M&G Platform

GUIDE

Offshore Reporting Funds Technical Guide

For Adviser use only



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Important Information

None of the information presented in this report should be considered legal, investment or tax advice of any kind.

All references to taxation are based on our understanding of current UK taxation law and practice and may be affected by future changes in legislation and the individual circumstances of the investor.

The information below relates solely to persons who are subject to UK tax on their income. Residents subject to tax in other jurisdictions should consult an appropriate professional adviser to determine their position.

The information presented is high-level and generic in nature. It is recommended that you seek professional advice from a qualified tax adviser.

1 Introduction to Offshore Reporting Funds

UK Reporting Fund Status (RFS) is part of the UK offshore funds regime created by the UK Government to combat perceived tax avoidance by UK investors investing in offshore funds and converting income into capital gains by accumulating income offshore. The UK tax rates of income and capital amounts are specific to the facts and circumstances of each investor, but generally income tax rates are higher than capital gain rates. In addition, capital losses or the annual Capital Gains Tax exemption can reduce capital gains. Without the offshore funds regime, UK investors could accumulate income offshore indefinitely and convert this income into capital on ultimate disposal of shares or units. The UK RFS regime puts in place requirements for offshore funds and if the offshore funds fulfil these requirements and the fund has UK RFS for the entire period of ownership, the investor will still be able to attain beneficial Capital Gains Tax treatment on ultimate disposal of their investment.

Essentially, a reporting fund for UK tax purposes or a fund with RFS, is an offshore fund that has registered with HM Revenue & Customs (HMRC) and has elected to provide UK investors with details of any accumulated income at the end of relevant periods. UK investors are subject to tax on their share of 'reported' income of the fund, this being the amount that was actually distributed, plus an amount which may have been accumulated, and known as the 'excess'.

Excess reportable income is only relevant for tax-reporting purposes where the investment is held outside a tax wrapper. Where an investment is held within a tax wrapper, such as an ISA or SIPP, the investor does not need to report the excess reportable income on their tax return.

If a fund opts to remain outside of the UK offshore funds tax regime, then it will be treated as a 'non-reporting fund'. As a UK investor, any distributions from such funds will continue to be treated as income for UK tax purposes, however any gains arising on disposal will be considered to be an offshore income gain and taxed accordingly.

It must be determined whether the fund comes within the definition of an offshore fund, broadly defined in UK tax legislation as a 'mutual fund' where the trustees or operators are not resident in the UK. Please also note that separate sub-funds and share classes can qualify as funds in their own right and that this definition may capture certain Real Estate Investment Trusts.

Investors should also consider how their investment will be treated for tax purposes and whether the offshore fund has reporting or non-reporting status throughout the period in question.

This information can be provided by the relevant fund manager of the fund and will usually be detailed in their prospectus and reporting schedules.

HMRC also provide a list of reporting funds on their website (www.gov.uk) which is updated regularly.



2 Offshore Funds with Reporting Status

A fund manager must apply to HMRC[1] and receive approval for their fund to obtain reporting status. This approval can be removed at any time if the fund manager opts to exit the regime or breach any of HMRC's requirements.

2.1 Tax Treatment of Distributions

Offshore funds which have UK RFS have a requirement to calculate and report to UK investors and HMRC the reportable income per share and distributions made for each share class for each relevant accounting period that they remain within the reporting regime.

Investors may need to use the 'Reportable Income' reports published by fund providers to calculate the amount of income to include in their tax returns.

Investors will be required to include on their tax return any distributions received during the period and their proportionate share of reportable income in excess of any distributions received, referred to as excess reportable income. Excess reportable income for each share class is calculated as follows:

> Total number of shares held by the investor × (Reportable income per share – Distributions received)

This total excess reportable income should be included in an investor's tax return along with any distributions received.

UK individual investors

The deemed distribution date for excess reportable income over any cash distributions received is six months after the end of a fund's accounting period, known as the 'Fund Distribution Date'. For example, excess reportable income for the period ended 31 December 2023 would be deemed to arise on 30 June 2024, falling within the UK fiscal year ended 5 April 2025. This income would be recorded in a 2024/2025 tax return.

UK corporate investors

As the deemed distribution date is six months after the end of the accounting period, this income would need to be included in the corporate tax return (to the extent that it does not fall to be treated as exempt income) in accordance with the accounting period in which this date fell.

2.2 The Reporting Fund Schedule ("The Investor Report")

The fund manager of an offshore fund with reporting status has an obligation to provide a reporting schedule to enable investors to determine and include their share of the reportable income in their tax returns. This is usually published on the fund manager's website.

In general, a relevant period, or period of account will ordinarily be the financial year of the fund in question and the report is normally made available within six months following the final day of the accounting period end. However, HMRC do allow fund managers up to ten months following the final day of the reporting period to provide this report.

The reporting schedule will typically contain the following information:

Reporting period end date

This will be the date to which the reportable income is calculated. If an investor holds shares or units on this date in the share class they will be considered to have earned that income.

Current fund status

This will provide detail/confirmation on whether the fund remained a reporting fund as at the date of the investor report.

Currency

This will be the relevant currency in which the amount has been distributed or accumulated.

[1]Please note this UK tax status has to be achieved at the level at which the UK investor holds the interest i.e. if the fund is structured as an umbrella fund, which has different sub-funds and share classes, the status must be obtained for the specific class of investment the UK investor has entered.

Excess reportable income

This will be the amount of income per share accumulated at the reporting period end date, in excess of any distributions paid for the period that a UK investor will be required to take into account. In order to calculate the additional income to include on their tax return a UK investor should multiply this by the number of shares or units they hold as at the reporting period end date and apply an appropriate exchange rate to convert to sterling. This amount should also be added to the original base cost of the investors' investment into the share class as it counts as a deduction towards any future capital gain arising on disposal.

Fund distribution date

This is the date on which the UK investor should recognise any accumulated income in their tax return.

Distribution

The distribution date and the relevant distribution paid per unit, or share value, during the reporting period by the share class. These distributions have already been taken into account when computing the accumulated income.

Equalisation

If the fund operates full equalisation, the amount of equalisation per unit will be shown on the report.

The information contained within a reporting schedule can be obtained over the telephone by the investor and will be accepted by HMRC if they have maintained a record of the conversation.

2.3 Equalisation Arrangements

An offshore reporting fund may operate the following types of arrangements:

- Full equalisation arrangements (discussed later in 2.4)
- Proxy equalisation arrangements – no equalisation will be declared in the investor report produced by the fund manager, but adjustments will have been made to arrive at the final reportable income.
- No equalisation arrangements.

2.4 Full Equalisation Arrangements

This method provides specific investor information which reflects the return of capital in the period of subscription for each incoming investor. The relevant equalisation amount/factor is disclosed in the published investor report.

The amount of equalisation per unit declared in the reporting fund schedule is only relevant to the units purchased during the reporting period.

This equalisation can be used to offset against the excess reportable income and if greater, the remainder can be used to offset against the actual distributions made in the period and vice versa. It is down to the investor to choose.

2.5 Capital Gains Tax

The following section is only applicable to UK resident individual investors or corporate investors investing in a fund that is not considered to be a bond fund.

Capital Gains Tax applies to any gains made by the investor when they dispose of all or part of their interest in the fund. This only applies if the fund has been a reporting fund for the entire period of investment **(see Section 4 Transitional Arrangements).**

Any equalisation that has been calculated in relation to units that were purchased during the period should be deducted from the purchase price.

Any excess reportable income is classed as expenditure for the acquisition of the Asset and is an allowable cost to reduce any Capital Gains Tax liabilities and is seen as being incurred on the 'Fund Distribution Date'. This is to avoid a double tax charge to both income tax and Capital Gains Tax.

We set out below how such relief works in principle:

Proceeds	X
Original acquisition cost	(X)
Excess reported income	(X)
Capital gain	X

3 Offshore Fund with Non-Reporting Fund Status

If a fund manager chooses not to apply for reporting fund status or their status is revoked, the fund will not have any obligation to disclose information regarding their reported income to HMRC and will be governed by their own local laws.

This will affect the treatment of any gains made by the investor when they dispose of all or part of their interest in the fund.

3.1 Tax Treatment of Distributions

A distribution received from an offshore fund with non-reporting status is taxed in the same way as funds with reporting status.

Any income received from the fund must be declared on the investor's tax return and will be subject to income tax.

3.2 Capital Gains Tax

Any gain made from the disposal of an interest in the fund is known as an offshore income gain and will be taxed as miscellaneous income at the relevant rates of income tax.

As Capital Gains Tax does not apply to any gains made on the disposal of the fund, the investor will not be able to utilise any of their annual exemption against the gain.



4 Transitional Arrangements

An offshore fund may have had non-reporting fund status prior to applying for reporting status and vice versa.

There are transitional arrangements in place to limit the impact this has on the capital gains treatment on any disposal of an interest in the fund.

4.1 Non-Reporting to Reporting Fund Status

A disposal in an offshore fund that has not had reporting status for the entire period of investment will give rise to an offshore income gain and taxed as income.

To reduce the amount of the gain that will be treated as an offshore income gain, the investor can elect for a deemed disposal at the point the fund gained reporting status:

- A disposal is deemed to have been made at the market value on the date the fund gained reporting status.
- The gain is treated as an offshore income gain and taxed as income.
- The investor will have acquired a holding for the same amount as the deemed disposal in the reporting fund at the beginning of the funds first period of account.

An election is only possible if the offshore income gain is greater than zero as a loss cannot be crystallised at this point. But upon final disposal the gain will be subject to Capital Gains Tax.

If no election has been made, any excess reportable income during the period is still treated as expenditure for the acquisition of the Asset and is an allowable cost to reduce any Capital Gains Tax liabilities.

4.2 Reporting to Non-Reporting Fund Status

If an offshore fund with reporting status has their status revoked or opts out of the regulations, the investor can elect for a deemed disposal at the end of a reporting funds final period of account:

- A disposal is deemed to have been made at the market value on the date of the final period of account.
- Capital Gains Tax applies to any gains made by the investor upon disposal.
- The investor will have acquired a holding for the same amount as the deemed disposal in the non-reporting fund at beginning of the funds first period of account.

This election can only be made if a reporting schedule has been made available to investors for the reporting funds final period of account.

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Our lines are open 8:30am to 5:30pm Monday to Friday.
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