Investment fund tax reporting regimes

The European landscape

The European map of the specific investor and fund tax reporting regimes

pwc

Asset & Wealth Management Community

Despite the related operational challenges, fund reporting is a "must-have" for pan-European fund distribution

Complying with fund tax reporting requirements in Europe is key for successful cross-border fund distribution. It is also one of the biggest challenges facing fund administrators, promoters and management companies. Each distribution country requires different reporting figures (daily and/or annually), which leads to:

- Highly complex tax computations for each jurisdiction;
- Non-standardised reclassification of accounting figures/financial instruments; and
- The interpretation of highly complex regulatory requirements.

The tax regimes of the main fund-distribution markets require significant efforts in order to fulfil the reporting requirements and reduce the risk of publishing incorrect figures.

Legislation is constantly changing and evolving – even if these changes implement tax rules for foreign funds similar to those for domestic funds, the challenge lies in monitoring how these changes and the complexities they create will affect you.

In addition to the tax reporting, your investors may require the fund to provide information necessary to comply with their own regulatory obligations.

Regulatory reporting will be requested more frequently when your funds are distributed to credit institutions, insurance companies, pension funds, etc.

The tax rules governing the taxation of income from investment funds in Europe in the hands of investors

In most cases, investments in funds are treated as any other transferable securities unless specific (tax) reporting rules are implemented.

In such cases, income and capital gains from funds are taxed in the same way as any other transferable securities held by investors, based on the local rules of their countries of residence.

Practically this default treatment means that investors are taxed in most countries on a cash-flow basis, whether resulting from dividend distributions, fund redemptions or liquidations.

Nevertheless, certain European countries have adopted specific tax reporting regimes for investment funds, some more complex than others and with varying levels of complexity and different requirements (tax representatives, tax registration, daily/periodic or year-end reporting, etc.).

The tax legislation is regularly evolving, which increases again the complexity of the reporting.

In most of these countries, meeting these reporting requirements is seen as a hurdle that must be overcome to achieve market entry.

Any miscompliance with the local rule or wrong reporting may lead to local penalties or result in a reputational damage for the fund.

Our solution - A one-stop-shop solution for all your fund reporting needs

PwC support in the fund life cycle

PwC has developed a unique approach to service your needs at every step of the fund life cycle process from the identification of investors' needs and implementation of related processes to the submission of the actual report. We advise most of the major industry players. Our multi-competency teams bring together all our knowledge and recognised senior experts with long-standing industry experience, to provide a seamless and cost-efficient service.

We offer a comprehensive, bespoke and efficient tax reporting service for funds looking to satisfy these tax reporting obligations. Our approach involves close cooperation with fund promoters and their administrators. For many years our expert teams located across Europe, and fully coordinated by Luxembourg, have been working together on a daily basis. PwC can help you meet your funds' tax reporting requirements in Europe but also worldwide (e.g. US tax reporting, Korean tax reporting, Taiwanese tax reporting or HK reporting).

We have also fully integrated a wide range of **non-tax reporting** services such as VAG, Solvency II, GroMiKV, AIFMD, PRIIPs, etc. into our solutions.

One European team

Strong expertise

Cost effective

Fund life cycle

01 Fund set-up	**Tax consulting** Assistance in tax considerations during the funds set-up.	All countries
	Tax representative Tax representation function mandatory for some countries (i.e. Austria).	Austria
02 Tax reporting regime access	**Eligibility analysis** Analysis of the eligibility for the regime (set-up and during the life of the fund).	Germany, United Kingdom, Austria, Belgium, Italy, France, Spain, Norway, Denmark
	Initial registration Initial registration of the share classes with the local regulator.	Germany, United Kingdom, Switzerland, Austria, Denmark
03 Over the year	**Daily monitoring and daily tax figures** • Calculation of/consultation on the daily tax figures; • Calculation of the equity ratio; • Periodic review of the daily tax figures.	Germany, France, Norway, Liechtenstein, Switzerland, Belgium
	Assistance in specific queries • Ad hoc assistance on investors queries; • Ad hoc assistance on tax administration queries; • Certification or calculation of the inherence tax reporting; • Non-tax reporting preparation	All countries
04 Distribution	**Distribution reporting** • Periodic calculation/review of the tax figures; • Calculation/review and reporting of the underlying source of income in the case of distributions.	Germany, Austria, Italy, France, Norway, Liechtenstein
05 Financial year-end	**Annual tax reporting** • Annual calculation/certification of the tax figures; • Certification or calculation of the bond fraction tax reporting; • Calculation of the equity portion.	All countries, except Spain, Denmark
	Transmission of tax filing • Annual or periodic submission of the tax figures to the tax authorities.	All countries, except France, Spain
06 Fund structuring	**Transmission of tax filing** • Assistance in tax considerations in case of merger/liquidation/ transfer in kind.	All countries
	Tax reporting • Calculation/review and submission of the tax figures to the tax authorities; • Determination of the capital component of the liquidation proceed; • Ad hoc reporting for mergers.	All countries

The European map of investor and fund tax reporting regimes...

Net Asset Tax Reporting (NAT)/Belgian Taxable Income per Share (BTIS)/Distribution reporting

- The NAT is a tax of 0.925% paid by the fund and calculated on the total of the net assets held by Belgian residents as at 31 December of each year. Some assets can be excluded from the tax base.
- For bond or mixed funds falling within the scope of Art 19bis of the Belgian Income Tax Code, the "BTIS" (Belgian Taxable Income per Share) must be reported daily and provided to the Belgian paying agents for private investors. This information is needed to determine to which extent capital gains from fund redemptions are taxable in the hands of investors. If it is not made available, 100% of the capital gains will be taxable.
- In the event of dividend distributions, investors may benefit from some tax exemptions if the fund provides the paying agent with a breakdown of the distributed amount into the income and capital gains earned by the fund.

UK Reporting Fund Status

- An offshore fund that has UK reporting fund status is treated as if it were a UK fund for investor taxation purposes.
- Funds with UK reporting fund status meet certain annual conditions by reporting their 'income' returns to UK investors and HMRC. Investors suffer tax on the income returns of the fund annually (whether distributed or not) but benefit from capital gains treatment on any gains realised on exit from the fund.
- Any gains realised by an investor when exiting a non-reporting offshore fund are treated as 'income' and are taxable at income tax rates (which are considerably higher than capital gains tax rates).
- An upfront application to HMRC to enter the regime as well as distribution and financial year-end reporting is mandatory. There are significant differences in the calculation of reporting figures between corporate-type funds (SICAVs) and contractual-type funds (FCPs).

UK reits NRCGT NEW

- Since 6 April 2019, a new capital gain regime applicable to non-resident funds investing in UK rich property (ie UK reits) came into force. Foreign funds are subject to the corporate taxation (Notification procedure and annual tax return filing). Application of the DTT between country of residence of the fund and UK may be analysed.

PEA regime/Rebate on capital gains/Distribution reporting

- There are two specific saving schemes available to investors in equity funds under certain conditions: the "Plan d'Épargne en Actions" (PEA) and the PEA PME. Each regime provides an income tax exemption at investor level for income and capital gains earned by the fund from qualifying equities. Several conditions (e.g. investment policy and holding period) must be satisfied.
- In addition to PEA savings schemes, investors can also benefit from tax exemptions on fund distributions and capital gains related to certain equities held by the fund (securities acquired before 1st January 2018 and provided that the individual investor made the election for the taxation at the progressive income tax).
- Investors will need to be informed about the breakdown of distributions and capital gains in order for the proceeds paid by the fund to be taxed as if the investor would have been directly invested in the underlying assets.

Tax deferral scheme

- Capital gains from any disposal of fund units are fully taxable for investors. Taxation may be deferred if investors subscribe for units of another fund in the same amount.
- Certain conditions must be satisfied by the fund and by the Spanish distributor.
- The distributor needs to send the regulator (CNMV – Comisión Nacional del Mercado de Valores) the list of funds eligible for the scheme together with the NAV data of the relevant funds on an annual basis.

Swiss Tax Reporting

- Swiss private investors can benefit from an advantageous tax regime if the fund calculates and reports its taxable income annually. Otherwise, private investors will not be able to distinguish the taxable portion (i.e. capital gains/certain income) from the taxable portion (i.e. interest and dividends).
- It is market practice in Switzerland to provide private investors with such tax reporting information.

Austrian Tax Reporting

- To gain the Austrian tax favorable status ("Reporting funds") foreign investment funds have to appoint an Austrian tax representative, who calculates the tax figures on the deemed distributed income (DDI) and on distributions and reports these figures to the OeKB.
- The fund and its relevant share classes need to be registered with the Oesterreichische Kontrollbank (OeKB) before the calendar year-end preceding the year of reporting.
- The annual DDI reporting has to be carried out on an annual basis (within seven months after the financial year-end of the fund). The taxable parts of distributions have to be reported to the OeKB until one day before the pay date at the latest.

Norwegian Tax Reporting

Foreign investment funds may now report tax information in order to allow Norwegian investors to benefit from tax exemptions. This consists of three (independent) streams:

- Equity portion to be reported on 1 January of each year to investors/tax authority;
- Distribution breakdowns to be provided to Norwegian investors (income vs capital gains);
- Tax information for redemptions at investor level.

Swedish Tax Reporting

In Sweden, foreign funds are as a main rule required to file a statement on dividend distributions, capital gains/losses and standard income on fund holding per Swedish tax resident investor who is a natural person or estate. Exemption from this requirement may exist for a foreign fund depending on e.g. type of fund and whether the fund shares are held through any intermediary.

Danish Tax Reporting

Denmark operates a specific tax reporting regime for funds available and attractive for retail investors. The investment funds shall calculate a minimum income of the fund/sub-fund annually based on a principle of transparency, Investors of reporting funds are taxed on the annual minimum income of the fund, and realised gains/income upon disposal of assets instead of market-to-market taxation (i.e. gains based on increased market value).

- Classification between "Share based fund" (≥ 50% assets invested in equity) and "Bond based fund" (<50% assets invested in equity) with specific taxation rate.
- Annual reporting is to be filed to Danish tax authorities within 2 months after the AGM (annual general meeting) has approved the annual report, but no later than 6 months after financial year-end.
- New **"equity based investment companies regime"** introduced applicable to foreign investments funds in force as from 1 January 2020. NEW
- An equity based investment company shall invest at least 50% assets invested in equity. The investment fund must give notice to the Danish tax authorities no later than 1 November of the calendar year prior to the calendar year in which the election should have effect and must submit information to the tax authorities to show compliance with the investment requirements no later than 1 July of the following year.

German tax reporting under "Retail Fund" regime (UCITS, AIF…)

- Annual lump sum taxation as of calendar year-end based on the NAV and lump sum taxation on distribution.
- Payment of tax is due by German investors within 30 days after calendar year-end German paying agent are expected to withhold the taxation.
- Partial tax exemptions applicable depending on fund classification. Daily equity ratio monitoring required and publication maybe requested for funds invested by other funds.

German tax reporting under "Spezial Fund" regime

- Only funds complying with specific definitions can access the Spezial Fund tax reporting regime (mostly in term of assets and risk diversification). Limitation to the number of investors.
- Transparency regime for daily, distribution and financial year-end reporting is required.
- Annual and distribution reporting will need to be calculated per investor and reported within four months after financial year-end.

Other

- Funds status certificate to benefit from reduced WHT tax rate on German source income.
- Special tax status for "tax privileged" investors.
- Funds subject to the corporate income tax on certain German source income. New notification procedure introduced.

Tax reporting for corporate investors

- Since the Tax Law was amended in 2014, income and capital gains at fund level (distributed or accumulated) have been subject to income tax at investor level.
- Nevertheless, corporate investors can benefit from tax exemptions on dividends and capital gains derived from equities.
- A corresponding breakdown of fund earnings is required by corporate investors in Liechtenstein.

Italian Tax Reporting (also called "IRRP" or "Bonds Fraction Tax Reporting")

- Fund investors can benefit from a lower tax rate (12,5% instead of 26%) on distributions and capital gains from the fund to the extent those relate to investments in certain eligible bonds (mainly government bonds and bonds issued by supra-national bodies).
- A percentage of qualifying bonds in the fund portfolio is to be calculated twice a year.

Inheritance Tax Reporting

- Inheritance tax applies to transfers of property and rights (worldwide) upon the Italian resident's death. As for direct investments, "indirect" investments in bonds and other eligible securities issued by EU and EEA Member States are excluded from the inheritance estate and, therefore, not subject to inheritance tax.
- A percentage of qualifying bonds in the fund portfolio is to be calculated at the date of the death.

Distribution Reporting

- In the event of dividend distributions, funds may provide the paying agent with a breakdown of the distributed amount in order to identify the portion of income from capital (taxable) and the portion of capital repayment (non taxable).

PIR ("Piani Individuali di Risparmio", a tax-exempt investment plan for Italian retail investors)

- New special tax incentive scheme for "long-term savings plans" (at least 5 years) called PIR which allows a relief on Income and Inheritance tax for individuals.

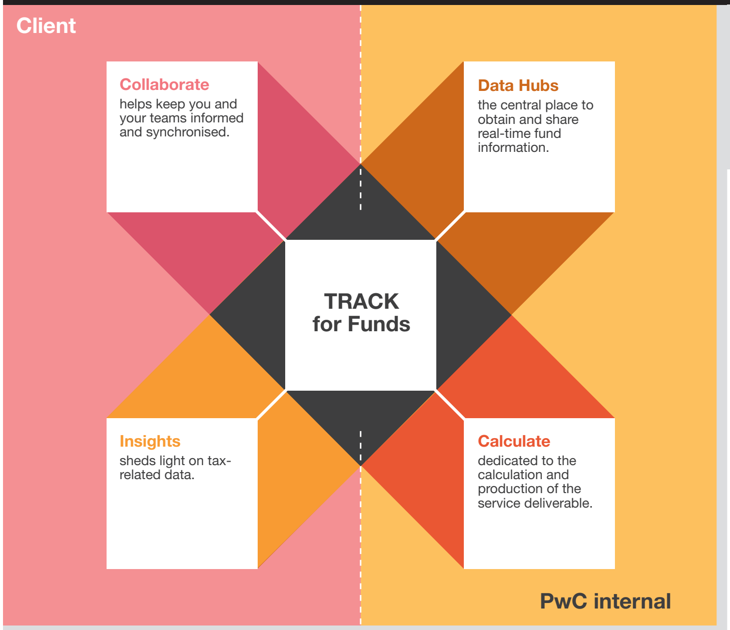
Special tax regime for ELTIF (European Long Term Investment Fund) NEW

- Similar to the PIR regime, the special tax regime provides for Italian tax resident individuals with tax exemption on capital income and other income deriving from investments in ELTIF, also via CIVs, which meet certain requirements (Minimum holding period, eligible investments…).

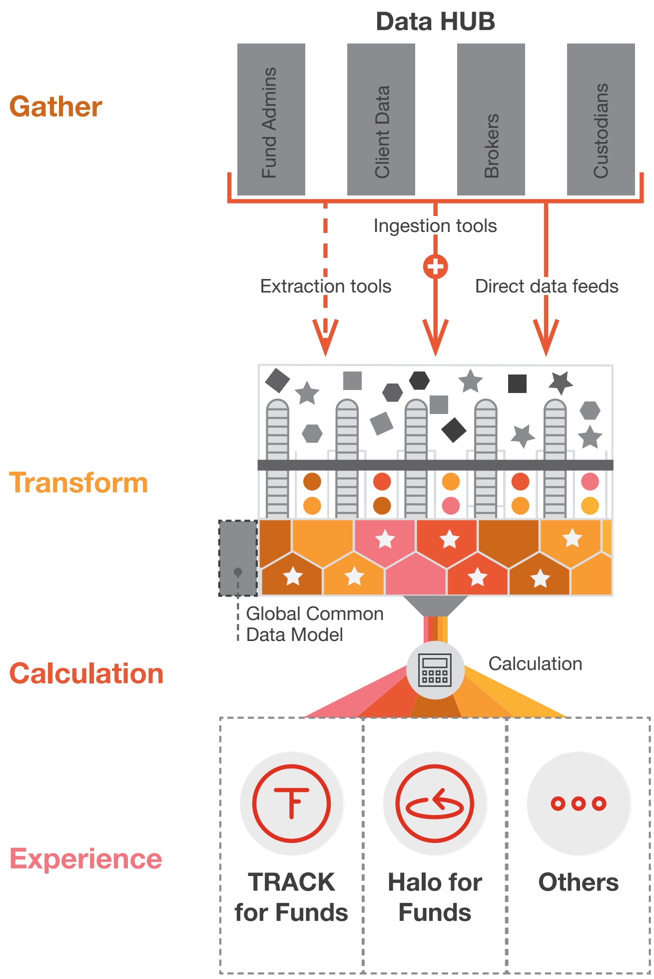
... and main regulatory reporting regimes per type of investor and country of distribution.

Insurance companies	Credit institutions	Pension schemes	Retail clients	Supervisory authorities
Solvency II European PRIIPS Template	Solvability Reporting Liquidity Reporting Own funds deduction CVA charge	COVIP	PRIIPS KID UCITS KIID	AIFMD MMF Reporting
VAG	GroMiKV	QMV		
		VAG		

TRACK for Funds Platform



Fully integrated data driven approach and the ONE interface to PwC



Collaborate & Insights apps

- Collaborate
- Insights
  - Smart Metrics
  - Portfolio tax scanner
  - ITV (International Tax View)
  - Tax Watch
  - DAC 6

Contacts

Luxembourg	**Oliver Weber**	Partner	+352 49 48 48 3175	oliver.weber@lu.pwc.com
United Kingdom	Elizabeth Stone	Partner	+44 20 780 49678	elizabeth.j.stone@uk.pwc.com
Ireland	**Marie Coady**	Partner	+353 1 792 6810	marie.coady@.pwc.com
Switzerland	Martin Büeler	Partner	+41 58 792 4392	martin.bueeler@ch.pwc.com
Austria	**Thomas Steinbauer**	Partner	+43 1 501 88 3639	thomas.steinbauer@at.pwc.com
France	Laurence Toxé	Partner	+33 1 56 57 47 32	laurence.toxe@avocats.pwc.com
Belgium	**Olivier Hermand**	Partner	+32 2 710 44 16	olivier.hermand@be.pwc.com
Italy	Marco Vozzi	Partner	+39 02 9160 5011	marco.vozzi@pwc.com
Norway	**Dag Saltnes**	Partner	+47 95 26 06 32	dag.saltnes@pwc.com
Germany	Dirk Stiefel	Partner	+49 69 95 85 67 09	dirk.stiefel@pwc.com
Denmark	**Henrik Poulsen**	Director	+45 3945 9970	henrik.poulsen@pwc.com

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