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Multijurisdictional Tax Reporting for Funds

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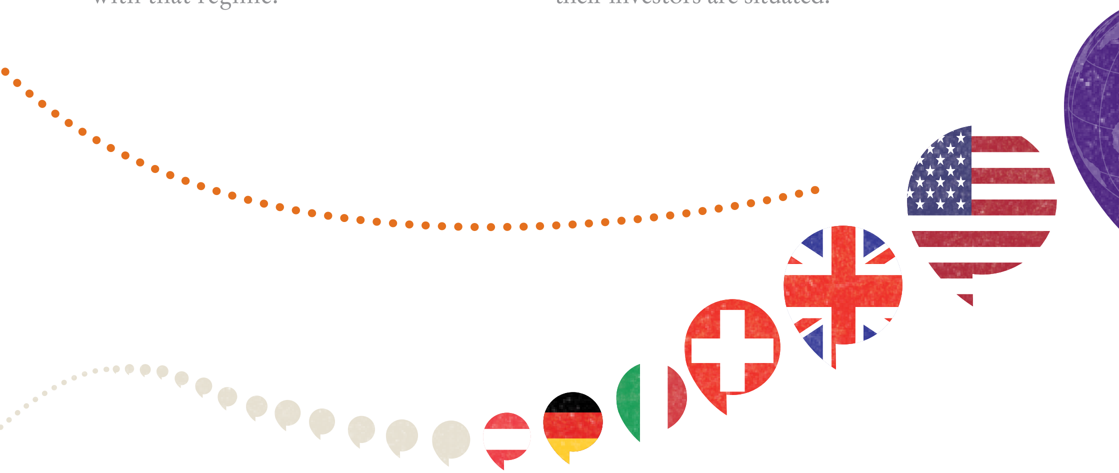
Funds typically have investors which are located in various jurisdictions each of which has its own tax reporting requirements. These requirements are often complex and differ considerably from jurisdiction to jurisdiction. Falling foul of these requirements can result in adverse consequences for investors domiciled in these countries.

This document covers the common jurisdictions in which fund and investor reporting are required, highlighting the regime in place and the reporting requirements associated with that regime.

Grant Thornton offers multijurisdictional tax reporting to help funds distributing in these jurisdictions, to ensure they are complying with the local reporting requirements of the country in which their investors are situated.



Benefits of working with Grant Thornton

- It will result in time and costs savings for the fund administrator.
- The fund will receive an efficient and effective reporting service provided by an international firm which has developed strong relationships with tax authorities and regulators in local jurisdictions.
- A central point of contact to coordinate the service, or alternatively, direct contact with senior country contacts and their local teams which have the capability to deliver seamless tax reporting services to the fund.

Assistance

If you would like to discuss any of the matters raised or would like to know more about the multijurisdictional tax reporting service we offer, please contact Dana Ward, Anne Stopford or Tim Russell in the United Kingdom.

Austria

For Austrian tax purposes, Austrian taxpayers who hold units in an investment fund need to consider not only income distributed by the fund but also income accumulated by the fund.

For Austrian investment funds it is a requirement that the accumulated income of the fund, referred to as Deemed Distribution Income ('DDI'), is reported annually to Oesterreichische Kontrollbank ('OeKB'). For foreign investment funds, Austria has two categories of funds, white funds and black funds. White funds are those which choose to register with and report their DDI annually to OeKB, whilst in contrast, black funds are those which do not opt to report tax data to OeKB.

Benefits of entering the regime

- If the foreign fund chooses to register with OeKB and delivers tax data within seven months of the end of the financial year, it is listed as a 'reporting fund' ('Meldefonds' = 'white fund'). The tax data which is reported to OeKB by the investment fund is publicly available at www.profitweb.at. Furthermore information on tax-exempt parts of distributions as well as foreign creditable withholding tax is available there.

- The taxation of Austrian investors in black funds can be disadvantageous for Austrian investors as they are generally subject to lump-sum taxation on DDI equal to either 90% of the increase in value of the overseas investment fund over the year or a minimum of 10% of the redemption price.

- If an offshore fund is a white fund, Austrian taxpayers are taxed on the tax data disclosed rather than on the lump-sum taxation basis which applies for black funds.

Obligations under the regime

- If a foreign fund chooses to report tax data to OeKB (ie being a reporting fund / white fund), the reporting has to be filed with OeKB within seven months of the end of the fund's financial year. Moreover it is necessary to register with the FMA (Financial Market Authority) in Austria.

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Germany

The German Investment Fund regime came into effect on 1 January 2004 and was reformed on 24 December 2013.

The purpose of the regime is to allocate taxable income to German investors in accordance with German tax law. The fund itself is exempt from German tax.

Under the regime each share class of a fund is treated as a separate fund.

The reformation of the regime resulted in a tightening up of the requirements for a fund to be classified as an Investment Fund, with UCITS funds generally being classified as Investment Funds. A fund which does not satisfy the criteria for classification as an Investment Fund under the new regime but which was regarded as an Investment Fund under the old regime, can be temporarily treated as an Investment Fund up to financial years ending 22 July 2016.

Benefits of entering the regime

- If a fund is not an Investment Fund, German investors will be burdened with a penalty tax on the income which is distributed to them on the investment units and 70% of the difference between the first redemption price of the investment unit set in the calendar year and the last investment unit redemption price set in the calendar year. At least 6% of the last redemption price set in the calendar year will be attributed to the investor.

Obligations under the regime

- Investment Funds must provide a German Tax Report to the Federal Gazette ('Bundesanzeiger') and all necessary information is officially published (tax transparency).

- The Tax Report has to be provided within four months of the fund's financial year end and is necessary if the fund had German investors at the end of the prior financial year.

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Italy

With effect from 1 July 2014, a new tax regime took effect in Italy on financial income, including interest and capital gains.

In particular the applicable tax rate has been raised from 20% to 26% and is levied on passive income and other financial income. This includes dividends earned from non-qualified investments, interest and other proceeds on current and deposit accounts as well as any income generated by bonds and promissory notes, accruing from 1 July 2014.

Benefits of entering the regime

- The new tax regime does not affect certain types of investment income, such as income from Italian government bonds, Italian Public Debt Instruments and government bonds issued by countries that have agreed to exchange information with the Italian Tax authorities or securities issued by other public bodies and other similar instruments (eg securities issued by supra-national organisations recognised by Italian law and non-Italian government bonds from 'white-list countries'). These types of income will generally continue, as before, to be subject to the current lower 12.5% tax rate.

Obligations under the regime

As a consequence of the two applicable rates, Italian and foreign funds making distributions to Italian investors are required to split the investment income as follows:

- The portion deemed to pertain to government bonds and assimilated securities, which will be subject to tax at 12.5%; and

- The portion deemed to pertain to other securities and shares which will be subject to tax at 26%

The determination of the two portions is based on an asset test which needs to be calculated by both Italian and foreign investment funds every six months.

Once the asset test is completed, information must be published in a new reporting list which specifies the fund and the percentage of the distribution related to investments associated with government bonds which are subject to the reduced rate of tax.

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Switzerland

Collective Investment Schemes ('CISs') are subject to the Federal Law and the Ordinance regarding CISs, which came into force on 1 January 2007.

Benefits of entering the regime

- Non-Swiss CISs which are registered with Swiss Financial Market Supervisory (abbreviated 'FINMA') can be actively promoted and sold to investors in Switzerland. In order to register, a complete set of documentation needs to be filed with FINMA, eg fund contract, articles of association, investment guidelines and the prospectus as applicable. In general, the review process by FINMA takes one to two months once a complete set of documents are filed.

Obligations under the regime

- Non-Swiss CISs must appoint a Swiss representative and fund agents (eg paying agent) as applicable.

- For Swiss tax purposes, a non-Swiss CIS registered with FINMA, and whose share classes are sold in Switzerland, must be reported annually to the Swiss Federal Tax Administration ('FTA') based on Swiss specific requirements. The tax values reported are listed in the tax value list ('Kursliste'), which must be used by the Swiss resident individual investors for the purpose of filing their annual income tax return. Typically, the tax reporting of a CIS and its share classes should be done within six months of the end of its financial year.

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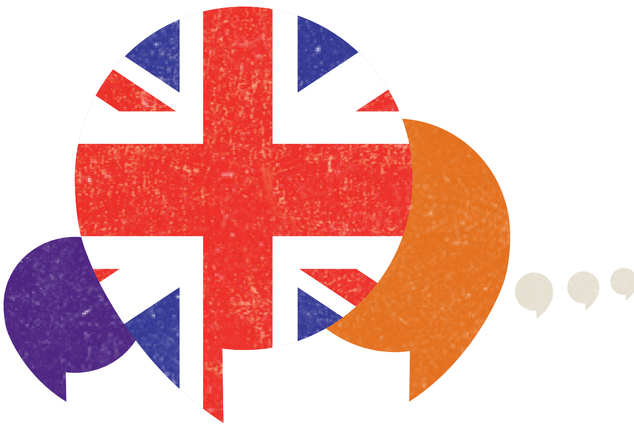
United Kingdom

The UK Reporting Fund ('RF') regime came into effect on 1 December 2009, replacing the previous distributor status regime.

The purpose of the regime is to prevent the conversion of income into capital gains by rolling up income offshore in a low tax environment and then realising this in capital form.

Under the RF regime offshore funds are required to notify investors of income, as calculated under the regulations, for each accounting period. UK taxpaying investors must then report and pay tax on their share of this reported income. Actual distributions are not subject to further tax to the extent they do not exceed reported income allocations.



Benefits of entering the regime

- If an offshore fund is not a reporting fund, a UK resident individual investor disposing of a holding in the fund will be subject to an 'offshore income gain' on disposal of the holding, resulting in the gain being taxed as income (up to 45%). In contrast, a gain on the disposal of an interest in a reporting fund will be taxed as a capital gain (28%/18%). For many UK corporate and other offshore reporting fund investors RF status is also beneficial.

Obligations under the regime

- Funds need to make an initial upfront application to join the RF regime, with the application generally needing to be submitted before the end of the period of account for which reporting fund status is required.

- Once admitted to the regime, the Fund has to report certain information annually to its investors and to the UK tax authorities, within six months of the end of its financial year.

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United States

Non-US funds are generally organised as either corporations or partnerships under US tax principles.

Passive Foreign Investment Companies ('PFICs')

A non-US investment fund organised as a corporation may be classified as a PFIC by the Internal Revenue Service ('IRS').

Direct and indirect US shareholders of a PFIC are all subject to the PFIC rules and are taxed in one of four methods: Qualified Electing Fund (QEF), Mark to Market rules (if publically traded), Excess Distribution rules or sale of the PFIC.

Where available, the QEF election is almost always a favourable tax position to take from the perspective of US investors. The election allows a PFIC to be treated similar to a US based mutual fund for tax purposes. However, the PFIC must then comply with the reporting requirements of the IRS and provide details of its income and capital gains each year. This is typically accomplished by calculating earnings and profits at the fund level based on US tax principles and reporting those results to US investors as either ordinary income or long-term capital gain on a 'QEF' (Qualified Electing Fund) statement.

US taxpayers with ownership in offshore corporations are subject to substantial reporting requirements with their US Federal tax return. Forms 926 (Return by a US Transferor of Property to a Foreign Corporation) and Form 8621 (Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund) are two forms that must be filed by a US investor in a PFIC to avoid substantial interest and penalties. The US investor should also ensure that the PFIC is FATCA compliant.

Partnerships

Because of its fiscal transparency, a non-US partnership structure may provide US investors with certain tax advantages and savings.

If the non-US partnership is not engaged in a US trade or business, and is not classified as a 'withholding foreign partnership', any US federal income tax liability of the non-US partners is generally satisfied by withholding at source.

Extensive information reporting of an investment in a non-US partnership is required by a US partner. Form 8865 (Return of US Persons With Respect to Certain Foreign Partnerships) or Form 8858 (Information Return of US Persons With Respect To Foreign Disregarded Entities) will be required based upon the status of the partnership. It should also be noted that a non-US partnership may have a requirement to file a US partnership tax return on Form 1065.

Non-US partnerships are often set up as master funds with offshore feeder funds used for non-US partners or tax-exempt US partners.

Foreign Account Tax Compliance Act ('FATCA')

In all situations, a non-US investment entity trading in the US capital markets should ensure its compliance with the FATCA rules.

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Clients

We provide tax reporting services to funds managed by a number of investment managers, including:

- 3G Capital Management
- Asset Value Investors
- Capeview Capital
- City Financial Investment Company
- Coram Asset Management
- Coupland Cardiff Asset Management
- Credit Suisse
- Findlay Park Investment Management
- Hansa Capital
- Lindsell Train
- Morant Wright Management
- Mulvaney Capital
- RAB Capital
- Shenkman Capital
- Stone Milliner
- S.W. Mitchell Capital
- Waverton Investment Management

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