

[Will the last Hedge Fund manager to leave London please turn out the lights](#)

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Summary

There is growing evidence that London is losing its allure as the location of choice for alternative investment managers. There is no one factor driving this, but a combination of an increased focus on the taxation of expatriates; higher taxation generally; perceived over-regulation of alternative investments; and intrusion into the remuneration structures of investment managers.

Analysis

London fretted almost constantly for 20 years from the early 1980s about how to stop financial businesses relocating to other centres. Now the UK government often gives the impression of actively encouraging such moves. It must also be said that the UK is part-victim in all this. Certain of the more draconian elements of proposed alternative regulation have little support within the UK's fund management community or the country's government. However, it is easy for other EU states to propose populist change when they have no domestic business to lose.

EU regulation, however, is just the "last straw" for some managers based in the UK, who have seen a number of changes over recent years that put their businesses at greater risk. The first change was the move to tax expatriates on worldwide income, or require payment of £30,000 in lieu thereof. Ostensibly this tax was aimed at a very small number of immensely wealthy individuals. However, it cannot have escaped the Treasury's notice that the hardest hit, in terms of additional bureaucracy if nothing else, would be the many thousands of expatriates doing normal jobs in financial services. Such people may be relatively well-paid, but they are not super-wealthy. The clear message many received was "Britain does not want you". Although many of the worst aspects of the changed tax regime were subsequently amended, first impressions count, and that impression was negative. The Treasury similarly began to look at taxing UK-incorporated companies on worldwide income. Again, there has been something of a retreat subsequently, but not before many high profile companies announced relocation of their ultimate holding companies out side the UK. This allowed them to keep all non-UK income outside the UK. Ireland has been a particular beneficiary of this, with many UK groups relocating there. As well as having an attractive headquarter's tax regime (eg no transfer pricing rules; no controlled foreign corporation rules), it also has low general corporate tax rates, generous R&D tax breaks, and attractive taxation of intellectual property. Unlike the UK, Ireland is moving more towards encouraging expatriates to locate there by offering an attractive personal tax regime for them. If it were not for Ireland's EU membership, it would be an ideal jurisdiction for Hedge Fund managers (see below)!

The second change in the UK was to direct taxation in the aftermath of the credit crisis. The UK's public finances have come under great strain, its credit rating is under pressure, the collapse of banking etc has put a big permanent hole in the tax base, and that needs to be filled. Taxing the rich is an easy populist measure, even if the people being taxed the most are not actually that rich. It must be said that the UK is not doing anything dramatically different to anyone else. Taxes will have to rise everywhere to pay back the increased public sector debt issued on the back of the banking collapse and subsequent steep recession. However, there are certain jurisdictions that still appear fiscally attractive, and also welcoming to expatriates with spending power. When a welcoming approach to financial business is added to this, then London is suddenly at a big disadvantage. There are a number of Swiss cantons that tick all the boxes.

Switzerland also has the advantage of being outside the EU, and hence offers the opportunity to avoid both the proposed alternative investments directive generally, and the recently publicised annexe on manager remuneration. Avoiding these totally is impossible, other than by abandoning the 500 million (affluent) person EU market all together, which Hedge Fund managers will not do. However, as the BlueCrest article makes clear, managers may seek to minimise exposure to the EU, and only locate there those persons and activities that must be there in order to allow marketing within the EU as and when the alternative investments directive is enacted.

There are now so many stories of Hedge Fund managers relocating that they cannot be dismissed as "isolated events". A sense of perspective is required, however. There are many people, both British and not, for whom London is "home", and virtually nothing will induce them to move. There is the whole "lifestyle thing" that, for many people, is of greater consequence than whether they can find a way to pay a bit less tax. By contrast, there are plenty of people who are happy to be mobile. All the indications are that these people now find leaving the UK to be an attractive option. It is consequently proving quite straightforward for Hedge Fund managers to move sufficient staff away from London often, but not in all cases, to Switzerland and have immediate critical mass there. That part of the business servicing EU clients will continue to operate within the EU. However, the EU and in particular the UK, risks losing the benefits of managers servicing their global business from London. That represents a considerable potential loss of consumer spending as well as both direct and indirect tax revenues.