



Time for reset

The Labour government's first Budget presents challenges for private equity, but nothing is insurmountable, says **Jon Moulton CBE**

At the time of writing, we have just received the Labour government's first Budget. Carried interest and capital gains taxes are set to increase to the disadvantage of private equity souls and to entrepreneurs more generally. Inheritance tax changes will impact the better off, too – albeit after they have fully departed, unless they have departed these isles at an earlier date.

A very different government is now in charge and my inbox already shows tax practitioners seeking business from well-paid, or just rich, individuals affected by the changes. The relative desirability of non-UK residence has sharply risen. I live in Guernsey. Suddenly people want to buy my house. Added with the changes to the non-domiciled tax rules, a large number of wealthy people, often (but not always) wealth generators, will doubtless be moving away from the UK.

But it can be quite easy to operate a tax-efficient private equity business even where portfolio businesses are owned in the UK. You just ensure senior private equity staff lose their UK resident status. It will mean increased use of the Zoom/Teams approach to portfolio management, but once their tax residence has moved, the changes in CGT and carry taxes can be avoided by senior private equity management entirely. In the case of private equity firms that already invest in multiple jurisdictions, it is even easier to get to a place of residence that is indifferent to UK tax regulation.

I fairly confidently predict a rush of company sales aiming to complete before the new rules take full effect, which is deal flow. But that will be followed by a slowdown as tax-shy entrepreneurs either move out of the UK tax net before a share sale or choose to sit on their assets.

We must remember that CGT rates have changed wildly and regularly for the past 40 years. If you live long enough, the adverse effects of a tough CGT tax regime will probably be reversed. Rates change nearly as often as Tory party leaders.

Risk takers

Perhaps the real big news in the budget was the rise in employers' national insurance. That is a simple tax on employment that cannot but worsen the competitive position of UK employers, and will encourage businesses to minimise staffing costs in ways that may

affect employment levels. It is far from clear how that will fit into the declared growth agenda.

Politics we have to live with. The politics of envy are apparent, with VAT being levied on school fees. That is designed to raise taxation only from richer households, who probably no longer fall into the definition of 'hard-working people', in current political language.

If anything, lower-income groups will be better off, but of course that was the outcome of the election. I am not expressing my poorly informed opinion on the social justice basis of this Budget, but I simply have a view on its effects on capitalist entrepreneurs.

I think they will mostly be motivated to take less risk and invest less. I don't have a decent basis to estimate the economic effect, but it won't be insignificant.

This government is intent on generating investment and growth – largely by government schemes moving cash from government-controlled entities into projects. I personally think this is generally a bad idea. For whatever reason, the UK seems to lack projects with strong economic outcomes and there is no shortage of poor ideas. I think the government would be better occupied working at improving the skills and infrastructure of the economy than investing in projects that run the risk of crowding out the private sector. In my experience, markets select success far better than governments.

However, success will doubtless be measured simply as braggable billions out the door at the next election. I am certain these words will fall on deaf ears. Real results will take longer to be apparent – assuming they are not successfully suppressed.

An interventionist government will definitely generate some lucrative opportunities for the corporate finance profession. Support in transactions, all kinds of due diligence and a wide range of tax and legal work, as well as numerous consultancy projects, will all be sources of fee income.

We will have to get used to dealing with politicians who see us in a bad light and regulation as a great good. But PE investors and corporate financiers are nothing if not adaptable. Despite all of the above, I predict we will get through this well.

'CGT rates have changed wildly and regularly for the past 40 years – nearly as often as Tory party leaders'