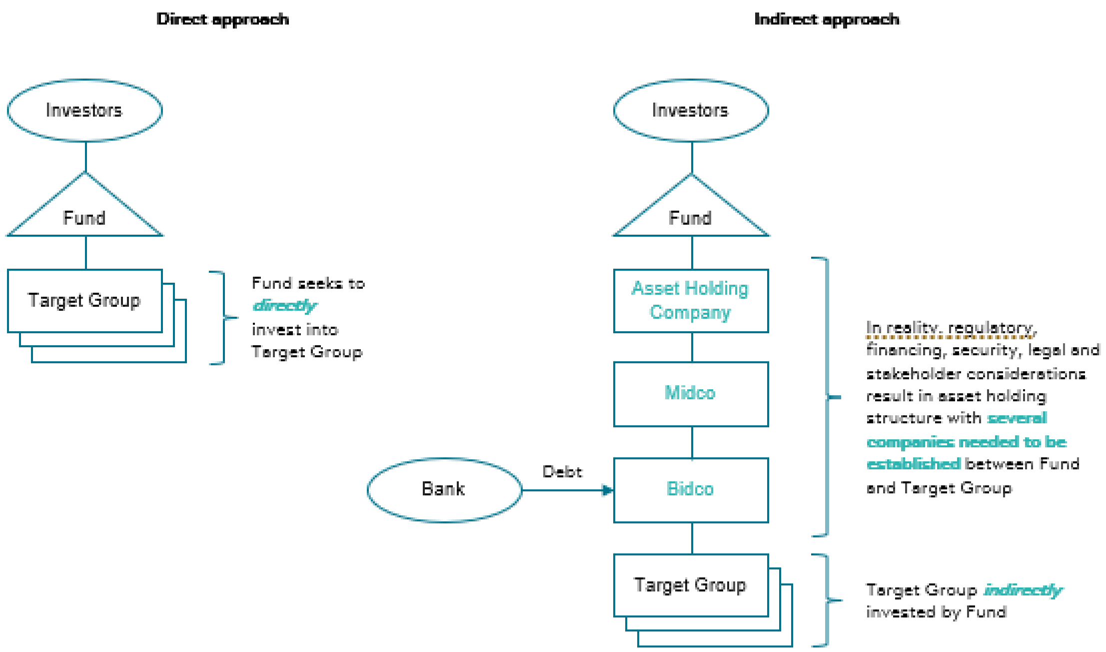
## Appendix – Overview of typical holding structures for a private equity investment

This appendix illustrates why a simple investment made by a private capital fund ("Fund") goes beyond a direct investment by the Fund and tends to involve several additional legal entities in the ownership investment structure.




When a Fund seeks to make an acquisition of a Target Group, it is unusual for the Fund to do so directly. Acquisitions are commonly financed with funding such as bank debt which, together with amounts provided by the Fund, are paid to acquire Target Group. Financing terms and security arrangements tend to require additional entities, and so the holding structure for an acquisition needs to accommodate more legal entities to enable Bidco to borrow and acquire the Target Group.

In effect the Fund invests indirectly into the Target Group on behalf of its Investors. At an appropriate time in the future, the Fund will dispose of the Target Group investment and return the proceeds to the Investors in the Fund.

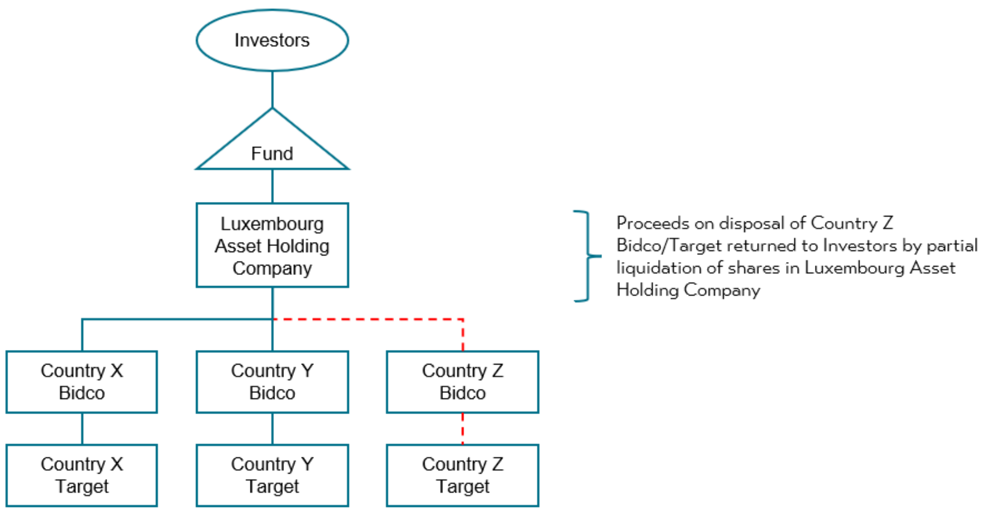
Comparing the tax treatment of disposal of the Target Group:

- In the **direct approach** the Fund entity would make the disposal of Target Group. As the Fund entity is transparent then the taxation of the disposal falls directly on Investors. **A disposal by the Fund of Target Group results in a capital gains disposal for the Investors.**

- In the **indirect approach** Bidco makes the disposal of Target Group and realises a capital gain. The proceeds realised by Bidco may be used to repay the bank debt and the remaining proceeds are transferred through the structure to the Asset Holding Company, then to the Fund to share with the Investors. **Depending on the mechanism to return proceeds to the Fund, then a capital gains disposal or income distribution may arise to the Investors.**

While the example above has been simplified, to illustrate this point, it would be strange that one structure delivers a capital gain while the other delivers an income amount when the commercial reality of the event from an investor's perspective is the same.

In practice, asset holding structures implemented by private capital funds can be used to hold multiple investments and involve non-UK resident holding companies such that disposal proceeds are returned to investors in a manner that is taxed as a capital gain. Luxembourg is a commonly used jurisdiction where share buybacks, share redemptions and liquidations of share classes are used to this effect, as shown below.

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