Foreword

The world of the Local Government Pension Scheme (LGPS) is constantly evolving. To maintain the high standards of governance that the LGPS has attained, it is crucial that members and practitioners alike keep all aspects of fund administration on their radar, even those areas which in the past may have warranted little attention.

One such area is the impact of taxation on the pension fund. Going back 10 or 20 years, pension fund investments were different, less spread geographically and within a more concentrated set of assets. As such there were generally fewer tax issues for funds to consider.

UK pension funds are exempt from UK tax on income and gains derived from investments held for the purposes of a registered scheme. However that exemption covers only a small part of a UK pension fund's investment portfolio. In recent years we have seen both UK tax and international taxes as a growing cost to many pension funds, with the tax leakages not always being obvious and the repayments that are due for funds being missed.

It is more common now for pension funds to have investments in overseas equities, property and alternative investments such as hedge funds, infrastructure, commodities and private equity. This diversification of investment brings with it new tax regimes or investment structures to understand and tax costs and compliance requirements. Pension fund managers and administrators need to manage these issues in order to mitigate tax risks, manage compliance and maximise post-tax returns from investments, including optimising cash flow into the fund.

Managed effectively, tax can add value to pension funds. Conversely for the unwary, there are both domestic and non-UK tax compliance requirements which pension funds may need to manage. Consequently managing tax risks and keeping them under continual review is a key responsibility for each fund and the importance of specialist advice cannot be overemphasised.

This guidance covers some of the tax issues which are likely to arise across a range of pension fund investments. It will hopefully encourage some funds to take a more active stance on understanding and managing the tax risks that pension funds face.

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