PE Connect Jersey Leadership Forum

14 May 2024

01
Introduction

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Private Equity Group

With you today

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Agenda

02

Key market and valuation trends

Jeffrey Parongan
Director
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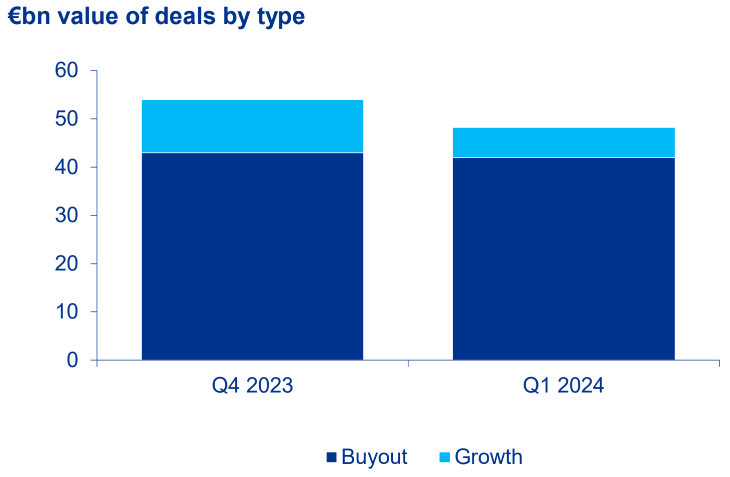
Global M&A Activity

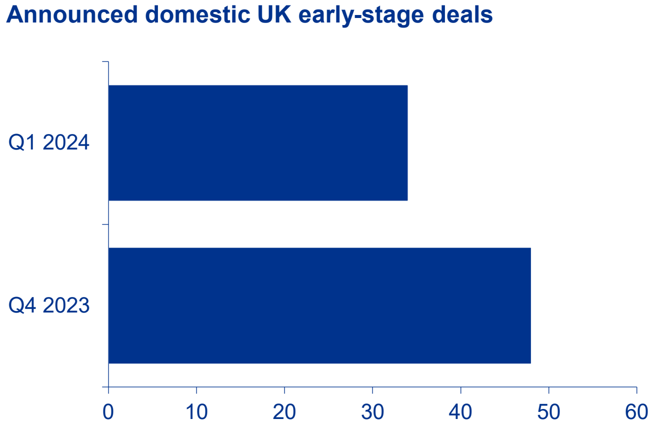
- Global M&A has declined for two years consecutively; M&A has typically always bounded back from consecutive annual declines.
- The present decline measured at 34% down from 2021's peak compared to peak-to-trough declines of approximately 60-70% in the prior two episodes of 2007-2008 and 2001-2002.
- With lower base rates potentially on the horizon, albeit more sluggishly than previously anticipated, a recovery in deal value is still expected even if a more shallow one.

Europe M&A Activity



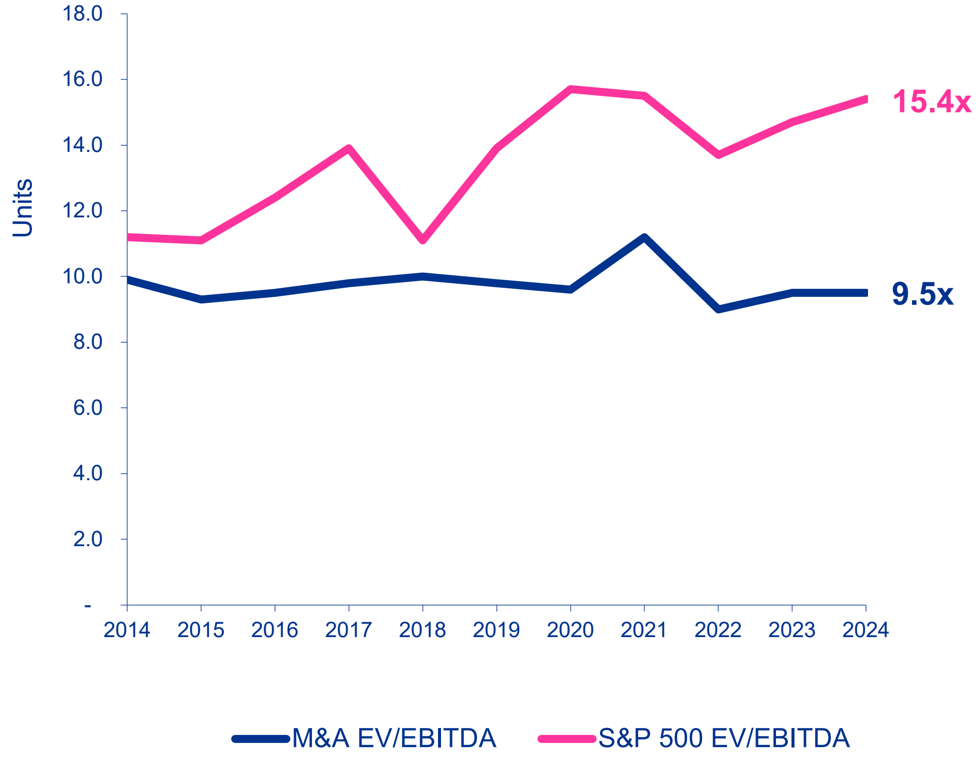
- In Europe specifically the PE space failed to rebound from a quiet final quarter in 2023 with the number of buyout and growth capital deals flat on the previous quarter at 575 and the overall quarterly value down almost 11%.
- The midmarket however had a relatively robust period with deal numbers and deal value rising modestly.
- This contrasts to large-cap deals where while 24 €500m+ deals worth almost €30bn were recorded in Q4, this slipped to 16 deals worth €23.4bn in the first three months of this year.

- First quarter UK-to-UK early- stage investments, in which a UK investor buys into a UK business, are 29% lower this year than last. A total 48 of these deals took place in Q1 2023 versus 34 during the quarter just gone.



Valuation Metrics

Public company trading multiples versus M&A multiples (EV/EBITDA)



- North America and Europe transaction multiples moved sideways from Q4 2023 to Q1 2024, consistent with the trend of 2023.
- Multiples are still 15-20% short of 2021's peaks of 11.0x the prolonged stable trend suggests that a valuation reset may now be complete.
- Whilst M&A multiples are moving sideways, public trading multiples continue to rise, with that further extenuating post 31 March. As measured by the S&P 500, trading multiples surged by close to 10% in 2023, and a further 5% in Q1 2024 to a median of 15.4x EV/EBITDA.
- The current widening gap could open a potential IPO window.

Recent Market and Valuation Trends

Weakening headwinds

- Inflation rates gradually decreasing
- Interest rates and market uncertainties will continue to remain as top barriers to deals
- Few headwinds persist such as tighter regulations, global tax landscape + election year!

Exit challenges and continued liquidity pressures

- GPs need to continue to be creative in seeking exits and providing liquidity in this challenging environment
- Some GPs maybe forced to accept lower valuations than previous highs to get deals done

Longer timelines for fundraising

- Megafunds continue to dominate the fundraising landscape
- Lack of exit means more fundraising bottlenecks
- First-time fund managers still struggle as LPs seek managers with track record

Valuation reset now complete or is it really?

- Bid-ask spread becoming more stable?
- Elevated multiples can still be achieved but only for high quality businesses that attract that premium

Value creation at the core of PE investments

- Artificial intelligence and digital transformations
- Margin expansion

FCA's review of private market valuations

"Dear CEO" letter dated 1 March 2024

The FCA confirmed in its letter that the Review will look into valuation practices for private assets including the following:

Personal accountabilities

Governance of Valuation Committees

Information reported to Boards about valuation

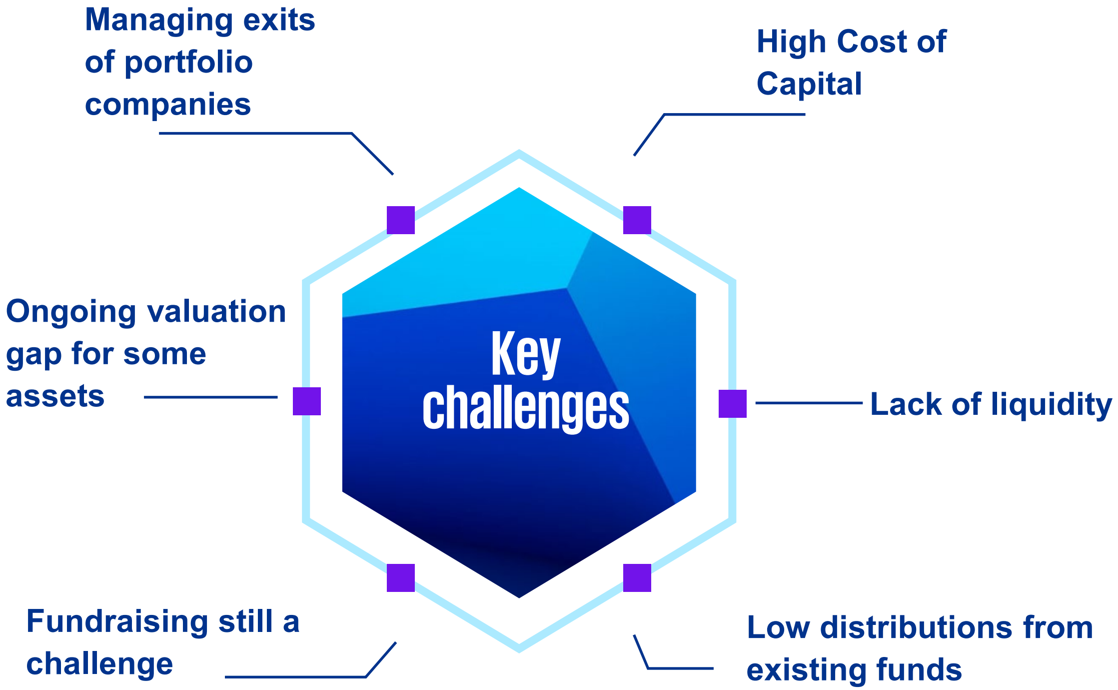
Oversight by relevant Boards

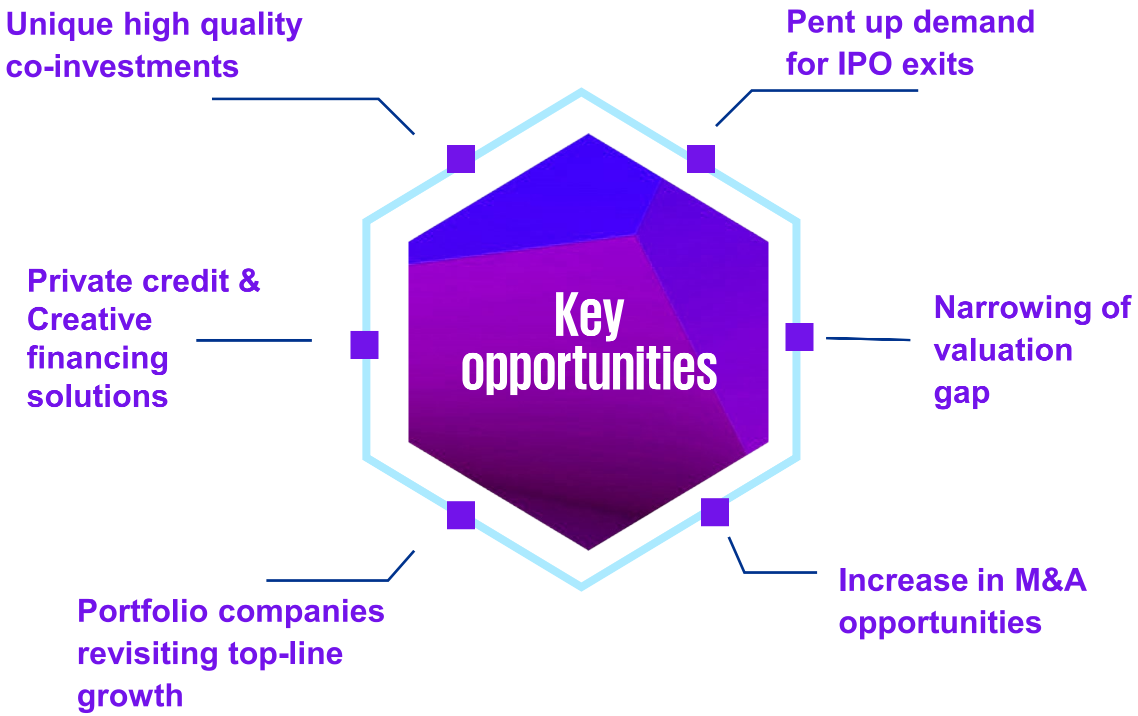
03

Fund structuring nuances and the reporting impacts

Chloe Mattock
Director
Audit
Private Equity Group

Key challenges and Opportunities for 2024





…..Some continued uncertainty, making it difficult to plan

…..Some signs of recovery and optimism

Current structural trends

01 Continuation funds

Continuation funds emerged as a credible alternative exit route over the last couple of years – for the right assets at a time when other exit channels are constrained.

Where a continuation fund is most relevant is where GPs have good companies that they don't want to relinquish control over, in the current valuation environment – but are under pressure to generate distributions for their LPs.

02 Co-investment opportunity

With GPs facing some constricted funding climate and pricier debt financing – there is evidence of increasing trends of GPs approaching their LP base (or outside their LP base) for additional co-investment capital to fill up the equity portion of the purchase price on deals.

03 Building momentum in secondary market

Secondary transactions have grown as a solution to liquidity challenges during the recent downturn.

04 Lending market

Some revival with banks providing senior debt/term loans and this being used as financing:-

- Some tighter terms. More convents and tighter terms
- NAV financing allows private equity managers to take out loans secured against the underlying assets in their portfolios, an increasingly valuable tool which builds flexibility and liquidity into their funds

Given the highly unique nature of continuation fund transactions and broad range of deals they affect or encompass, the recommendations that follow may not be universally appropriate or applicable to every circumstance.

Continuation Funds – in focus

Continuation funds remained a prominent feature in 2023 and this trend is expected to continue in 2024. There are some important governance considerations to incorporate into a planned transaction.

Rationale and Conflicts

- The GP should present rationale for continuation fund transaction to the Limited Partner Advisory Committee (LPAC), and have explored alternative options.
- The LPAC should vote to waive conflicts of interest with the process of the transaction. GPs should bring all conflicts to the LPAC, whether or not conflicts are pre-cleared as per the LPA.
- A competitive process should be run to ensure a fair price was obtained; the process should include third party price validation.
- The GP should disclose the information about the selected assets, the process and the bids in a timely fashion to the LPAC when considering conflict waivers and to all existing LPs to facilitate roll or sell decisions.

Process and Timing

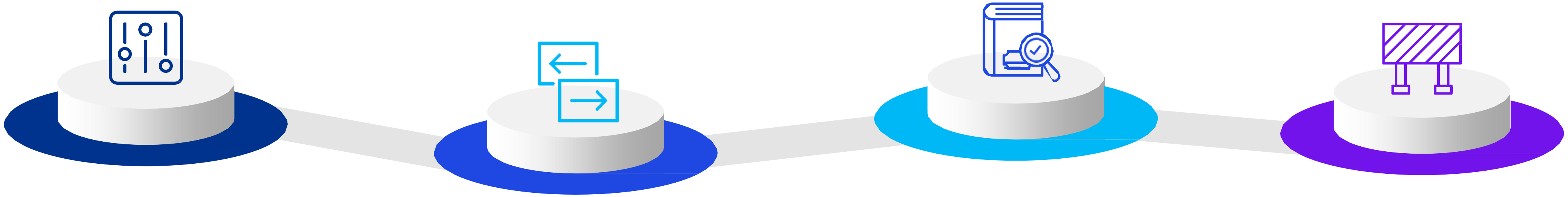
- The continuation fund transaction process should conform with the relevant provisions of the existing fund LPA. GPs should avoid LPA terms that pre-clear conflicts of interest associated with these transactions
- GPs should engage experienced advisors to facilitate the transaction. GP should disclose any potential conflicts of interest with the advisor and the commercial arrangement.
- LPs should be afforded no less than 30 calendar days or 20 business days to make roll or sell decisions.

Terms and Documentation

- Rolling LPs' side letters should apply to the continuation fund. At a minimum, all relevant risk and governance terms agreed to in the existing fund side.
- There should be no increase to the management fee basis or percentage for rolling LPs
- There should be no increase to the carried interest rate or decrease to the preferred return hurdle.
- There should be no crystallization of carried interest for rolling LPs.
- All carried interest accruing to the GP related to interests from selling LPs should be rolled into the new continuation vehicle.

Recommendations for LPs

- LPs should establish internal protocols to respond to these transactions, such as approval processes, underwriting processes and understanding statutory requirements
- When transactions arise, LPs should work with GPs to set timing expectations around reviews, negotiations and approvals
- When transactions arise, LPs should request that GPs provide documentation, models and materials necessary to be fully informed; there should be a symmetry of information between existing LPs and prospective new buyers.



Legislative & regulatory developments

Important changes on the regulatory & reporting landscape

Finalisation of the SEC private fund adviser rules

In August, SEC announced the adoption of the final rules under the Investment Advisers Act – designed to increase investor protection and transparency.
Certain of the rules apply to IAs registered under the Investors Act, others apply to both registered and unregistered advisers.

ESG considerations, firmly moved into PE mainstream

This has become a driver of value in addition to being an exercise in best practice compliance. Industry convergence around ESG will be an important next step. Sustainable Finance Disclosure Regulation (SFDR) have brought increased disclosure.

IASB publishes IFRS 18

IFRS 18 Presentation and Disclosure in Financial Statements will replace IAS 1 Presentation of Financial Statements. IFRS 18 is effective from 1 January 2027 and applies retrospectively. Early adoption is permitted. Among the changes, IFRS 18 requires companies to report a newly defined subtotal, 'operating profit'; disclose certain 'non-GAAP' Management performance measures (MPMs), and improve how information is grouped.

IASB publishes IFRS 19

The IASB's voluntary new IFRS standard, IFRS 19 , aims to simplify the group reporting process for eligible subsidiaries. The new standard is effective from 1 January 2027, with early adoption permitted. IFRS 19 aims to reduce the disclosure burden for subsidiaries.

Legislative & regulatory developments

Important changes on the regulatory & reporting landscape

AIFMD II.

The EU has concluded negotiations to update the AIFMD rulebook, which has been in place since 2011. The AIFMD II changes will impact a wide range of areas. Whilst all AIFMs and UCITS Man Cos will be affected to some degree, the changes look set to be most onerous for loan originating fund managers and their funds.

Company size thresholds implications

Monetary company size thresholds are set to rise by 50% from October 2024, affecting non-financial reporting obligations for businesses of all sizes.

Company Size thresholds in focus

Monetary company size thresholds are set to rise by 50% from October 2024, affecting non-financial reporting obligations for businesses of all sizes.

Micro-entity

	Current	New
Employees	≤ 10	≤10
Turnover	≤ £632k	≤ £1m
Balance sheet	≤ £316k	≤ £550k

Small

	Current	New
Employees	≤ 50	≤50
Turnover	≤ £10.2m	≤ £15m
Balance sheet	≤ £5.1m	≤ £7.5m

Medium

	Current	New
Employees	≤ 250	≤ 250
Turnover	≤ £36m	≤ £54m
Balance sheet	≤ £18m	≤ £27m

Large

	Current	New
Employees	> 250	> 250
Turnover	> £36m	> £54m
Balance sheet	> £18m	> £27m

Companies must meet at least two of the three criteria in either their first ever financial year or for two consecutive financial years in order to be eligible to qualify.

How will businesses be effected?

The uplift in thresholds will potentially enable companies to move down a size category and take advantage of reduction in requirements and associated cost saving.

Concerns about FRS 105

Some concerns about the FRS 105 Micro-entity regime are widespread given the little information that is required and the ability to assess the past performance, position and future concept.

Growth trajectory

For companies on an upward growth trajectory any step down in the regime they qualify for, may be temporary. It may be disruptive to change reporting processes only to reinstate in a few years time.

Consider interaction with other changes

- **European Crime and Corporate Transparency Act** will lead to changes for small and micro-entities in, with companies being required to file P&L account
- **Final amendments to FRS 102**, from the FRC's periodic review published. Among changes is an increase in the minimum disclosures required under **section 1A**. Effective dates for these changes are 1 January 2026.

04

ESG Trends and Regulation

David Postlethwaite
Associate Director
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Crown Dependencies

Past, present, & future trends for ESG in private equity

2023 – What we've seen so far

1. ESG integration grew
2. Polarisation of ESG
3. Data remained a challenge
4. Materiality was key
5. Gearing up for new disclosures
6. Assurance on the rise

2024 – What to expect

1. Regulations and frameworks become effective
2. Increased focus on CSRD
3. Continued politicisation
4. Rise in litigation
5. Biodiversity becomes mainstream
6. Heightened focus on greenwashing
7. 2024 elections will set the scene for the next few years

Further afield:

1. Mainstream adoption of ESG in investment valuations
2. ESG impacts financial disclosures
3. 2030 climate goals will come under increased scrutiny

What's happening in our key markets?

United Kingdom

Key developments include:

- **FCA TCFD Disclosures:** mandatory climate disclosures in force for range of listed/large corporates, asset managers, banks etc.
- **UK SDRs :** new fund disclosures, labelling regime in force 2024.
- **Anti-Greenwashing**: introduction of a "general" rule for all FCA-regulated firms in May 2024.
- **ISSB**: UK to adopt via the UK Sustainability Disclosure Standards
- **UK Green Taxonomy:** consultation coming up?

European Union

Key developments include:

- **Sustainable Finance Disclosure Regulation (SFDR):** earlier reclassifications show still a work in progress, updates to RTS, consultation on functioning of SFDR regime now underway…
- **Corporate Sustainable Reporting Directive (CSRD**): new ESG disclosure regime being phased in, will catch 40k+ EU companies plus non-EU companies with significant EU presence (e.g. listed sub or branch)

United States

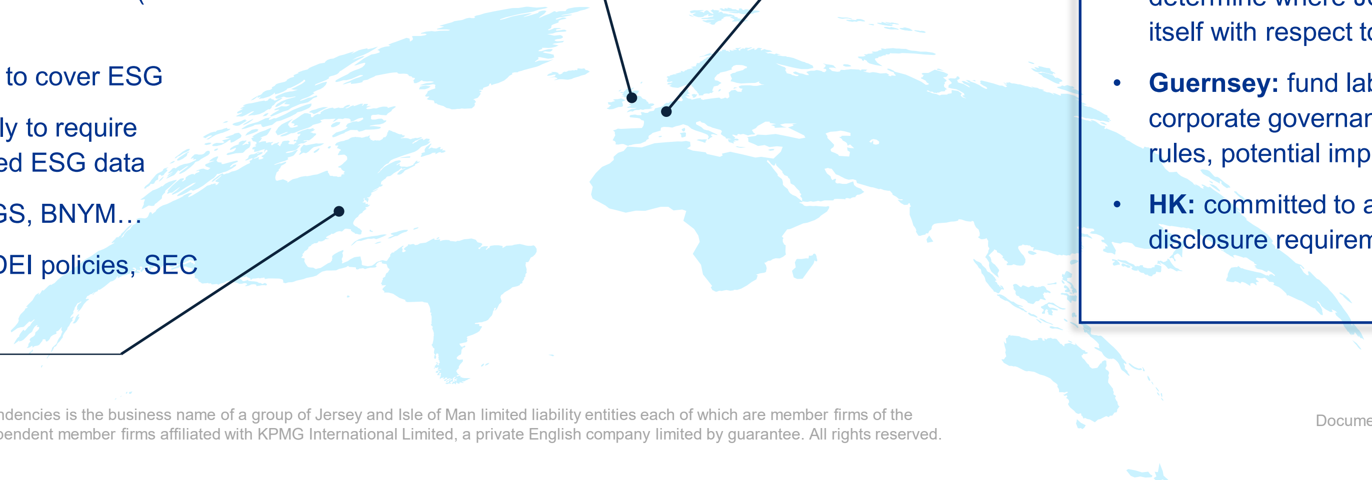
Key developments include:

- **SEC Climate-related Disclosure Rule:** Final rule issued in March, requires climate disclosures in Annual Reports and Registration Statements (**NB** now paused pending litigation)
- **Names Rule:** expansion of policy to cover ESG
- **Private Fund Advisor rules:** likely to require managers to disclose more detailed ESG data
- **SEC enforcement:** DWS, Vale, GS, BNYM…
- **Litigation, SCOTUS:** impact on DEI policies, SEC powers?

International Finance Centres?

IFCs are also developing regulatory approaches:

- **Jersey:** recently released a consultation to determine where Jersey would like to position itself with respect to sustainable finance
- **Guernsey:** fund labels, climate risk in corporate governance, anti-greenwashing rules, potential implementation of ISSB
- **HK:** committed to aligning sustainability disclosure requirements to ISSB standards



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Sustainable Finance: what's the market doing?

Encouraging signals... but growing polarization

- "Greenhushing" on the rise due to greenwashing and regulatory concerns
- Environmentally focussed funds doing relatively well but social impact is waning
- Pitchbook reports no evidence of "underperformance" or return sacrifice by ESG-committed managers
- US ESG funds saw significant outflows in 2023

55%

of EU funds are now Article 8 or Article 9 SFDR *(Morningstar)*

$1trn

Sustainable bond issuance in '23, up on '22 but down on '21 (*Bloomberg*)

25%

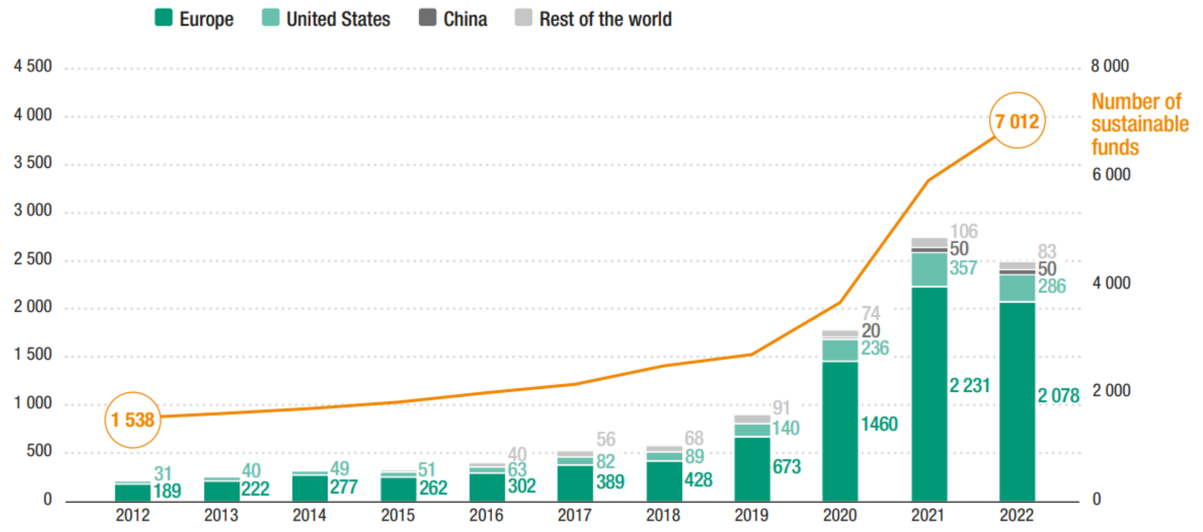
of global AUM projected to be in ESG assets by 2030 (*Bloomberg*)

Europe

Remains the key region for ESG investment activity,

Sustainable funds and assets under management, by region, 2012–2022

(Billions of dollars and number)



Source: UNCTAD, based on Morningstar data.

Corporate Sustainability Reporting Directive (CSRD)

EU ESG Reporting regulation CSRD - Who has to report and to what extent?

Scope of Application

All companies (incl. non-capital market oriented) with 250 employees, €50 Mio. in revenues or €25 Mio. in total assets [2 out of 3]

3-year phase-in for SMEs

Reporting requirements for approx. **50.000** companies within the EU

Reporting

Reporting must be integrated in **Management Report**, the option for publishing a separate non-financial report will no longer be available

12 new accounting standards (ESRS) are mandatory across E, S and G topics - plus EU-taxonomy

Digital reporting of sustainability information in line with the **European Single Electronic Format (ESEF)**

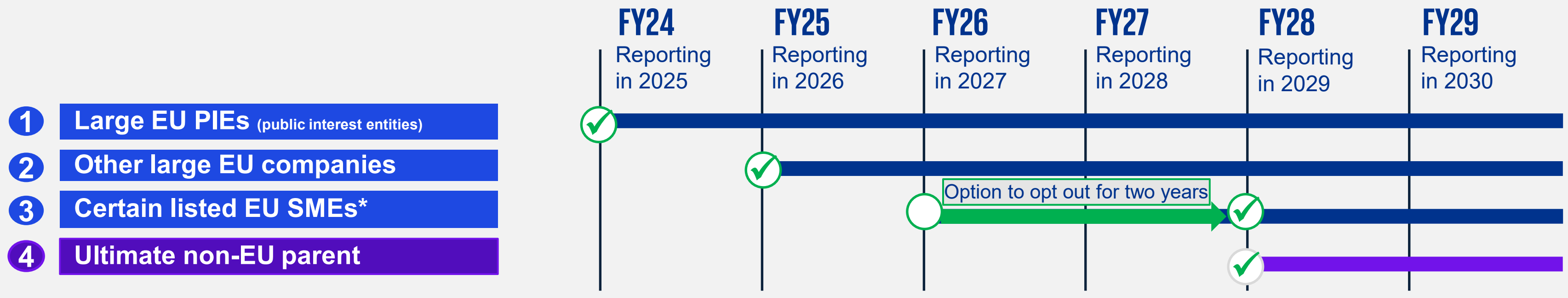
Assurance Obligation

Limited Assurance according to ISAE 3000 or a comparable standard will be mandatory

Probably to be provided by the financial statement auditor

Reasonable Assurance possibly the next step in the process of aligning the depth of review with that of the annual report

The scope of reporting entities over the years



Impact for PortCos

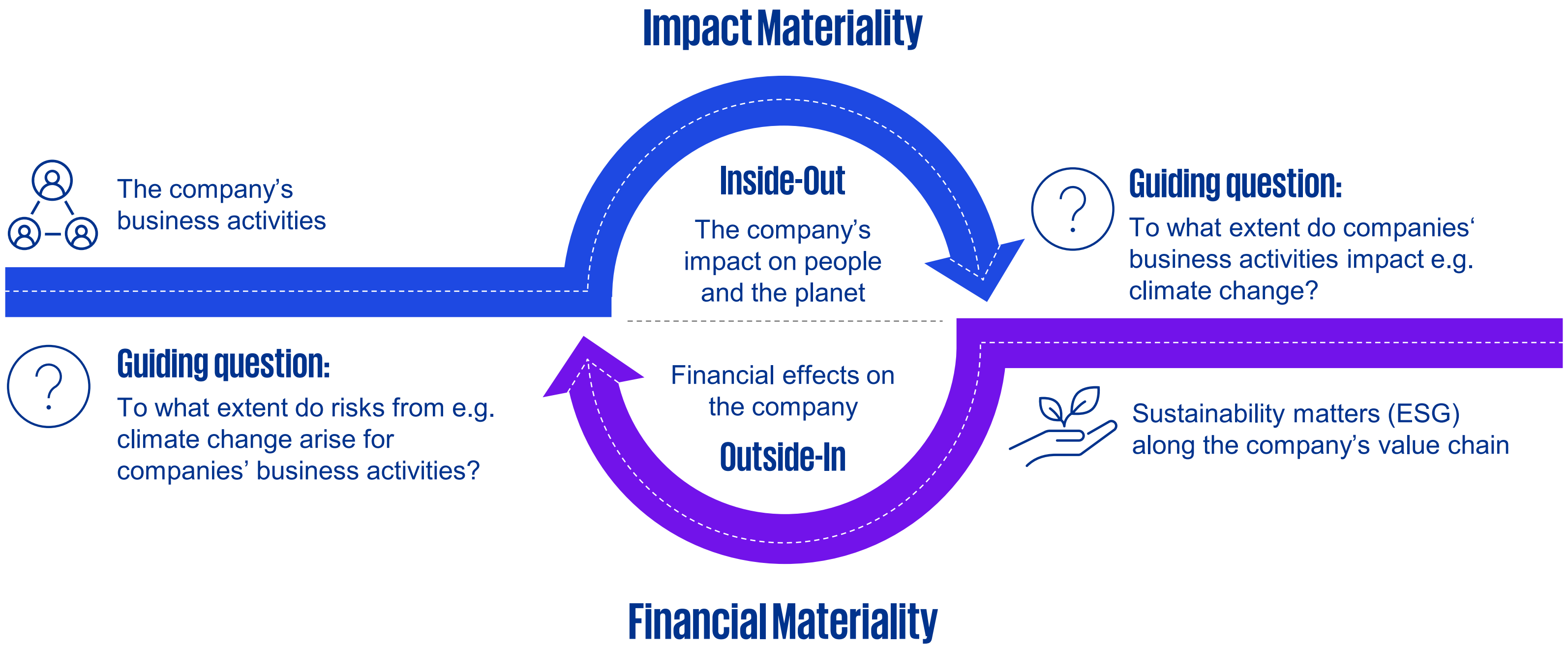
- PortCos that meet the scoping criteria must apply the CSRD from 2025
- With capital market orientation already from 2024
- Non-EU PortCos with subsidiaries in EU must apply the CSRD to them (artificial consolidation in EU country)
- Consider reporting AND assurance obligation

Double Materiality Assessment – first step towards CSRD Reporting journey

The Principle of Double Materiality

CSRD requires to report on ESG topics based on the double materiality concept: **impact** and **financial** materiality.

Through stakeholders consultation, the company will identify the 1. positive/negative **impacts** and 2. financial **opportunities and risks** related to the ESG topics that must be assessed.



Material ESG-related impacts

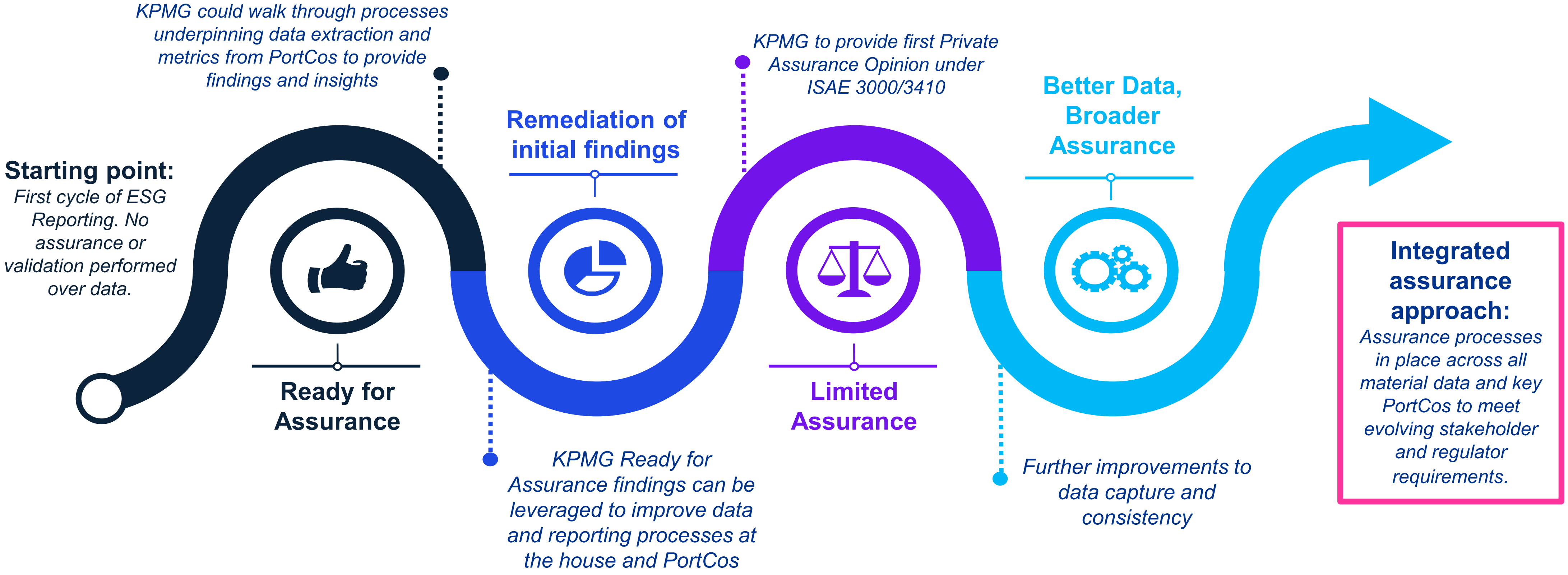
- Determine actual and potential impacts, direct and indirect; inside and outside the company; short-, medium and long-term
- For actual impacts: assess according to severity (**scope**, **scale** and **remediability**)
- For potential impacts: additionally assess according to likelihood

Material ESG-related financial **risks and opportunities**

- Determine short-, medium and long-term financial risks and opportunities
- Assess according **to likelihood & magnitude** of financial effects on cash flow and enterprise value(n)

Note.: (n) ESRS I, par. 53: "Sustainability matter is material (…) when it generates or may generate risks or opportunities that have a material influence (or are likely to have a material influence) on the undertaking's cash flows, development, performance, position, cost of capital or access to finance"

The roadmap to ESG assurance



Recent SFDR Consultation

The European Commission launched a wide-ranging consultation on the Sustainable Finance Disclosure Regulation (SFDR) in September 2023. The main aim of this consultation is to obtain information regarding the usefulness of the regulation as it stands and capture opinions for how the regulation may develop moving forward. The consultation aims to gather views on the following areas:

01 Current SFDR Requirements

- This section aims to gather views of how well SFDR works in practice, including any potential issues.
- The questions capture the appropriateness and usability of the Principal Adverse Impact disclosures.
- Questions also cover the cost and benefits of complying with the regime.
- There is a specific focus on challenges faced in relation to data gaps.
- Seeks to understand whether firms have increased their offering of financial products that make sustainability claims since SFDR was introduced, and, if so, the drivers behind this.

02 Interaction between SFDR and other EU Rules

- Questions in this section focus on alignment, misalignment and inconsistencies between the SFDR and other reporting rules and regulations.
- Other rules and regulations covered include CSRD, MiFID II, the Benchmark Regulations, and several others.
- The questions also seek views on the Commission's most recent Q&A clarifications — e.g. on the definition of a sustainable investment and the status of index-tracking products.

03 Potential changes to disclosure requirements

- The consultation sought views on the content of disclosure requirements:
- **Entity-level disclosures:** whether these disclosures are useful overall, which PAI indicators are most useful, whether SFDR is the right place for entity-level disclosures, and whether there is scope to streamline entity-level disclosures across regulations.
- **Product-level disclosures:** whether standardised product disclosures should apply to all products, regardless of their claims (i.e. to also include Article 6 funds). In that scenario, it asks which PAIs should be disclosed, whether there should be an element of proportionality (e.g. based on size), and which factors should trigger reporting obligations.

04 Potential for a categorisation system

- The Commission explores whether new product categories should be introduced, based on sustainability objectives and precise criteria. The questions address the potential usefulness and effectiveness of such an approach, and how any categories should be designed. Two possibilities are put forward:

1. **A new approach** – closer to the fund labels introduced by the FCA's Sustainable Disclosure Requirements ("SDR").
2. **Conversion of current approach** – changing Article 8 and 9 into more formal product categories and adding specific requirements to them.

SFDR vs SDR – Labelling Regime

In December 2023, the UK's FCA released their long awaited Sustainable Disclosure Requirements. Many of the areas of the recent SFDR consultation, especially surrounding the potential of a categorisation system, appear to have been influenced by the UK's SDRs. Below we have summarised some of the key differences between Option 1 on page X and SDR:

SFDR Consultation Option 1	SDR
Products investing in assets that specifically strive to offer targeted, measurable solutions to sustainability related problems that affect people and/or the planet.	This broadly aligns with the FCA's **sustainable impact** label, which can capture products that aim to invest in solutions to environmental or social problems, to achieve positive, real-world impact.
Products aiming to meet credible sustainability standards or adhering to a specific sustainability-related theme.	This closely aligns with the FCA's **sustainable focus** label, which can capture products that aim to invest in assets that are environmentally and/or socially sustainable.
Products that exclude activities and/or investees involved in activities with negative effects on people and/or the planet.	The FCA has, to date, **not proposed an equivalent category/label** that relies on exclusion. It remains to be seen whether such products might be accommodated in the FCA's final rules.
Products with a transition focus aiming to bring measurable improvements to the sustainability profile of the assets they invest in.	This broadly aligns with the FCA's **sustainable improvers** label, which can capture products that to aim to improve the environmental and/or social sustainability of portfolio assets over time.

Note – there is no immediate impact on firms as a result of this consultation.

What Are the UK SDRs

The UK's FCA has issued final rules on UK Sustainability Disclosure Requirements (SDR) and investment labels.

What?

Policy statement by FCA (PS23/16)

- General anti-greenwashing rule
- Four new fund labels:
  - Sustainability Impact ™
  - Sustainability Improvers ™
  - Sustainability Focus ™
  - Sustainability Mixed Goals ™
- Naming, marketing, disclosure and information rules.

Who?

Firms who make sustainability-related claims

- All FCA-authorised firms are caught by anti-greenwashing rule
- Labels, disclosure, naming and marketing rules apply to UK asset managers in respect of authorised AIFs, UCITs etc.
- FCA has clarified that non-UK AIFS (e.g., a Jersey-domiciled fund) are **out of scope** but…
  - ➢ Entity-level disclosures may still apply
  - ➢ FCA and HMT will consult on overseas funds

When?

Coming in 2024, subject to further consultation

- To end Jan 24: Consultation on anti-greenwashing guidance
- 31 May 24 – anti-greenwashing rule n force
- 31 July 24: fund labels for use
- 2 December 24: naming and marketing rules with accompanying disclosures
- 2 December 25 – product/entity level disclosure for firms with AUM over £50bn (followed by £5n from Dec 2026).

Jersey Impact?

Don't assume Jersey is not affected by UK SDRs

- UK managers of Jersey-domiciled funds may need to do entity-level disclosures
- FCA-regulated firms, clients, etc. need to consider anti-greenwashing rule – wider implications for industry?
- UK distributors to include notice re: overseas funds that use sustainability-related terms
- Planned expansion to overseas funds in due course
- Will Jersey funds voluntarily seek label alignment?
- How will Jersey respond to maintain position/equivalence?

Corporate Sustainability Due Diligence Directive (CSDDD)

CSDDD aims to foster sustainable and responsible corporate behaviour, anchoring human rights and environmental considerations in companies' operations and corporate governance, ensuring businesses address their adverse impacts, including in their value chains inside and outside the EU

Corporate due diligence duty

- Identifying, ending, preventing, mitigating and accounting for negative human rights and environmental impacts in own operations, their subsidiaries and their value chains
- Plans to align business strategy with Paris Agreement required of certain large companies

Directors' duties

- Overseeing implementation of due diligence processes
- Integrating due diligence into corporate strategies
- Taking account of consequences of decisions on sustainability matters

Enforcement

- Civil liability provisions
- Designated national authorities, with powers to sanction (fines, compliance orders)
- New European Network of Supervisory Authorities

Scope

Group 1: EU Companies

- With > 1,000 employees, and
- Net worldwide turnover ≥ €450m in last financial year

Group 2: non-EU Companies

- Turnover ≥ €450m generated in the EU, in the year preceding the last financial year

Group 3: Parent Companies (

- Ultimate parent companies of a group which based on consolidated financial statements would fall into group 1 or 2

Group 4: Franchises

- With > €80m net worldwide turnover, if at least EUR 25mn generated by royalties

Timeline

Company origin, turnover and size	Timeline for implementation	Timeline for disclosures
Group 1 and 2 Turnover ≥ €1500m > 5,000 employees	3 years (2027)	FY beginning on/after 1 January 2028
Group 1 and 2 Turnover ≥ €900m > 3,000 employees	4 years (2028)	FY beginning on/after 1 January 2029
All other companies within scope	5 years (2029)	FY beginning on/after 1 January 2029
First review by EU Commission	6 years (2030)	N/a

Impact on PE

- PE funds unlikely to be directly impacted due to scoping requirements being largely dependent on number of employees
- PortCos more likely to be impacted, with large PortCos being required to adhere to the due diligence requirements set down by the CSDDD as early as 2027

KPMG's ESG Team in the Crown Dependencies

We are an award-winning Pan-Crown Dependencies team of 7 ESG professionals, growing to meet client needs.

We work closely with colleagues across KPMG's global network of expertise with over 1,100 ESG professionals in IFCs, UK, EU, US and beyond.

1. **Strategy & Transformation**

   Advice on ESG strategy and specialist areas like decarbonisation, ESG risk & governance, due diligence, regulatory and sustainable finance.

2. **Reporting**

   Helping clients to assess their ESG readiness and prepare for ESG reporting in line with key frameworks.

3. **Assurance**

   Providing external assurance on the ESG reporting by a business or fund.

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05

Tax matters

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OECD Pillar 2 update

Pillar 2 – An Offshore Perspective

01 What is it and who will it impact?

"MNE Groups with annual global revenues of €750 million or more in the consolidated financial statements of the ultimate parent entity

02 Are there any exclusions available?

- Investment funds / real estate investment funds that are an UPE
- Delayed implementation in respect of MNE Groups within the initial phase of their international activity

03 Can Pillar 2 still apply to entities resident in jurisdictions that do not implement the Pillar 2 framework?

04 What specific factors are there to consider

- Undertake a review of whether the rules will apply and if so, whether any exemptions/ safe harbours may be available
- Deferred tax recognition and financial statement disclosures
- Additional data needs

05 When does it take effect?

BEPS 2.0 | Pillar Two — Timeline

2021

October 2021
Agreement at OECD/G20 IF level

End of 2021
Release of OECD GloBE Model Rules & EU Directive

2022

March 2022
Commentary on GloBE rules

End of 2022
EU Pillar 2 Directive adopted
Release of the GloBE Implementation Framework components (e.g. transitional safe harbors and penalty relief)

2023

Feb 2, 2023
Release of Administrative Guidance

July 17, 2023
Release of GloBE Information Return (GIR),
Release of additional Administrative Guidance (including QDMTT and UTPR Safe Harbour)

October 3, 2023
Release of STTR MLI

Late in 2023
Release of further OECD guidance expected

2024

2024
IIR targeted to be in effect

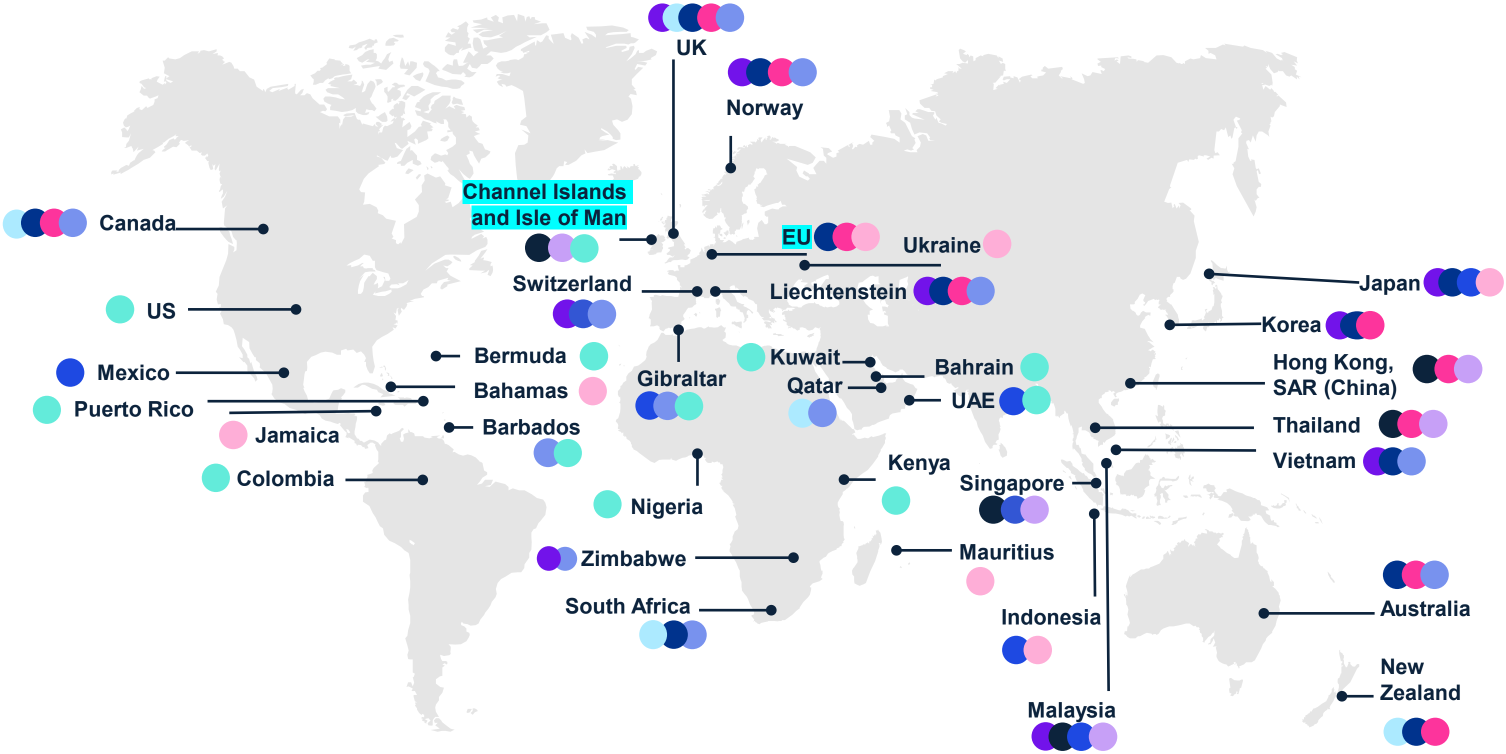
2025

2025
UTPR targeted to be in effect

2026–2030

Dec 31, 2029
Optional EU deferral to apply IIR and UTPR

Pillar Two — Global overview



Legend

- Legislation passed/approved
- Draft legislation released
- IIR (2024)
- IIR (2025)
- UTPR (2025)
- Intention to apply IIR/UTPR (timing uncertain or deferred)
- DMTT (2024)
- DMTT (2025)
- Intention/option to apply DMTT (timing uncertain)
- Other related legislation/announcement

UK private client update

UK Budget headlines

Abolishing the non-domicile regime and replacing it with a residence-based regime.

Consulting on a move to a residence-based regime for inheritance tax (“IHT”).

Class 1 employee national insurance contributions (“NICs”) reduced from 10% to 8%. Main rate of Class 4 self-employment NICs will now be reduced to 6%.

Changes to Transfer of Assets Abroad legislation to ensure individuals cannot use a company to avoid UK income tax.

Abolishing Stamp Duty Land Tax (“SDLT”) relief known as multiple dwelling relief.

Abolishing the furnished holiday letting regime.

The higher rate of capital gains tax (“CGT”) on the sale of residential property to reduce from 28% to 24%.

The abolition of the non-dom regime: individuals

- The remittance basis of taxation to be abolished from 6 April 2025.
- From 6 April 2025, new UK tax residents can benefit from 100% relief on foreign income and gains (“FIG”) in the first 4 years of UK tax residence. Available to individuals who become UK tax resident after a period of at least 10 years of non-UK residence. Could UK become a destination for short term residence?
- Existing UK tax residents can benefit from 100% relief on FIG until the end of their 4th year of UK tax residence. Only available if non-UK resident in the 10 years prior to the 4 year period.
- Transitional arrangements for existing non-doms.
  - Rebasing of personally held foreign assets to 5 April 2019 for disposals after 5 April 2025 for individuals who have claimed the remittance basis of taxation.
  - A 2 year period (2025/26 and 2026/27) for existing remittance basis users to remit pre-6 April 2025 FIG to the UK at a rate of 12% (the Temporary Repatriation Facility). Not applicable to pre-6 April 2025 FIG within trust structures.
  - A temporary 50% exemption for the taxation of foreign income in 2025/26 for non-doms who move from the remittance basis of taxation and are unable to benefit from the new 4-year FIG regime.
- Overseas Workday Relief for the first 3 years of UK residence will be retained and simplified.

The abolition of the non-dom regime: trusts

The existing protected trust regime

- To be “protected” must be settled by a non-dom before they became deemed domiciled under the 15/20 rule. Does not apply to trusts settled by formerly domiciled residents or UK domiciled individuals.
- Foreign trust income sheltered until benefits received.
- Trust capital gains sheltered until benefits received.
- No property can be added from the later of the creation of the trust and 6 April 2017 if settlor becomes UK dom – tainting.

From 6 April 2025

- The settlor will be liable to UK income tax and CGT on FIG arising in the trust from 6 April 2025 unless eligible for the new 4-year FIG regime.
- Pre-6 April 2025 FIG will be matched to trust distributions and taxed accordingly.
- Beneficiaries and settlors in the 4-year FIG regime can receive benefits from 6 April 2025 free from any UK tax. Such distributions will not be matched to trust income and gains.

IHT consultation

IHT is currently a domicile-based system. Subject to consultation, the intention is to move IHT to a residence-based system. The new system is expected to apply from 6 April 2025. The current proposals indicate that:

- Non-doms who are UK resident for 10 years will become subject to IHT on their worldwide estate (the “residence” criteria).
- A 10-year IHT “tail” will apply such that a person will stay within scope of IHT for 10 years after leaving.
- The chargeability of assets in a trust will depend on whether the settlor meets the residence criteria or is within the 10-year tail at the time assets are settled, or when IHT charges arise (10-year anniversary and exit charges).
- UK situs assets will remain in charge, regardless of residence.

The treatment of non-UK assets settled into a trust by a non-dom prior to 6 April 2025 will not change (but Labour Government?): these assets will remain outside the scope of IHT.

Jersey statement on carried interest

06 Q&A

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