Jon Moulton's Diary

Labour is very likely to form the next government — so what actions can be taken to mitigate some of the expected policies?

Veteran financier Jon Moulton has been involved in buyouts, turnarounds and venture capital since 1979 with firms such as CVC, Permira, Apax, Alchemy and, most recently, Better Capital, where he has been the chair since 2009

The UK is almost certainly going to have a Labour Party government in the next parliament. We know the things they say they are committed to doing and suspect some of the others.

Labour has said it will not raise income tax (just base rate?), national insurance or VAT. The rest is wide open, and they talk a lot about taxing the wealthy – aka many of *PEN's* readers.

There are significant actions that can mitigate the taxation hits that are coming our way. Income tax rates for high earners will likely rise as the government struggles to balance the books. So, think about paying bonuses and dividends early and hope you are in time.

Personal taxation

Labour are firm on "aligning" carried interest with income tax. It's a guess but instead of the deserving UK resident soul keeping 72% of the carry you might see this halved. Clearly where you can accelerate realisations you might beat the rate rise. It may particularly be worth looking at quicker transactions than an auction exit, such as debt funded share buy-backs.

Continuation and extension funds can also be structured to accelerate exits for carry purposes while keeping the investee "in the family". If you have a good enough relationship with your LPs you can even try asking for carry to be paid over a lower, or even no, hurdle. If need be, you could do this by offering a cash escrow on the carry proceeds in case the hurdle is never reached.

Of course, the private equity professionals can get out of the UK tax net by moving their residence to less taxing locations. Quite a lot already are already effectively offshore, but care will be needed to keep clear of the more stringent non-domiciled tax status that is promised for the UK. You can expect a lot of emigration – particularly for the multinational private equity firms.

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Whether it is taxation or its attitude to markets, the next Labour government will give PE plenty to think about

Similar considerations will apply to the equity holding management of portfolio companies who will be wide awake to the effects on them. They will not worry about carry tax, but they will worry about capital gains tax going up – there are no promises from the politicians to hold that tax steady.

Another tax that will influence some managers is inheritance taxes – big rises here seem highly probable, and the only secure mitigation will be to flee the jurisdiction. Historically the rate was as high as 85% and now is 40%.

Corporate level

At a corporate level the future tax policies are less clear but an increase in corporation tax seems likely. UK rates of 25% now, contrast with a peak of 52% earlier in my career. So accelerating profits and deferring costs where you can looks very sensible. The energy sector is particularly threatened with higher taxes – possibly financials too.

For those who are privately educating children in the UK the arrival of VAT seems certain. Paying in advance and considering overseas schooling are worth considering.

Stamp duties will likely rise so property transactions may be worth accelerating.

Government policies

Outside of taxation more government seems likely to arrive – for example landlords will definitely be hit hard.

Employee "rights" will be stiffened and minimum wages and the like will push up costs. Using technology instead of people seems to be a sound strategy for the coming years.

Labour say they will boost growth – sadly without much in the way of known policies seeming to exist to drive this. They are silent on regulation – which you can confidently expect to increase. Ominously, Labour say "markets must be shaped, not merely served". Government dictated industrial policies are as yet murky.

Labour's prime election slogan is "Change". It comes.

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