PwC’s comprehensive multi-jurisdictional tax reporting solution for investment funds

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Over the last number of years cross-border fund distribution has increased exponentially through the introduction and improvement of the UCITS Pan-European passporting regime.

With the introduction of a similar harmonised approach to passporting for alternative fund ranges under the Alternative Investment Fund Managers Directive (“AIFMD”) it should be expected that managers will increasingly seek to register their funds for distribution on a cross-border basis. The ever-changing regulatory landscape has brought both opportunities and increased compliance obligations, including tax reporting obligations to asset managers.

Investor tax reporting for funds is a very demanding and constantly evolving area. In recent years, several jurisdictions including Austria, Germany, Switzerland, and the United Kingdom have introduced new tax reporting regimes or modified existing ones. In order to compete and to effectively market their products across Europe, fund managers now require a deeper understanding of country specific investor tax reporting requirements.

The Challenges

While the overall aim of most European tax reporting regimes is to ensure the most appropriate tax solution for the end investor the actual country specific technical reporting provisions can differ greatly. Asset managers may struggle to cope with complex legislation and are required to interact with multiple advisers across territories where their funds are distributed in order ensure that their products are compliant from an investor tax reporting perspective.

In both Germany and the UK for example, advance information is required to be provided to tax authorities in order to ensure that beneficial tax treatment is afforded to investors in the fund. Oftentimes a lack of awareness of such provisions can lead to significant issues when it comes to selling to key investor groups where these requirements have not been considered during the product structuring phase. In addition, there are ongoing daily, monthly or annual reporting compliance obligations which require cross-border co-ordination between service providers. Navigating the waters of this increasingly challenging environment can be burdensome and costly.

Overall the key challenges faced by asset managers in relation to investor tax reporting include:

- A lack of standardised tax reporting resulting in an increased workload and administration
- Permanent tax accounting system changes because of tax law changes
- The requirement for multiple experts for various country tax legislation
- The task of co-ordinating different local tax advisor teams
Our solution

A “one-stop shop” integrated solution to European tax reporting

PwC, as the leading tax advisor and auditor in the global asset management industry, recognised that outstanding multi-market tax reporting solutions are necessary in order to cope with these challenges. Because our clients distribute their funds in an ever-increasing number of countries, we offer a multi-jurisdictional tax reporting service. We are in the position to review and/or calculate the annual tax figures in accordance with the local laws of many jurisdictions. Additionally we act as an outsourced service provider for a number of high profile clients in relation to producing calculations under the UK tax reporting regime.

State-of-the-art technology solutions including FRC and “Client Connect”

PwC can provide a single point of contact and a global, integrated team featuring professionals with deep experience in the relevant countries, to tackle multi-country investor reporting. Using state of the art technology we can manage the flow of information from the administrator to each of the PwC service teams who will prepare the relevant tax reporting calculations in line with local country legislative requirements. We have also developed our own proprietary systems which can “plug-in” to the administrator accounting function in order to work with the raw financial data provided by them to produce investor tax reporting.

We can also offer a cloud based technology solution for the provision of Global Fund Distribution Registration Services. A dashboard called “Client Connect” may be used to manage deadlines and the flow of information for both Registration and Regulatory Services.

Sales Team Support

The ability of a sales team to clearly articulate what the return on an investment product means from the perspective of the taxation of end-investors is increasingly important as the tax efficiency of the return is paramount for investors. As we continue to see a people/resource intensive landscape emerge from a distribution perspective, there is a clear need for fund promoters to appropriately equip sales teams with the knowledge and expertise to articulate the nuances of the investment products from a tax perspective. We can provide the support that enables those teams to understand and explain to investors the tax implications of the return from the investment product.

How can we help

Our services are broadly in 3 areas as follows

- Reporting One stop shop
- Technology solutions
- Support
Distribution Funds Services - Market Entry

Keeping updated on the changes affecting fund distribution is a time consuming task, especially with the introduction of AIFMD. Some EU countries have yet to finalise the rules in relation to selling alternative funds into their markets, particularly for those coming from non-EU locations. In addition the fund registration process varies from country to country and even while the UCITS rules are generally streamlined there are still a number of nuances in certain locations which may be updated from time to time. Therefore, designing, implementing and maintaining a multi-jurisdictional distribution strategy involves a unique set of challenges.

At PwC we understand these challenges and have developed a service to assist you with initial country registrations and ongoing maintenance requirements whether passporting or using the NPPR regime for both AIFs and UCITS.

Technology Solutions - Fund Reporting Cloud

PwC’s Fund Reporting Cloud®, enables the efficient collection and sharing of information and serves as a one-stop shop for management of tax reporting. The Fund Reporting Cloud® can substantially reduce required input on the fund administration teams’ side to provide the relevant information to contacts in the different global jurisdictions.

The Fund Reporting Cloud® ensures that:
- Files can be securely uploaded;
- Data and information can be exchanged in a formalised and very efficient way;
- The progress of the reporting process as well as compliance with deadlines can be monitored on a detailed country-by-country basis as well as on an overall cross-national basis; and
- Any information prepared by PwC can be downloaded very easily whenever needed and without a time limit.

European Investor Tax Reporting
Our credentials

We are the largest 100% dedicated asset management group in Ireland for both taxation and audit services with over 300 professionals and staff. No other firm can match this breadth and depth of resources. This means we are focused on developing our knowledge of you, your products, and your clients.

We have almost twice the market share of our nearest competitor, auditing 60% (by assets) of the combined domiciled and non-domiciled funds administered in Ireland.

Our asset management tax team comprises over 40 professionals specialising in providing tax services to investment funds, all of which have a substantial exposure to UK investor tax reporting. Our wide-ranging client base gives us invaluable insights into the key considerations for clients both large and small.

We work very closely with many key players in the funds industry and have strong connections with industry associations, including the Investment Management Association in the UK. We are also in regular contact with HMRC on technical matters relating to the application of the Offshore Funds (Tax) Regulations and have built up strong relationships with a number of their key decision makers. This leaves us in a strong position with regard to approaching HMRC for guidance or for practical solutions to technical issues arising from the application of the regulations.

Ireland is a leading European domicile for investment fund servicing. All of the global players in this space have significant administration and custody operations located in Dublin. We have developed strong relationships with local fund administration houses which go a significant way to ensuring the smooth provision of information and raw data necessary to ensure timely and accurate tax reporting for your funds.
40 AM Tax staff in Dublin

AM industry over 200 combined years tax reporting experienced team members

IFIA members & tax working group chair

Over 3,500 UK reporting share classes listed

Dept. of An Taoiseach clearing house group

We work with the top global asset managers

IFIA Fund Distribution working group chair

Dedicated UK tax reporting practice
Overview of European Tax Reporting Regimes

The most popular markets for cross-border distribution of funds in Europe are the UK, Germany, France, Switzerland and the Netherlands. Of these the UK, Germany, Austria and Switzerland have the most sophisticated requirements in relation to tax reporting. Italy and Belgium also have investor reporting requirements. We have outlined here some of the key considerations of each tax reporting regime and the related suite of services that may be provided by PwC.

Why?
Offshore funds distributed into the UK may seek to apply for UK reporting fund status in order to secure beneficial tax treatment for their UK investors. The UK Offshore Funds (Tax) Regulations enacted in 2009 brought a new regime for offshore funds distributed into the UK to comply with. Strict deadlines are enforced by HMRC in relation to the submission of applications for entry into the reporting fund regime. Funds are typically required to submit applications before the end of the accounting period for which UK reporting fund status is required for the relevant share class. As a result, close monitoring of new launches requiring reporting fund status is important.

How?
Funds are required to provide details of the reportable income per unit in respect of the share classes in the fund which have entered the reporting fund regime. This information must be reported to both HMRC and to investors within 6 months of the end of the accounting period of the fund. To the extent that the reportable income of the fund exceeds the amount of any distributions paid, this “excess” is treated as additional distributions in the hands of the investors holding shares at the end of the relevant accounting period and is deemed to be received 6 months after the end of the accounting period. As investors will use this information in completing their tax returns, accurate and timely reporting of the relevant information is paramount from an investor relations perspective.

PwC Can Help
• PwC Dublin’s core services in relation to UK Tax Reporting include:
  • Preparation of up-front applications for entry of new share classes into the UK reporting regime;
  • Preparation of reportable income calculations for each applicant share class;
  • A review of the equalisation method to be operated by the fund in accordance with the regulations. Advice in relation to the equalisation methodology which is most appropriate to the specific funds;
  • Where required, a detailed review of the fund’s investments in derivatives, bonds and other offshore funds, to determine the appropriate treatment to be applied under the UK Offshore Funds (Tax) Regulations;
  • Review of the format and content of the report to investors;
  • Review of fund prospectus and any other marketing material which details the tax implications of the fund entering the reporting fund regime
  • Provision of additional support regarding UK investors as required (including training sessions with marketing teams, communications on website, review of subscription forms for new share classes etc.);
  • Review of new product launches to the extent these follow a different investment strategy than existing products and require specific analysis from a SORP perspective.
Germany

Why?
Tax reporting obligations for foreign funds are regulated by the German Investment Act (in German referred to as Investmentsteuergesetz or short as “InvStG”). Under the InvStG a fund can be “transparent” or “non-transparent” for German tax purposes. For German investors only the “transparent” fund provides the highest tax efficiency.

How?
There are various reporting requirements that need to be fulfilled in order for a German investor to obtain the maximum tax optimisation from offshore funds including annual reporting and daily/NAV frequency based tax reporting.

The InvStG also imposes a compulsory daily publication of the ADDI (“Accumulated Deemed Distributed Income”). To benefit from certain tax advantages in Germany, the InvStG also requires the publication of “Zwischengewinn” (“Interim Profit”), “Aktiengewinn I & II” (“Equity Profit I & II”) and “Immobiliengewinn” (“Real Estate Profit”). The accuracy of this information is key for German investors to ensure a smooth tax declaration process but also key for you to avoid dormant tax risks.

PwC Can Help
PwC Germany can provide the following annual reporting services:
- Calculation of German tax bases and preparation of the year-end tax certificates according to section 5 paragraph 1 of the German Investment Tax Act (“InvTA”).
- Publication of the various German tax reporting requirements in the German Electronic Federal Gazette (“upload”).
- Provision of tax data to WM Datenservice
- In addition to the above annual G-Tax calculations (including WM Reporting and uploading to the German Electronic Federal Gazette), PwC Germany are also in a position to review the funds’ daily German tax calculations which includes the following 4 figures: Zwischengewinn; Aktiengewinn I & II; and Immobiliengewinn. This review would also cover the daily tax reporting required in accordance with the European Savings Directive (“EUSD”), EUSD-TIS reporting.

PwC Germany can also provide additional reports which may be required for regulatory reasons or on request from specific classes of investors, including:
- VAG-Reporting (for German insurance and tax exempt investors);
- GromiKV (for German banks).
- GromiKV (for German banks).

Austria

Why?
From an Austrian tax perspective, investment funds are considered transparent, requiring a direct allocation of income of the fund to its investors. Austrian investors are therefore subject to annual taxation regardless of whether the income of the fund is distributed or accumulated.

How?
Accumulated income (also referred to as deemed distributed income (“DDI”)) has to be calculated and electronically filed by an Austrian tax representative.

PwC Austria’s core services as Austrian representative include:

PwC Can Help
PwC Austria can assist with Austrian Investor tax reporting obligations by providing the following services:
- Calculation of the annual deemed distributed income (“DDI”) figures at share class level.
- If applicable: Calculation of the tax base and tax of the distribution.
- Coordinate data requests with the administrator and provide necessary support with the collection of the data.
- Electronic reporting of the annual DDI figures and the distribution figures to Oesterreichische Kontrollbank (“OeKB”).
- Monitoring of the reporting deadlines with the OeKB.
- Review of the publication of the annual and periodical reporting figures on the website of the OeKB (www.profitweb.at).
- Reporting and ongoing monitoring of core data with the OeKB.
- Preparation of tax information for Austrian investors to be included in the sales prospectus or marketing materials.
- Assistance in connection with the daily and annual calculation and/or publication of EU withholding tax.
- Assistance with the reclaim of Austrian withholding taxes.
Switzerland

Why?
Swiss private investors have to declare their taxable income and the value of the investment in their tax return. Therefore it is recommended that information is made available to Swiss private investors to protect them from prohibitive income taxation. It is necessary to ascertain the taxable income in order to separate it from tax exempt capital gains in the hands of Swiss private investors, based on Swiss calculation principles.

How?
In Switzerland, no specific deadline for calculating the income tax value applies. However, generally we recommend publishing income tax values by April/May of the year following the fiscal year end of the entities as Swiss private investors are generally starting with the preparation of their tax returns at that time.

For the purposes of income tax and personal wealth tax, the respective taxable income and net asset value per share can be provided to the Swiss Federal Tax Administration (“FTA”). The FTA then publishes the above values in the official rates list. Please note that the FTA will only publish share classes that have a Swiss Valoren number.

PwC Can Help
Swiss tax reporting services would generally comprise of the services below. However, if a variation of these services is required, we would be happy to work with your clients to identify services which PwC might perform and services which your client may wish to perform in-house.

- Coordination of the registration process with the Swiss Federal Tax Administration (“FTA”).
- Coordination with the Fund’s administrator to gather appropriate information.
- Calculation of the income tax value according to Swiss regulations.
- Determination/calculation of the income tax values for Swiss private investors for each fund/sub-fund/share class.
- The Swiss income tax values will be provided to you for your review and approval.
- Submission of relevant income tax values on your behalf to FTA including coordination and replies on requests.
- Review of the income tax values for each fund/sub fund/share class published by FTA.

Italy

Why?
From 1 July, 2014 profits deriving from certain Collective Investment Funds and SICAVs (hereinafter “Funds”) are generally subject to a 26% final taxation (in lieu of the previous 12.5% tax rate).

Profits deriving from direct investment in eligible bonds (i.e., Italian government bonds and other eligible securities, including government bonds issued by countries allowing an adequate exchange of information with Italy) generally continue to be subject to the lower 12.5% tax rate. In order to prevent “indirect” (i.e., through Funds) investment in eligible bonds being subject to the 26% tax rate, Decree 13 December 2011 (ref. 11A16232) sets forth a methodology to determine the portion of profits derived from Funds (investing directly and/or indirectly in eligible bonds) that should be exempt from the 26% tax rate.

The benefit for investors is that only 62.5% of profits associated to “indirect” investment in eligible bonds should be subject to the new 26% tax rate. Thus, 37.5% of these profits will be tax exempt.

All the Funds listed below that invest in eligible bonds and have Italian private individual (retail) Investors should
consider Italian investor tax reporting requirements.

• Italian Funds.
• Non-Italian UCITS Funds (compliant with UCITS IV Directive) established in the EU and in certain EEA Countries.
• Non-Italian non-UCITS Funds established in the EU and in certain EEA Countries and managed by a regulated fund manager.
• The Fund Tax Reporting rules also apply to Non-Italian Funds that are not authorized for distribution in Italy.

Fund tax reporting is not mandatory however without it, Italian investors will not be able to obtain beneficial tax treatment.

**How?**
In order to identify the portion of profits/losses associated with “indirect” investment in eligible bonds, it is necessary to determine an average percentage on the basis of the ratio between the value of the eligible bonds and the total asset value (net of any “tax asset”) as per the two last available financial statements of the Fund (semi-annual or annual).

**PwC Can Help**
PwC can help Fund Managers by:

i) Performing the asset classification of the Funds’ portfolio as well as the calculations of the relevant tax figures.

ii) Reviewing the tax figures’ computations prepared either in-house by the Client or by its non-Italian based service providers.

Where the fund fails to file the necessary information, the tax is assessed on the total of the gross amounts invested in Belgium at 31 December of the previous year. Where an incorrect or incomplete return is filed, a fine of minimum of EUR 250 is due (up to a maximum of twice the tax which has been eluded, with potential relief in the case of obvious oversights or mistakes which do not influence the tax liability). Where the return is filed late, a fine of EUR 250 per week applies.

**PwC Can Help**

- Assistance with the preparation of the NAT return
- Assistance with the requesting of an extension for the filing of the NAT return

**Why?**
Foreign Funds are subject to a 0.0925% tax on the total of the net outstanding amounts invested in Belgium as at 31 December of the previous year, including the units acquired abroad on behalf of a Belgian resident. The net asset tax (“NAT”) return must be filed annually before 31 March, based on a tax year corresponding with the calendar year.

**How?**
This tax return must provide the taxable basis of the Fund, i.e. the total of the net outstanding amounts invested in Belgium as of 31 December of the previous year, including the units acquired abroad on behalf of a Belgian resident. The NAT return should specify the taxable amount on a sub-fund basis. To avoid any double taxation, funds participating in other investment institutions are allowed to offset the amounts that have already been subject to this tax at the level of other institutions.

Note that the calculation of the tax base for the NAT is not straightforward given that the NAT legislation is on certain points unclear and the Belgian tax authorities, including the Belgian Ruling Commission, are so far quite sparing with their public comments in this respect. In this context, PwC could assist with providing a general memorandum on the NAT and it is also possible to provide you with a more tailored analysis including a computation methodology based on concrete aspects and elements of the fund itself.
**Distribution Services**

**Market entry**

Our Fund Distribution Service, allows you to benefit from the local market knowledge of our global Asset Management network.

Combining expert local market knowledge with full project management functionality in a seamless service, creates a powerful and efficient multijurisdictional solution across the entire distribution value chain. The knowledge and experience of our Fund Distribution Services team, working together and providing you with tailored solutions through a single contact, generates significant added values for your business. As part of the registrations process, our dedicated tax team identifies and can communicate to you any possible tax implications and advise on appropriate action. We tailor our solutions according to the distribution footprint of your funds, to meet your operational needs and free up your internal resources.

**Market Entry**

**Passporting**

Currently for EU AIFMs who may use passporting for distributing throughout the EU, once an AIF is authorised in one EU member state, it can be sold in any other EU member state without the need for additional authorisation. This is similar to the UCITS Directive. In practice to gain this authorisation, the AIFM or UCITS must notify its home state regulator who will transmit their request to each regulator in each country in which they wish to market. Certain documentation must be provided to gain authorisation to use the passport.

- We can prepare and file the notification for sale on your behalf with the Home Regulator and manage any follow up queries;
- We can assist you to ensure that all ongoing regulatory reporting required to maintain the initial registration of your funds are identified in each host market and that these obligations are satisfied; and
- We keep up to date on an ongoing basis through automatic news feeds, monitoring local regulator websites, direct ongoing communication with individual regulators and through periodic update calls with regulatory teams in our PwC network in each relevant jurisdiction.

**Private Placement**

As AIFMD has been implemented in each member state there have invariably been differences in approach to certain areas where permitted. The fund registration process therefore varies from country to country and must be considered on an individual basis when making applications to ensure that all the requirements of each member state are met.

- We can assist you with initial country registrations under the NPPR in each EU Member State;
- We can identify the requirements of each member state where you wish to sell;
- We will prepare and file the notification for sale on your behalf in each country and we manage queries from the regulator;
- We identify the requirements for further notification/communication with each country and ensure any required filings of updates for each country are performed;
- We keep up to date on an ongoing basis through automatic news feeds, monitoring local regulator websites, direct ongoing communication with individual regulators and through periodic update calls with regulatory teams in our PwC network in each relevant jurisdiction; and
- We will communicate with you throughout the process using our bespoke Client Connect system. This also allows you to access information at any time to ensure that you are aware of the status of each application and likely finalisation date.
Our team

In Ireland we have over 40 dedicated members of our Funds Tax Team. If you have any questions please contact a member of the team.

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Our Client Connect system

You will be set up with your own secure registration page on our Client Connect system that will:

- Allow access from anywhere – online web tool;
- Track all filings;
- Allow you to view all forms, documents relating to each filing;
- Allow you to upload documents, add comments etc.
- Allows deadlines to be set;
- Has a Dashboard view – which gives an overall picture of all filings; and
- Allows team members to set alerts on specific filings as required to allow for automatic email prompts of updates.

We will provide a demonstration of the capabilities and functionality of our system to you.
Would you like to know more?

Please click on our website www.pwc.ie/funds for additional information. Various topics of interest for fund distribution can be found in the publications link in the tax section, including:

Distributing our knowledge
Fund Distribution (UCITS & AIFs)
Welcome to the fifth edition of our report on the distribution of Undertakings for Collective Investment in Transferable Securities (UCITS) funds.

Ireland's new ICAV legislation: A significant opportunity for Fund Managers
The release outlines the detail of the Bill and considers the potential advantages it offers for asset managers in considering their global product range.

In the spotlight...Sarah Murphy
Sarah is leading our new global fund distribution services practice which provides a range of solutions across the distribution chain for both UCITS and AIFs.

Investment Fund Distribution News: November 2014
With this newsletter you can keep your distribution strategy up to date and informed of individual country changes which can impact your fund distribution programme.
PwC helps organisations and individuals create the value they’re looking for. We’re a network of firms in 157 countries with more than 184,000 people who are committed to delivering quality in assurance, tax and advisory services. Tell us what matters to you and find out more by visiting us at www.pwc.ie