Alternative Domicile Intelligence

News, research and advice on the future structure of the alternative fund industry

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Brexit: early signs are not good

It is nearly two months since the UK's June 23 Referendum. We are now beginning to get, at least in outline, a sense of how the Brexit negotiations might be conducted by both sides. And these early signs are not all that encouraging - either for London based alternative fund managers or for the UK's offshore centres.

The negotiations won't begin until the UK triggers Article 50 of the Lisbon Treaty. The government has said that will not happen before the end of the year. And then there is, in theory, a two year deadline to agree the terms of the UK's future relationship with the EU. (But something like this has never been done before; it could well be that two years is nowhere near enough time.)

So it may be a long time before the UK is actually out of the EU. And during this period there are national elections in France and Germany as well as an important referendum in Italy. There might be political changes in major continental European countries that could have an influence upon Brexit.

Nevertheless, despite these obvious known unknowns, we do now have a first sense of how the Brexit negotiations might go. And they are not good, at all.

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Tax avoidance directive takes aim at Luxembourg

The EU has agreed to a draft directive to curb tax avoidance practices. The Directive is intended to build on the OECD's BEPS initiative. The directive was the EU's response to the Lux-leaks scandal which revealed corporations based in Luxembourg, including a number of private equity managers, that were beneficiaries of so-called 'Advanced Tax Agreements' (ATAs), have been paying hardly any corporation tax.

The European Commission is also investigating whether ATAs were illegal state aid. If it concludes that they were then Luxembourg government will have to hand over millions of euros to other EU governments in compensation.

The draft directive will address situations where corporate groups take advantage of disparities between national tax systems in order to reduce their overall tax liability. The draft directive covers all taxpayers that are subject to corporate tax in an EU member states, including subsidiaries of companies based in third countries.

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