NZSUPERFUND
Te Kaitiaki Tahua Penihana Kaumātua o Aotearoa

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Ms J Kaur / Mr D Price
HM Treasury
London
UNITED KINGDOM

By email: sovereignimmunity@hmtreasury.gov.uk

19 September 2022

Dear Ms Kaur / Mr Price,

Submission on Consultation Document: Sovereign immunity from direct taxation

We refer to the paper released by HM Treasury and HM Revenue & Customs of the United Kingdom (UK) government in July 2022 "*Sovereign Immunity from direct taxation: consultation on policy design*" (the Consultation Document). The Guardians of New Zealand Superannuation (the Guardians) as manager and administrator of the New Zealand Superannuation Fund (the Fund or NZSF) is currently eligible for UK sovereign immunity, so we appreciate the opportunity to provide comments on the Document.

We also express our sympathy to the people of the UK and acknowledge the remarkable reign of our joint sovereign Queen Elizabeth II as we lodge this submission in the week of the Queen's funeral.

Background on the Guardians and the New Zealand Superannuation Fund

The Guardians was established in 2001 as a New Zealand Crown entity that manages and invests the Fund on behalf of the New Zealand Government. New Zealand is a member of the Commonwealth and King Charles III is now our Head of State.

NZSF is a long-term, growth-oriented, global investment fund that is funded by the New Zealand Government. NZSF exists to help provide for the future funding of retirement benefits paid by the New Zealand Government which are guaranteed to all New Zealanders aged 65 and older. The Fund's organisational purpose is: "*Sustainable investment delivering strong returns for all New Zealanders*". While our focus is on maximising risk-adjusted returns and growing the size of the Fund, we believe it is important to achieve those financial returns in a sustainable way.

NZSF is not an entity but rather it is a collection of assets wholly owned by the New Zealand Government; it consists of a pool of assets on the Government's balance sheet.

NZSF is unable to control entities which means it may structure different ownership interests in respect of the active and passive portions of some of its investments.

NZSF is invested in diversified assets throughout the world, including the UK. UK investments include: listed equities, bonds, loans and real estate. Our UK investment footprint has not changed markedly over the years. However, a recent increase in our specialist real estate and infrastructure capability has led to a series of new investments in the last financial year in climate solutions with a focus on real estate and infrastructure.

As at 30 June 2022, the Fund totalled GBP 29.1 billion which represents 16% of New Zealand's Gross Domestic Product (NZ GDPw). Of this amount, approximately GBP 726 million (or 2.2% of the Fund's net asset value) is invested in the UK. The Fund is anticipated to grow to GBP 179 billion by the year 2050 which will represent approximately 30% of NZ GDP.

Further background information on NZSF is contained on our website: www.nzsuperfund.nz

General comment

We understand the UK Government is concerned that the income exempted through sovereign immunity benefits provided to foreign governments has increased substantially and that the UK approach (exempting all sovereign investor activities from tax) sits outside of the international mainstream.

The Consultation Document outlines proposals to update the UK's approach and make the types of income eligible for sovereign immunity more targeted while at the same time seeking to recognise the unique status of sovereign investors and remain attractive for inward investment.

We also note the UK government has expressed its committment to ensuring that the UK continues to be one of the top destinations in the world for investment[1] and the House of Commons International Trade Committee Report on *Inward Foreign Direct Investment* identified[2]:

> *"Government-owned investment funds – known as Sovereign Wealth Funds – and other Sovereign Investors (such as public sector pension funds) are likely to play an increasingly important role in UK inward investment as sources of "patient capital" in areas such as infrastructure, technology and life sciences."*

to which the Government responded[3]:

> *"The UK Government seeks to partner with sovereign investors seeking high-value investment opportunities in the UK which align with key government priorities, such as [supporting the transition to] net zero [greenhouse gas emissions by 2050], levelling up, infrastructure, and research and innovation."*

Sovereign investors can offer more than simply being a source of capital particularly where their objectives align with those of the investee country. For example NZSF also has a focus on achieving net zero by 2050 as part of our commitment to the Paris Aligned Investment Initiative.

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[1] HM Treasury Build Back Better: our plan for growth (Mar 21) at p98.
[2] HOC ITC Inward Foreign Direct Investment (Third report) (Sept 21) at p6.
[3] HOC ITC Inward Foreign Direct Investment (Response to this report) (Dec 21) at p6.

The Guardians respects the sovereign right of any government to determine its own regulatory framework. From an international investor's perspective it is important that the country in which we base our investment has a stable and predictable regulatory environment that provides certainty and therefore low costs of compliance. Shifts in regulatory frameworks can adversely affect asset values for existing investments and investor perceptions of the attractiveness of a particular market in relation to future investments. Global investor capital is very mobile.

Key submission points

We have responded to the consultation questions through the lens of NZSF's current tax profile and UK footprint and also with a view to future developments. We have provided responses to the questions raised in the Consultation Document in the Appendix and our submissions on the proposals are summarised below:

1. The current proposals represent a significant change for NZSF. An increase in UK tax will have a detrimental impact on net returns making it harder to reach the benchmark hurdle (required return) thus reducing the attractiveness of a significant proportion of investable UK assets.

2. In particular, NZSF would find itself at a competitive disadvantage with regards to UK real estate investments. NZSF will not qualify for exemptions on income and gains which are available to comparable (non-sovereign) investors. The disadvantage is significant enough that it could prevent future investment in UK real estate. The extent to which this issue can be addressed is likely to determine whether the UK will continue to be an attractive jurisdiction in which to invest.

3. If the exemption is to be narrowed it would be preferable to make income from trading or commercial activities ineligible for the exemption while leaving the rest of the exemption in place to operate as it does currently.

4. In order to create a level playing field, foreign government pension schemes (or entities investing pension fund monies on their behalf) should be able to benefit from the same exemptions for income and capital gains that are available to other pension schemes.

5. Sovereign investors should be able to access an exemption for non-controlled listed Real Estate Investment Trusts (REITs).

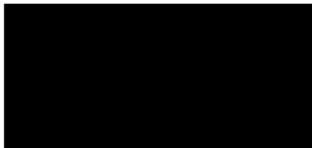
6. Assuming the UK proceeds with the proposals, the commencement and transitional rules should allow investments existing prior to commencement date to retain their current tax treatment indefinitely. If that is not acceptable then there should be a seven year transitional period available for existing investments to allow time for existing assets to move through the natural investment life cycle and to give affected sovereign investors time to review their structures and to restructure if necessary.

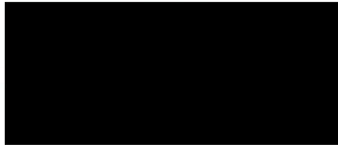
7. Rather than commence from 1 April 2024, the change to sovereign immunity should be applied from the start of a sovereign investor's financial year so as not to create a straddle period and to better align the rebasing exercise with the time of year when such investors carry out their fair value adjustments.

8. Rather than having to make an application to His Majesty's Revenue & Customs (HMRC) to access the sovereign immunity provisions, sovereign investors / foreign governments should be able to self-assess their entitlement in a similar way to the United States system whereby the relevant entity completes a form and provides it to the payer / manager / investee company. If an application process is required, it should be simplified with shortcuts for those who have previously been granted confirmation of sovereign immunity by HMRC.

We would welcome the opportunity to continue participating in the consultation process. Please contact us if you have any questions or require any further clarification jpayne@nzsuperfund.co.nz (or +64 9 373 8964) fcorbett@nzsuperfund.co.nz (or +64 9 366 4940)

Yours sincerely





John Payne

Head of Tax

Francine Corbett

Senior Tax Advisor

Appendix – Response to consultation on policy design

Chapter 3: Eligibility and Scope

> 1. *Do you have any comments on the proposed eligibility for sovereign immunity, and the proposed approach to exempting UK income?*

Eligibility

The current proposals represent a significant change for NZSF. The Consultation Document emphasises a desire to ensure fairness and a level playing field between different participants in the UK market. However, NZSF would find itself at a competitive disadvantage with regards to UK real estate investments because it will not qualify for exemptions on income and gains which are available to comparable investors. In other words, foreign pension funds will be advantaged compared to sovereign wealth funds set up to provide pension benefits. The disadvantage is significant enough that it could prevent future investment in UK real estate.

In order to create a level playing field, foreign government pension schemes (or entities investing pension fund monies on their behalf) should be able to benefit from the same exemptions for income and capital gains that are available to other pension schemes.

Scope

We acknowledge that the UK's current approach to sovereign immunity in relation to tax is more generous than some other countries. However, relative to the countries that offer a form of sovereign immunity, the proposed changes (to limit it to an exemption from UK interest withholding tax only) would lead to the UK's approach becoming one of the more limited. Elsewhere sovereign immune investors are exempted from:

- United States (US) tax in relation to dividends and gains arising in respect of non-controlled US real property holding companies (including REITs) under section 892 of the Internal Revenue Code; and

- Australian tax in relation to passive returns on portfolio interests of less than 10% in certain entities (including REITs) under section 880-105 of the Income Tax Assessment Act 1997.

If the exemption is to be narrowed it would be preferable to make income from trading or commercial activities ineligible for the exemption while leaving the rest of the exemption in place to operate as it does currently.

Limiting sovereign immunity to an exemption for UK interest withholding tax only would mean that, when considering other non-sovereign related exemptions in other countries, the UK's approach would become significantly narrower than some countries, particularly the US.

2. Do you have any comments as to the best way to define what persons or manifestations of the State should be eligible?

The manifestations of a state eligible for sovereign immunity should be cast broadly to include: foreign government departments and agencies, central banks, and foreign government funds such as sovereign wealth funds (SWFs), foreign social security funds, foreign government pension funds, foreign government workers compensation funds, and other state-owned institutions.

The way sovereign investors are established and operate can vary. For example, whether the foreign government is the direct owner of investments and establishes an entity to manage those investments (ie like NZSF) or whether it has established a holding entity through which it invests. The rules should be flexible to cater for these situations.

3. Should the government include controlled entities as eligible for sovereign immunity in any new legislation? If so, how should they be defined?

Yes, controlled entities should be included as being eligible for sovereign immunity. Sovereign investors use a range of entities to hold investments including wholly owned subsidiaries or unit trusts.

Sovereign immunity should be extended to both wholly owned subsidiaries / unit trusts and to 'club' type deals so that the exemption is granted to the underlying investment vehicle where all of the beneficial ownership vests in investors who are entitled to immunity from tax in the UK.

In New Zealand, while the Fund is not permitted by law to control entities, an exception is made for holding vehicles that are set up for the purpose of holding, facilitating or managing the Fund's investments. These are essentially passive holding vehicles used for flexibility in investment structuring and cost efficiencies and on this basis should be able to access UK sovereign immunity. For example, a holding vehicle can be used for direct investment into real property assets, or for investment into non-controlling equity stakes in unlisted entities and investment funds.

The definition of those eligible for sovereign immunity could be structured to include entities that are wholly owned and controlled by a sovereign investor where the investment assets vest in the sovereign investor upon liquidation.

4. Should foreign government pension schemes be specifically excluded from eligibility from Sovereign immunity, since existing alternative exemptions from tax on their income and capital gains may be available to them?

Foreign government pension schemes are significant global investors whose continuing investment in the UK should be encouraged. A foreign government pension scheme should be eligible for an exemption and thus included within the pool of those who qualify for sovereign immunity. This would align with the approach taken elsewhere, for example:

- by the OECD Inclusive Framework which has seen fit to exempt pension funds and governmental entities (including SWFs) from the application of the Global Anti-Base Erosion tax rules; and

- by the US which offers a qualifying foreign pension fund exemption from the 'FIRPTA' (taxing of real estate) rules.

In relation to the 'alternative exemptions', given that the purpose of NZSF is solely to invest to provide funds for the New Zealand government to pay pensions to all New Zealanders in the future, in principle we think that it should enjoy the same tax exemptions / reliefs available to UK pension schemes. However, we have concerns that the way pension schemes are defined for those purposes may preclude NZSF from benefiting from those exemptions / reliefs.

Firstly, we note that the reliefs available to UK registered pension schemes require 'registration' which imposes certain requirements / potential penalties.

The conditions relating to the registration of a pension scheme in the UK are clearly primarily aimed at UK pension schemes (but not the UK state pension scheme, which is unfunded) although it is possible for certain overseas pension schemes to register in the UK if they have an administrator in the European Union.

It is unclear whether NZSF itself could register (as it is not itself a pension scheme) or indeed whether foreign government pension schemes generally would meet these requirements.

Secondly, we note that in relation to the definition of 'overseas pension schemes' (used for various capital gains exemptions) it is again unclear that NZSF itself would qualify (as it is not itself a pension scheme) or that foreign government pension schemes would generally qualify (as the definition was not intended to apply to foreign government 'public' pension schemes).

If there is to be parity between UK pension schemes and foreign government pension schemes, and the latter were to enjoy the same exemptions and reliefs available to UK pension schemes, then we consider it would be necessary to formulate a new definition to encompass the latter (eg based on the OECD definition in article 3 of the OECD model convention (2017) (refer to the Annex) including situations where funds are invested on behalf of pension schemes.

5. *Do you have any comments on the proposed approach to sovereign non-natural persons, under Corporation Tax?*

Other countries such as the US and Australia offer exemptions for non-controlling / portfolio holdings. If the proposals to restrict the scope of UK sovereign immunity proceed, the revised rules should allow for a similar portfolio exemption in respect of dividends received from UK REITs and capital gains on the disposal of shares in UK REITs.

In relation to the taxation of non-residents in respect of gains on shares in UK REITs there is generally no minimum holding. Also, unlike many other UK tax treaties there is no exclusion for listed traded shares under the UK-NZ double tax treaty. There is however a UK domestic relief in the form of a minimum 10% holding requirement for certain non-UK property rich funds and overseas life companies. At the time this relief was introduced there was no need to consider sovereign immune investors (who would be exempt in any event) but if the scope of sovereign immunity is to be reduced, this relief should be revisited.

6. *Do you have any comments on the proposed approach to sovereign natural persons, under Income Tax and Capital Gains Tax?*

No comment

7. *Do you have any comments on the proposed commencement date? Are there any practical issues that make this date inappropriate?*

Commencement date and transition

The UK Government proposes that the new rules would apply from 1 April 2024 to income recognised in accounting periods ending on or after that date for entities chargeable to Corporation Tax.

Sovereign investors have built up a portfolio of long-term UK investments. The investments have been structured relying on the UK's longstanding position on sovereign immunity which feeds into determining their expected rate of return and in turn supports their respective business cases. For example, in the context of real estate, the existing rules have led sovereign investors to structure UK real estate investment without regard to reliefs available to taxable investors such as shareholder debt and capital allowances, or the benefits available by structuring real estate investments using REITs. As a result, if the rules were brought in as suggested without suitable time for restructuring, existing deal structures would be inefficient compared to deals structured for currently taxable investors.

Given that sovereigns tend to invest long term, a rule change which moves the corporate tax rate from 0% to 25% (increasing from the current 19% from 1 April 2023 for certain entities that pay corporation tax) would have a significant impact on expected returns for existing investments. This would require sovereign investors to review both their UK investment portfolio and their UK investment pipeline / strategy in light of the final legislation.

The UK government could consider allowing existing investments to retain sovereign immune treatment.

Alternatively if that is not palatable, the transitional arrangements for existing investments should be expanded. Rather than just rebasing existing investments when the rules begin to apply in 2024, existing investments should be grandparented so that the exemption continues to apply for a reasonable period of time, say seven years. This would allow time for the natural lifecycle (hold period) for some such investments to work its way out and also time for review and restructuring. Then, once the requested grandparenting period for existing UK investments elapses, the rebasing approach would be appropriate.

When Australia codified its sovereign immunity exemption, any investments acquired after the date the Australian proposals were announced (March 2018) were subject to the new codified rules from the application date of 1 July 2019. However, for existing investments that met certain criteria and were acquired before March 2018 (and that continued to be held on 1 July 2019) the Australian government:

- granted a transitional period of seven years from the application date before the new rules applied (until 30 June 2026)[4]; and
- permitted the transitional investments to be re-based at the end of the transition period.

Straddle periods

It is proposed that where a sovereign entity has an accounting period that straddles 1 April 2024, apportionment rules would apply.

The proposals represent a significant change for sovereigns who have not previously had to engage with the UK tax system to any significant degree due to their sovereign immune status. Sovereigns may have balance dates that differ to the standard UK balance date. In our view it would be preferable if any change to the rules applied for a full income year, so from the start of the sovereign entity's first full income year post enactment, rather than having to carry out an apportionment and file the first ever UK company tax return for a part period. This would mean that for a sovereign entity with a 30 June balance date, any changes would apply from 1 July rather than 1 April. It would also help from a data analytics perspective because, in due course, HMRC would be able to compare the impact of the changes as a result of having data available for comparable periods of time.

8. *Are there any other transitional arrangements that should be considered? If so, why*

See comments in relation to question 7 above.

9. *Do you have any comments on the transitional arrangements in respect of capital gains? Do you see any issues or complications arising with respect to rebasing which need to be addressed?*

The proposal is to rebase the cost of assets to market value at the date the new rules come into force for the purpose of tax on capital gains. We support efforts to ensure that rebasing the cost of acquisitions does not produce unfair results.

Determining market value at a point in time is relatively straightforward for public listed securities but more difficult for illiquid private market assets. Sovereign investors generally carry out fair value assessments at the end of each financial year. For practical purposes it would therefore make sense to be able to rely on the fair value exercise for the purposes of rebasing the cost of assets and, as set out in the comment to question 7 above, for any change in the sovereign immunity rules to apply from the start of the sovereign's next financial year.

[4] There were some compliance difficulties with the Australian approach caused by the key date for determining the application of the transitional rules being the date the proposals were first announced (which was 27 March 2018) rather than a standard end of the month reporting date.

10. Would automatic rebasing for all sovereign persons produce unfair results? If so, what mechanism do you think should apply to mitigate these?

We agree that in some cases rebasing could produce unfair results or be disproportionately burdensome in terms of the valuation work required and that there should be an option to rely on historic cost instead.

Chapter 4: Other tax consequences

11. Do you have any details on the scale of foreign sovereign investment conducted through such holding and fund structures?

No comment.

12. Do you have any comments on how the government should approach existing qualifying investor status in relation to sovereign investors? In particular, are there any practical issues that could arise if this status were removed? If possible, please provide details of each area listed above in turn.

Any changes proposed as a result of this consultation should be carefully considered in the context of the impact that they might have in relation to entities which have been established on this basis, many of which are funds where there may be unforeseen outcomes for the fund or other investors in those funds.

If sovereign immune investors are no longer to be treated as qualifying institutional investors for Substantial Shareholding Exemption (SSE) purposes (which exempts some or all of the gain on the disposal of UK rich shares where at least 25% of the ultimate ownership comprises qualifying institutional investors, then it would be consistent for 'rebasing' to apply, as proposed in relation to direct investments.

We do however recognise that in certain circumstances where an entity that holds UK property, and is subject to a particular regime, is controlled by a single sovereign immune investor this could give rise to inconsistency of treatment (eg compared to a direct holding of property). We believe that any inconsistencies should be addressed in a targeted way, dealing with the specific concern, rather than making changes to the eligibility requirements for the regimes themselves.

13. Are there other areas of tax law where the proposed changes to sovereign immunity may have knock-on impacts?

We are not aware of any other areas.

14. Do you have any comments on the proposed approach to Inheritance Tax?

No comment

15. Do you have any comments on the proposed approach to international organisations?

No comment

16. Do you agree that immunity from liability to direct tax should be removed from the Crown overseas and only the same immunities granted as those available to foreign Sovereigns?

No comment

17. Do you have any comments in relation to the proposed approach to repealing the dominion governments provision as set out in s25 of Finance Act 1925?

No comment

Chapter 5 Administration

18. Do you have any comments on the proposed application process?

We do not see why immunity will be available only following approval of a formal application made to HMRC and believe that this could be catered for within the legislative definitions of who is entitled to sovereign immunity. Instead sovereign investors / foreign governments should be able to self-assess their entitlement to sovereign immunity in a similar way to how the rules operate in the United States whereby the relevant entity completes the relevant W-8 series form (eg W-8 EXP *Certificate of foreign government or other foreign organisation for US tax withholding and reporting)* and provides it to the payer/manager/investee company.

However, if the UK is firmly set on requiring an application process it should be simplified with shortcuts for those who have previously been granted confirmation of sovereign immunity by HMRC. Sovereigns should only have to provide a copy of the original notification of sovereign immune status.

19. Should applicants be required to provide information about all their investments and any changes to these?

Presumably this question is directed at information regarding an applicant's UK investments.

We do not see how collecting information about a sovereign's investments is relevant to the application process for sovereign immunity nor, for that matter, for administration in a self-assessment environment (unless the applicant is subsequently subject to audit and enforcement activity).

Having to provide updates about changes in investments would add a significant compliance burden for sovereign investors. It would be particularly impractical to require information to be supplied regarding changes in passive investments that track index funds and which are rebalanced regularly. The process of filing a company tax return and the tax calculations contained therein should represent a sufficient proxy for the types of taxable investments held by a sovereign and these could be compared from year to year to provide a high level indication of changes in the level of taxable investments.

20. Should only the top entity that is immune be required to register for sovereign immunity if that entity is the beneficial owner of income that flows through a number of subsidiary entities?

The aim should be to minimise compliance costs but it needs to be practically workable. Ideally only the top entity with immunity should have to register with HMRC.

21. Do you have any comments about reporting?

No comment.

22. Do you have any comments on the proposal to require sovereign persons to follow the existing self-assessment processes under Income Tax, Capital Gains Tax and Corporation Tax? Are there any practical difficulties with this?

We are not familiar with the UK self-assessment requirements and in the event the law changes as proposed we would be engaging advisors to support us in meeting any UK tax obligations. The Fund is used to operating under a self-assessment model in New Zealand and other countries.

23. Do you have any comments about tax payments?

No comment

24. Do you have any comments about how to ensure compliance with the new rules?

Sovereign investors who are members of the International Forum of Sovereign Wealth Funds (IFSWF) have signed up to the Santiago Principles of good governance, accountability and transparency. IFSWF members are committed to meeting their global tax obligations and safeguarding their reputations. Accordingly, a self-assessment regime with periodic oversight from HMRC is likely to be sufficient.

25. Do you have any comments about the removal of jurisdictional immunity in respect of liability to direct tax?

No comment.

Chapter 6 Impacts

26. Do you have any comments on this analysis, particularly on the extent to which SWFs and foreign public pension funds income is currently sheltered by sovereign immunity or Crown immunity, and the extent to which the proposed new rules will increase their overall tax liability?

In the long term this could depend on the level of investment in the UK.

NZSF models its prospective investment returns on a post-tax basis. Any increase in the tax burden will impact the relative attractiveness of the relevant asset class. The increase per the proposals from tax of 0% to 25% across key asset classes will clearly have an impact.

27. What are the most common ownership structures used for SWF and foreign pension fund investments in UK property?

Direct equity holdings, real estate investment trusts and collective investment vehicles.

28. Are you aware of the extent to which foreign sovereign and Crown immune public pension funds are able to register for UK tax purposes or are eligible as overseas pension schemes, or of any other alternatives to sovereign immunity which SWFs and public pension

See comments in relation to question 4 above.

29. Are there any unintended consequences of these changes on foreign public pension funds?

See comments in relation to question 4 above.

30. Are there any other legitimate mechanisms through which sovereign persons could continue to benefit from tax exemptions?

No comment.

31. Would sovereign investors be likely to reduce their overall investment into the UK as a result of the proposals? If so, to what extent?

We would not expect the allocation to passive index-tracker global equities on the public market to change as a result of a new UK tax impost.

The situation could be different for active investment in public markets and will be different for direct or private market investment opportunities. For this type of investing, a change to impose UK tax would feed directly into the net return and, as such, is controllable. Sovereign investors assess opportunities on a global basis and tax is one of the factors that would be taken into account in assessing the relative attractiveness of any investment. Small tax changes can make quite a difference especially for real estate and infrastructure investments which are already well priced and well bid. In the long term, this could lead to investing via a different asset class/access point or it could mean investing in a different jurisdiction.

We acknowledge that tax settings are not the only consideration for determining where to invest and that the UK has other non-tax attributes in its favour such as a strong rule of law and a stable regulatory framework. NZSF seeks out investment opportunities around the globe and carries out holistic due diligence that weighs up the investment objectives against the investment environment in particular jurisdictions.

NZSF has been underweight in real estate assets for some time. This reflects our view that real estate and infrastructure have not been attractive sectors to allocate capital as strong demand for real estate assets from pension funds has bid prices up to high levels. We have recently added internal resourcing by hiring real estate asset specialists and, as pricing becomes more attractive, we will look to actively build our exposures in these sectors.

While the UK currently has a competitive corporate tax rate of 19%, in the event that these proposals proceed, the applicable corporate tax rate will have increased to 25% with effect from 1 April 2023.

In contrast, the US elected not to increase its corporate tax rate and with the enactment of the Inflation Reduction Act (IRA) last month will be offering tax credits and tax incentives of US$370 billion over 10 years to drive more climate friendly behaviour. Investors are very interested in the IRA's climate change and clean energy initiatives. These features raise the attractiveness of the US as an investment jurisdiction for sovereign investors.

32. Are there particular asset classes which would be particularly affected by the changes, and if so, how would this affect sovereign entities' allocations of these assets within their portfolios?

The main asset classes affected would be equities (gains, not dividends) and real estate. For the effect on sovereign investor portfolio allocations see the comments in relation to question 31 above.

33. What is the scale of investment in UK property by foreign sovereign individuals? Is such property likely to be rented out with a view to generating rental income, or held for purely private occupation purposes?

No comment

34. Do you have any comments on the government's expectations regarding economic impacts, including any potential impacts not reflected?

See comments in our cover letter and in response to Question 31.

35. With regard to property, how do you expect the proposal to impact the value of the types of properties commonly owned by sovereigns, and the rental yield required to make property investments viable when accounting for the change in tax liability?

No comment

36. Aside from property, are there other types of asset class commonly invested in by sovereigns which will be affected by the proposal in a way which might materially change the market for them?

No comment.

37. Would other asset classes become relatively more attractive to sovereign investors as a result of the proposal?

Refer to comment numbers 31 and 32 above.

38. Do you have any comments on the impacts on individuals, households, and families?

No comment

39. Do you have any comments on these impacts, or any other impacts which have not been covered here?

No comment

ANNEX – OECD Model Convention (2017)

Article 3 - definition of 'recognised pension fund'

(i) The term "recognised pension fund" of a State means an entity or arrangement established in that State that is treated as a separate person under the taxation laws of that State and:

(i) that is established and operated exclusively or almost exclusively to administer or provide retirement benefits and ancillary or incidental benefits to individuals and that is regulated as such by that State or one of its political subdivisions or local authorities; or

(ii) that is established and operated exclusively or almost exclusively to invest funds for the benefit of entities or arrangements referred to in subdivision (i).