Keeping up with Tax - Alternative Investment Funds

April 2023

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Introduction

Welcome! With Spring in the air, we kick off the new Tax Year with our April edition of Keeping up with Alternative Investment Funds.

Feeling charitable? In our first article, **Pete Witton**, **Stephen Baker** and **Muhammad Jabbar** shed light on the "use it or lose it" Apprenticeship Levy and how UK employers can redirect unutilised levy funds toward charities which can then use such proceeds to fund apprenticeships.

Next, **David Selden**, **Rob Mellor** and **Seema Chandaria** examine how entity rationalisation can assist fund managers in re-evaluating their internal set-up and adapting their existing products against a backdrop of fiscal uncertainty and increasing regulatory and economic constraints.

We would also encourage you to look at our broader suite of Keeping Up with Tax publications this month, which features a number of other topics that you may find of interest.

Please continue to reach out to your usual PwC contacts if you would like to discuss any of the content in this newsletter.

Upcoming In Person Events

Our annual March AIF conference was postponed (due to strike action) and will now take place on **Thursday 12 October 2023** – watch this space for further details!

In the meantime, our next AIF Roundtable will be held as an "in person" event on **Tuesday 9 May 2023 at 9am UK time at our More London office**. The Roundtable will be focused on Valuation and Carry topics – further details and invitations will be sent out shortly.

If you would like to be added to our distribution list, reach out to your usual PwC contact or drop us an email at uk_alternative_investment_funds@pwc.com

Thank you for reading and we look forward to connecting with you again next time.

Kind regards,

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Apprenticeship Levy - an ESG opportunity?

What is it?

The Apprenticeship Levy ("Levy") was introduced in April 2017 and applies to large UK employers. The Levy was introduced to encourage employers to take on more apprentices.

How it works

The Levy is set at 0.5% of the total annual 'pay bill' for employers that have a 'pay bill' of £3,000,000 or more. The total 'pay bill' will exclude benefits in kind but does include other remuneration that is liable to Pay As You Earn (PAYE) and / or National Insurance Contributions (NIC) withholdings.

The Levy is collected via HMRC's Real Time Information system, alongside Income Tax and NIC, and is paid into the central treasury pot, accessed via a digital account.

What can the Levy be used for?

Each employer has a "pot" of funds available to them based on the amount of Levy they pay.

Employers are able to draw down these funds from their digital account and use them to pay for qualifying apprentice training programmes. These programmes could be anything from degree apprenticeships in engineering to GCSE-equivalent apprenticeships in social care work. Employers are given flexibility and choice in how they provide apprenticeships.

The Levy should be used to pay for apprentices to achieve qualifications which form part of the approved apprenticeship training programme and are deemed necessary to being effective in the job. However, the Levy cannot be used to pay apprentice wages, for 'top-up' qualifications, or for qualifications outside of the relevant programme.

Time limitations

Employers can see how much of their Levy funds have been utilised and also what remains available to spend via their digital accounts. However, Levy funds not utilised within 24 months will expire and be re-allocated by the government for other spending commitments. The Levy is therefore commonly known to employers as a "use it or lose it" levy.

In recent years, significant amounts of Levy have been left unused by businesses and returned to HM Treasury.

Unused Levy funds? Application to charities

Employers with unutilised Levy funds can, if they wish, transfer some of them to a charity of any size. A charity may not be paying a Levy but hey can still benefit from it. Employers can transfer up to 25% of their annual apprenticeship service funds to another UK based organisation.

Some businesses may consider this as part of the company's corporate social responsibility policy, given the support to charities in increasing their employability.

These transferred funds can then be used to fund an apprenticeship in the usual way, i.e. to pay for qualifying apprentice training programmes. These training programs will likely depend on the charity and the qualification needs of their staff. A list of applicable Apprenticeship training courses can be found online and these cover a range of skills from GCSE level through to degree level, across multiple skills such as human and animal care services, education and business services.

Apprenticeship Levy - an ESG opportunity? (continued)

If a UK employer wants to transfer unutilised Levy funds, there are a number of factors to be aware of, including (but not limited to):

- The transferred funds can only be used for apprenticeship training and assessment and can only be used for apprenticeship standards.
- An agreement must be signed with the Educations Skills Funding Agency (ESFA).
- The transfer of funds occurs monthly from the sending employers to the charity's apprenticeship account.
- If the sending employer runs out of funds, the charity will be required to make a 5% contribution towards the programme; the government will pay the remaining 95%. This is called co-investment.
- The cost of any training should not go above the funding band for the apprenticeship programme. In the unlikely event that training costs exceed this amount, the charity is liable for the outstanding amount.

The transfer process is relatively simple, provided both the sending and receiving organisations are registered on the government's Apprenticeship Service. The levy-paying organisation initiates the transfer process and the receiving charity confirms acceptance, then adds the details of the apprenticeship.

How can PwC assist?

We have been supporting employers since the introduction of the Apprenticeship Levy to ensure they are receiving maximum benefit for the contributions they are making. This has included drafting funding rules and eligibility criteria for new training programs or facilitating stakeholder workshops to better understand an organisation's strategic training needs and future talent pipeline. If you would like to arrange a discussion on how the Apprenticeship Levy could start benefiting your organisation please reach out to your usual contact or one of the individuals below:

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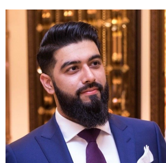

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Entity Rationalisation - A Catalyst for Change

With economic headwinds strengthening, fund managers should be exploring every possible operational improvement including legal entity rationalisation

The global economy is in a cyclical downturn. For fund sponsors, the current economic outlook, coupled with complex global regulatory, governance standards and tax reporting demands, means increased risk, cost, and drain on capital resources. Ultimately, this can mean reduced returns for both investors and the fund manager. It is therefore important for fund managers to assess whether they can make any improvements to their current operations or to their funds' returns for investors.

One approach to cost cutting is simplification via fund entity rationalisation. It gives fund managers an opportunity to re-evaluate their own internal group structure set-up and the opportunity, especially in relation to alternative investment funds, to ensure that asset holding structures are efficient and that legacy residual holding structures are not adding to the fund's cost base.

What is entity rationalisation?

In broad terms, rationalisation refers to the reorganisation or simplification of a group's legal structure. The end goal? To reduce costs, optimise existing products, simplify the product offering and maximise efficiencies across the board, resulting in an apt group configuration that is more suitably aligned with its business strategy.

What are the key benefits?

There may be a number of benefits to entity rationalisation, including:

- reduced direct and indirect costs associated with the maintenance of legal structures, as well as related administrative, tax, regulatory and compliance savings;
- the opportunity to rationalise the firm's product offering;
- addressing any concerns around legal entity location (for example, because of changes to the EU list of non-compliant territories) or substance requirements;
- the potential to free up business capacity, enabling personnel to spend more time on activities that create value rather than on administrative tasks;
- the chance to evaluate each entity's long=term utility within the group, and to review any legacy assets and/or liabilities; and
- the chance to consider whether outsourcing would enhance the group's ability to manage legal entity related risks.

Entity Rationalisation - A Catalyst for Change (continued)

What should fund managers be considering?

Simplifying a group's structure may make sense at the management level, the fund level and at the asset holding level. Managers might therefore consider entity rationalisation in a number of instances.

For example, a legal entity or a fund may:

- be sustaining costs that outweigh the benefit of its continued operation (particularly directors fees, audit costs, annual tax and corporate filings etc.);
- be underperforming or sub-scale in size, resulting in disproportionate costs for investors;
- no longer be used or fit for purpose – for example, the initial structuring put in place given certain tax considerations may no longer be viable or necessary;
- have significant overlap with another product in the broader group structure – for example, with respect to investment objective and strategy; or
- benefit from certain adjustments to better align itself with recent legislative or regulatory changes.

The same considerations apply for asset holding structures below the fund to determine whether the existing investment-holding entities and other structures remain useful and fit for their intended purpose.

Fund managers should bear in mind that the entity rationalisation process entails upfront investment both in terms of time and expenditure. Appropriate resourcing – internal and external – will be required for due diligence and other essential regulatory, legal, people and tax workstreams. It may or may not be possible to pass on some or all of these additional costs to investors, depending on the fund's terms.

In our experience an entity rationalisation cost benefit analysis can be swiftly undertaken and more often than not proves to be a beneficial exercise, the investment in the short term may well relieve a fund – and, consequently, its investors – from unnecessary financial costs over many years.

How can PwC assist?

PwC has developed an end-to-end proposition to support clients and navigate them through the complexities of the entity rationalisation process.

We are able to draw on multi-jurisdictional subject matter expertise across legal, regulatory and tax disciplines, leveraging analytics and technology tools to maximise efficiency and deliver a streamlined transformation programme including dedicated project management expertise.

We also work alongside our clients to provide:

- analysis of cost savings
- preparation of investor communications
- associated amendments to legal documents
- day-to-day management of the fund rationalisation programme and linkage across all workstreams.

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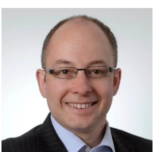

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Thank you

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