A new perspective

The world may be getting smaller but, when it comes to tax reporting, Europe can feel more complex and demanding than ever before. The distribution of investment funds in different countries inevitably brings with it the need for tax reporting in a number of different jurisdictions. This also requires a strong commitment of time and resources for an organization.

At EY, we understand, and are able to help take care of, all aspects of the tax reporting functions, allowing asset managers to focus on their core business activities. We do this on the ground at a local level while, more importantly, working closely with our colleagues throughout Europe to provide our clients with a borderless and coordinated approach across all relevant jurisdictions.

The countries with significant tax reporting requirements are Austria, Germany - with a very high likelihood subject to change as from 1 January 2018 though - (further details can be found on our Excursion page 26ff.), Switzerland and the United Kingdom. There are also limited reporting requirements in Belgium, Denmark and Italy, while the European Union Savings Directive (EUSD) brings yet further reporting requirements.

We can help our clients navigate this ever-changing tax landscape, with the support and expertise of our local teams and European network, wherever they are based.

This material has been prepared for general informational purposes and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice. Information contained in this document is correct at March 2016.
European Fund Tax Reporting Services
Introducing EY

EY was the first provider of coordinated tax reporting services within Europe. Our local teams in Austria, Belgium, Denmark, Germany, Italy, Switzerland and the UK collaborate as part of our integrated European Fund Tax Reporting (EFTR) Group, supported by our enterprise-wide technology.

We believe in providing technical expertise, market insight and an exceptional, proactive client service, all delivered by local country teams.

However, our clients also benefit from access to a much broader knowledge base across European tax jurisdictions through our unique EY technology (EY eRoom): all delivered through a single point of contact.

EY’s local presence, combined with pan-European expertise, provides our clients with an efficient and cost-effective, borderless solution to EFTR.

The leaders of the European Fund Tax Reporting Team (left to right): Thomas Wilhelm, Lynne Sneddon, Rolf Geier and Rosheen Dries
Our delivery model

Fund administrator(s)

Client relationship
Escalation

Fund manager

Ad hoc tax advice
General tax updates

Supporting IT infrastructure

EY European team and technology

Reporting

German Federal Gazette and WM Datenservice

UK tax authorities and investors

OeKB (Österreichische Kontrollbank)

Swiss tax authorities

Respective authorities

EY senior client relationship executives

EY eRoom

Monitoring and oversight
Access to tax updates

Access to tax updates
Reporting specific data

6 European Fund Tax Reporting Services
EY makes the difference

We were the first in the market to offer EFTR as a coordinated service. We have been providing this service since 2008, learning from our experiences along the way and developing what is now a fully integrated, pan-European EFTR solution:

› One team approach – we offer a group of local partners that is hands-on, works together on a daily basis and has a vast experience in investor fund tax reporting.

› Unrivaled industry presence – our local teams have in-depth country expertise and seek to work with legislators, tax authorities and industry bodies in their jurisdiction.

› Centrally coordinated, locally delivered – our clients benefit from locally provided services that are coordinated centrally.

› Sophisticated tools – we use advanced technology and tools to mitigate tax risks and deliver accurate compliance.

Our EY eRoom technology

In 2008, as a response to our client needs, EY developed the first web-based fund tax reporting tool. This has naturally evolved over time, and we remain committed to the continual improvement of our technology and processes in relation to EFTR.

We have created a central online platform called the EY eRoom, which is used by all countries to simplify communication between clients and administrators. The EY eRoom enables a speedy, efficient and secure exchange of data between the fund administrator, the fund manager and EY. At the same time, it provides you with a clear overview of the whole process.

All you need to use the EY eRoom is access to the internet.

How the EY eRoom helps our clients:

› It allows the one-time upload of data from the fund administrator.

› It is flexible, and allows the delivery of raw data (full outsourcing of the calculation process), pre-processed data (partial outsourcing of the calculation process) or full calculations from the administrator (certification only process).

› It can simultaneously process data for all reporting countries as required.

› It provides complete control and constant monitoring of all reporting deadlines for each specific country.

› It allows you to monitor all work progress and delivery 24/7, using our simple progress level alert (red, amber, green) system.

› It enables up-to-date awareness of the constantly changing tax environment by activating an email push service to provide you with, for example, the latest news alerts, uploads of new documents and completion of tax reports, as required.
Austria
Tax reporting obligations

General
Non-domestic funds qualify for either “reporting” or “non-reporting” status. Investors of reporting funds are taxed on a transparent basis. Following the implementation of the Alternative Investment Fund Managers Directive (AIFMD), all sorts of Alternative Investment Funds (including Private Equity structures) will be subject to the regular fund reporting regime. The status is determined by the extent to which certain filings are made.

Reporting status requirements
- Registration (i.e., signing a contract) with Oesterreichische Kontrollbank (OeKB)
- Appointment of an Austrian tax representative who calculates and delivers the relevant data to OeKB
- Relevant data, which includes the annual deemed distributed income (DDI), representing the fund’s realized income for the relevant financial year plus (limited) filing of actual distribution
- Results to be published on OeKB website and all relevant figures shared with Austrian custodian banks to allow for withholding tax (WHT) deduction at investor level for consistency in structure
- A new format (starting 6 June 2016) allows for a more granular reporting of income components which is a final step to achieve the same filing level as for domestic funds. This new reporting format also provides for a pre-defined distribution sequence, independent from local regulations and/or decisions.

Non-reporting status
- If a fund lacks any of the above requirements, investors face prohibitive taxation based on a non-transparent approach.
- Investors in non-reporting funds are taxed on the basis of a lump-sum DDI that represents the higher amount of 90% of the actual performance or 10% of the year-end net asset value (NAV).

Timing and deadlines
- The filing of the annual DDI is due seven months after the fund’s financial year-end (FYE). If a filing for actual distribution or liquidation is required this filing is due one day before the payment date.

Roles and responsibilities
Fund promoter
- Responsible for entering into a contract with OeKB and with an Austrian tax representative to obtain reporting status for their funds
- Joint liability with tax representative

Austrian tax representative
- Responsible for the initial application of new funds, calculating and filing the annual DDI within seven months of each FYE, as well as actual distribution or liquidation with OeKB

OeKB
- The only Austrian institution authorized by law to collect and circulate tax information from foreign funds to Austrian custodian banks or investors via its public website

Fund administrator
- Responsible for delivering the required documents and information for the annual filing and (limited) filing of actual distribution to the Austrian tax representative, and – for the time being – to meet all EUSD WHT reporting requirements (where applicable)

Austrian custodian banks
- Required by law to deduct WHT annually from Austrian investors’ bank accounts based on the information provided by OeKB, and to adjust the historic purchase price accordingly (the latter only applies to non-grandfathered shares facing another ultimate WHT deduction upon redemption)
Taxation of investors

Private investors
General tax regime
- Investments prior to 1 January 2011 are grandfathered, i.e., investors are only taxed on the annual DDI. Whereas 100% of dividends and interest are subject to tax, plus 60% of realized gains. The tax rate for all income components mentioned is 27.5% (used to be 25% until 31 December 2015).
- Investors in non-grandfathered shares are taxed on the annual DDI to the same extent as investors in grandfathered shares but, in addition, they suffer a final 27.5% WHT deduction on their total gain realized upon redemption, while any tax paid on the annual DDI over the holding period is credited to avoid double taxation.

Tax loss carryforward
- This is possible within the fund to reduce its DDI in future periods. Realized capital losses may be utilized not only to reduce capital gains but also to reduce dividend and interest income (limitations apply).

Withholding tax regime
- Investors holding fund shares with an Austrian deposit will be taxed by means of WHT withheld by the Austrian custodian bank, while investors holding fund shares with a foreign bank or directly in the fund need to declare the fund’s income in their personal income tax return.

Foreign withholding taxes
- Foreign WHT (borne by the fund) may be credited against the Austrian WHT. Under the new regime, for the first time, the rules of individual Double Tax Treaties may already be considered by the fund’s tax representative.

Ultimate tax burden
- Investors in grandfathered shares are usually taxed at a rate of 27.5% on any interest or dividend component and 16.5% (27.5% out of 60%) on capital gains realized by the fund. The final redemption (potentially actualizing any unrealized capital gains) is not taxable.
- Investors in non-grandfathered shares are taxed at a rate of 27.5% on actual gains realized upon redemption (credit for tax already paid on annual DDI throughout the holding period).

Institutional investors
Corporate investors are also taxed on the annual DDI. Unlike private investors, 100% of their realized gains on the fund level is taxable, whereas dividends are mainly tax-free. Gains realized upon the final redemption are taxable. The final tax burden is 25% minus tax-free dividends.
Our EFTR services in Austria

Austrian fund tax reporting is a core business for us: we have a dedicated Austrian tax team which provides client service and technical support locally, but who are also able to draw on the resources of our pan-European EFTR group in other tax jurisdictions.

Our EFTR service includes all the tasks usually undertaken by a tax representative in Austria. The high level work-flow is shown on the following pages, in practical terms, this means starting with the preparation of the year-end DDI calculation right through to the related filing of the DDI with OeKB, including the review of the asset classification and fund of fund calculations where appropriate.

Communicating with our clients
Alongside the technical aspects of our work, we feel it is important to have an ongoing dialogue, ensuring that our clients are kept up to date on any possible issues relating to figures provided and, equally, with any technical or legal changes that might impact upon their business.

We make a point of offering regular meetings to review and discuss these matters. We also circulate Tax Alerts as soon as we hear of developments in the market that may be of interest. Also our eRoom allows for a 24/7 access for our clients (see page 7 for details).

Communicating with OeKB
A key aspect of our service is the role that we play in communicating directly with OeKB on behalf of our clients.
This includes:
- Registering new share classes by submitting the declaration of intent to OeKB, together with any data provided by the fund administrator
- Uploading the csv files to OeKB’s online platform
- Confirming OeKB’s return file for final publication
- Liaising directly with OeKB to discuss any problems or issues

**EY technology working for everyone**
Our advanced technology includes a range of tools that allow a semi-automated DDI calculation, set up to minimize the need for manual input (and the risk of human error) and also to search for incomplete data. At the same time, it provides EFTR teams with all the background information they need to make better, more informed decisions about the correctness and plausibility of their work.

All DDI calculations are undertaken in accordance with the Austrian Investment Tax Act (including necessary reclassifications), as is the semi-automated target fund processing, the creation of a summary of the results of our work and, finally, the automated creation of the csv file necessary for the upload to OeKB’s online platform.

Our tools also contain various reconciliation features.
Fund tax calculation process

**Step 1**
Automated data transfer

**Step 2**
Semi-automated pre-processing tools

**Step 3**
Semi-automated tax calculation tool

**Step 4**
Automated data exchange with OeKB

- Fund of funds tool: target fund processing
- WHT tool: Consideration of WHT according to individual DTTs
- Reconciliation tool: reconciliation to financial statements
- Carry-forward archive: Consideration of carry-forward amounts both for profits and losses

Asset classification

- Download of raw data from EY eRoom

**Austrian fund tax calculation tool:**
including numerous cross-checks and plausibility checks

- creation of csv file for upload to OeKB
- receipt and automated check of OeKB’s return file
- confirmation of OeKB’s return file for final publication
Germany
Classification of investment vehicles for German tax purposes

Non-domestic collective investment vehicles qualify either as investment funds or as investment companies for German tax purposes. This qualification defines the tax treatment for the respective German investor. These rules include business entities outside the financial industry.

German investors in investment funds are taxed either on a transparent or non-transparent basis, depending on the extent to which certain filing requirements are fulfilled.

Investors in investment companies are taxed either as equity holders or as holders of a partnership interest, depending on the legal structure of the investment vehicle.

<table>
<thead>
<tr>
<th>Foreign investment vehicle qualification for German taxation purposes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment fund</strong></td>
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<tr>
<td><strong>Investment company</strong></td>
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<tr>
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</tbody>
</table>

Dom (cathedral) entrance, Aachen
Investment funds

To qualify as an investment fund, the (foreign) investment vehicle must fulfill the following requirements:

- The investment vehicle or its fund manager must be supervised and regulated in its domicile.
- Investors must have the right to redeem their units on at least an annual basis. This criterion is deemed to be fulfilled if the units are traded on a stock exchange.
- The investment vehicle is a (passive) collective capital investment; an active commercial management of assets is not permitted. In this regard, an active entrepreneurial management of investments in real estate companies is not detrimental.
- The vehicle must invest according to risk diversification principles, i.e., more than three different assets with different risk profiles.
- At least 90% of the investment portfolio must consist of the following eligible assets: securities, money market instruments, derivatives, bank deposits, real estate assets, participations in real estate investment companies, units in qualifying investment funds, public private partnerships, unsecured loans if acquired, equity participations in non-listed enterprises and precious metals.
- The following investment limitations apply to all types of investment funds:
  - A maximum of 20% of the NAV may be in non-listed equity. Real estate funds may invest up to 100% of the NAV in the equity of real estate companies.
  - Holdings in equities must be less than 10% of the equity of a corporation. Real estate funds may hold up to 100% of the equity of a real estate company.
  - Short-term loans (up to one year) are limited to a maximum of 30% of the NAV. Real estate funds may borrow up to 50% of the value of their direct or indirect real estate investments on a long-term basis.
  - Investments in commercial partnerships are not permitted.

(1) Transparent investment funds

Tax reporting obligations
To obtain the transparent tax treatment for German investors, non-domestic investment vehicles that qualify as investment funds must fulfill the following reporting requirements. If these requirements are not fulfilled, the investment fund will be treated as a non-transparent investment fund.

<table>
<thead>
<tr>
<th>Transparent investment funds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>a) Publication of annual tax figures</strong></td>
</tr>
<tr>
<td>The tax figures relevant for the taxation of (interim) distribution, as well as the annual DDI, must be published together with a tax certificate of an authorized professional (e.g., tax advisor) in the German Federal Gazette (Bundesanzeiger) within a legal time frame.</td>
</tr>
<tr>
<td>If the fund units are held via a German bank, it is common practice to file the tax figures to WM Daten (the largest data provider for the German banking community) to ensure a correct tax withholding.</td>
</tr>
</tbody>
</table>

**b) Publication of the ADDI (accumulated deemed distributed income)**

The ADDI, comprising all deemed distribution amounts since 1993, must be published by the fund alongside the NAV publication (i.e., same publication frequency, same medium). The ADDI publication is an additional formal requirement necessary to achieve the tax transparent status.
Timing and deadlines
For accumulating funds, the tax figures have to be published within a four-month period after the business year-end of the fund, and for distributing funds within a four-month period after the resolution of the year-end distribution.

For distributing fund units held via a German bank, it is advisable to submit the tax figures at least one day before the pay date of the (interim) distribution to enable the bank to withhold the correct amount of WHT.

The calculation of the ADDI amount has to be performed within the same time period and published on an ongoing basis as described above.

Further publication requirements
Depending on the classification of the fund (e.g., retail or alternative) and the investor type (e.g., private, corporate, business or fund investor), there are further tax-relevant figures that may be required to be calculated and published at each valuation day (e.g., daily), such as interim profit (Zwischengewinn), equity gain (Aktiengewinn) and real estate gain (Immobiliengewinn).

The publication of these figures is not a mandatory requirement to achieve the tax transparent status. However, depending on the kind of fund and investor type, it is tax beneficial for German investors if the fund calculates and publishes these tax-relevant figures.

The calculation and publication of the equity gain is usually a precondition for institutional investors.

Roles and responsibilities
Fund promoter
- Responsible for the publication of the ADDI alongside the NAV, as well as the annual and daily tax figures
- Liable for the correctness of the published figures
- On request of the Bundeszentralamt für Steuern (BZSt – German Federal Tax Office), has to prove the correctness of the published data within a period of three months

Tax advisor or authorized professional
- Responsible for the certification of the annual tax figures and for the tax figures for any (interim) distribution either by the review of the tax figures prepared by the administrator or the fund promoter, or by the calculation of the tax figures
- Generally also engaged for the upload of the publication to the German Federal Gazette and for filing the annual tax figures with WM Daten

Semper Oper, Dresden
Investment funds

**Fund administrator**
- Responsible for delivering the required documents and information for the calculation of the annual tax figures
- May be engaged also for calculating the annual tax figures
- In general, responsible for the computation of daily tax figures and submission to the relevant parties (WM Daten or fund promoter), and for all (daily, periodical and annual) EU-WHT tax reporting

**German custodian banks**
- Required by law to deduct WHT from distribution and from sales
- Have to calculate the relevant tax bases according to the rules of the German Investment Tax Act

**German Federal Gazette (Bundesanzeiger)**
- To achieve transparent status, the annual tax figures, as well as the tax figures for any interim distribution, must be published by law on the publication platform of the Bundesanzeiger.

**WM Daten**
- In Germany, WM Daten is the most important data provider for custodian banks with regard to tax-related data of investment funds (daily and annual tax figures). Without the submission of the relevant tax data to WM Daten, the correct processing of distribution for tax purposes, as well as purchases and sales by the German custodian bank, is at risk.

**Taxation of investors**

**a) Private investors**
The taxable element of distribution and DDI is taxed at a flat tax rate of 26.375%. Tax-exempt elements may include distributed grandfathered realized gains out of securities acquired on the fund level before 1 January 2009 or tax-exempt income according to double tax treaties.

WHT suffered at fund level may be credited against the German WHT or, in the case of an accumulating fund, against the income tax on the DDI in the declaration of the investor.

The adjusted realized gain upon disposal of fund units is taxed at a flat tax rate of 26.375%. The realized gain is reduced or increased by the value increase or decrease of the published real estate gain between purchase date and sale date of the fund units. If the fund units were acquired before 1 January 2009, the realized gain itself is tax free. However, the flat tax rate will be applied on the interim profit (accumulated between subscription and redemption) included in the sale price.

**b) Partnerships**
The taxable element of distribution or DDI is taxed at the personal tax rate of the partner or investor. Tax-exempt elements include, for example, 40% of included dividend income or the realized gain on equities as well as tax-exempt income according to double tax treaties. WHT suffered on fund level may be credited against the German income tax.

The adjusted realized gain upon disposal of fund units is also taxed at the personal tax rates of the partner or investor. The realized gain is reduced or increased by the value increase or decrease of the published equity gain for individuals and the published real estate gain between purchase date and sale date of the fund units.

**c) Institutional investors**
The taxable element of distribution or DDI is taxed at the corporate tax rate in addition to trade tax. Tax-exempt elements may include, for example, distributed realized gains out of equities or tax-exempt income according to double tax treaties. WHT suffered on fund level may be credited against corporate tax. The adjusted realized gain on disposal of fund units is taxed at the corporate tax rate plus trade tax. The realized gain is reduced or increased by the value increase or decrease of the
published equity gain for institutional investors and the published real estate gain between purchase date and sale date of the fund units.

**(2) Non-transparent investment funds**

Non-domestic investment vehicles that fulfil the criteria to qualify as an investment fund for German tax purposes, but do not fulfil the reporting requirements for the transparent tax status, are considered as non-transparent investment funds.

**Roles and responsibilities**

**German custodian banks**
- Required by law to deduct WHT from distribution and from sales
- Have to include the taxable amounts in the annual tax statement of capital income prepared for the investors

**WM Daten**
- In Germany WM Daten is the most important data provider for custodian banks with regard to tax related data of investment funds. The taxable amounts must be stated in the annual tax statement of capital income prepared for the investors.

**Investor**
- Responsible for the consideration of all taxable income related to non-transparent funds within their annual tax returns (including lump-sum amounts)

**Taxation of investors**

Based on their holdings at calendar year-end, German investors are subject to a (in general) disadvantageous lump-sum taxation of 70% of the value increase of the NAV during the calendar year plus any distribution, in any case at least 6% of the annual NAV. In case of disposal of the fund units before the calendar year-end, any distribution received during the calendar year, as well as the realized gain upon disposal, is fully taxable.

The tax rates vary according to investor type:

- **a) Private investors**
  The taxable amount is taxed at a flat rate of 26.375%.

- **b) Partnership**
  The taxable amount is taxed at the personal rate tax of the partner or investor.

- **c) Institutional investors**
  The taxable amount is taxed at the corporate tax rate in addition to trade tax.
Investment companies

(1) Limited partnerships or comparable foreign legal forms

Reporting requirements
The income taxation for German investors investing in non-domestic investment limited partnerships takes place at the investor level. In cases where more than one German investor is invested in the non-domestic investment partnership, a German partnership tax return must be filed by either the investor or the investment partnership (e.g., the general partner). The allocable portion of the partnership income assessed in accordance with this tax return must be considered in the investor’s individual tax return.

The partnership tax return must be prepared under consideration of German income tax laws. Depending on the investments of the investment vehicle, potential CFC or PFIC (controlled foreign corporation or passive foreign investment company) considerations must be taken into account.

Timing and deadlines
The tax declaration has to be submitted electronically to the responsible tax office within five months of the calendar year-end in which the fiscal year of the investment vehicle ends. If the tax declaration is prepared by a certified tax advisor, the filing deadline is generally extended to the end of December (i.e., a seven-month extension).

Roles and responsibilities
Fund promoter or general partner
- Responsible for the provision of general data needed for the preparation of tax returns (e.g., financial statements, foreign tax reporting, structure chart, investor information)
- Filing of the tax declaration by fund promoter or German investor

Tax advisor or authorized professional
- Responsible for the preparation of tax returns
- Submission of tax returns on behalf of the fund promoter or German investor
- Generally also engaged for all further correspondence with the tax authorities or with the German investor

Fund administrator
- Responsible for delivering the required documents and information for the preparation of the tax declaration

WM Daten
- In Germany, WM Daten is the most important data provider for custodian banks with regard to tax-related data of investment vehicles.
- WM Daten classifies the investment vehicle and discloses the tax regime to be applied according to its information.
Taxation of investors

a) General
For the taxation of German investors in foreign investment partnerships, general German income tax rules apply. The taxable amounts, as well as the final tax due, will depend on investor type as well as the asset composition of the investment portfolio. This may also include income that is deemed distributed to the investment partnership in accordance with the provisions under the German Foreign Tax Act (CFC or PFIC rules) if the investment partnerships invest in low-taxed (tax burden lower than 25%) countries. The investment partnership is treated as tax transparent for German tax purposes. The investors are taxed on the taxable income allocable from the partnership at fiscal year-end. The income is taxable at this point in time, regardless of whether it is distributed or not. Distribution by foreign partnerships is generally not tax relevant from a German tax perspective. Income received from the investment partnership could qualify either as business income or as passive trading income for German tax purposes.

b) Private investors
The taxable element of the annual allocation is subject to the personal tax rates applicable to the investor. If the allocable element of the partnership income includes income that is tax exempt under the applicable double tax treaty (e.g., real estate income), this portion of income will be eliminated from the investors’ taxable income. WHT suffered by the investment partnership may be credited against the German income tax.

c) Partnerships
The taxable element of the annual allocation is subject to the personal tax rates applicable to the partner. Allocation may include tax-exempt parts according to German tax law, e.g., 40% of dividend income or realized gain from equities if certain requirements regarding liability for taxation and the tax burden of the investment vehicle itself are met, as well as further exemptions according to applicable double tax treaties (e.g., real estate income). WHT suffered by the investment partnership may be credited against the German income tax.

d) Institutional investors
The taxable element of the annual allocation is subject to the corporate tax rates applicable and, under certain circumstances, also attracts trade tax. Dividends received through the investment partnership are only tax exempt if certain requirements regarding capital ownership percentage of the investor, and the liability for taxation and the tax burden of the investment vehicle itself, are met. Other tax-exempt elements according to German tax law, e.g., realized gains on equities, may be eliminated from the taxable part as well as exemptions according to applicable double tax treaties (e.g., real estate income). WHT suffered by the investment partnership may be credited against the corporate tax.

(2) All other investment vehicles

Reporting requirements
There are generally no tax reporting requirements for foreign corporate investment vehicles unless the investment vehicle is subject to a limited tax liability in Germany, e.g., if it invests directly in real estate investments or in certain German partnerships. If the investment vehicle is subject to limited tax liability in Germany, it is required to file a German corporate tax return.

Timing and deadlines
The tax declaration has to be submitted electronically to the responsible tax office within five months of the calendar year-end in which the fiscal year of the investment vehicle ends. If the tax declaration is prepared by a certified tax advisor, the filing deadline is generally extended to the end of December (i.e., a seven-month extension).
Roles and responsibilities

Fund promoter
- Responsible for the provision of general data needed for the preparation of the tax return (e.g., financial statements, foreign tax reporting, structure chart) if applicable
- Filing of the tax return by fund promoter

Tax advisor or authorized professional
- Responsible for the preparation of tax returns
- Generally also engaged for all further correspondence with the tax authorities or for correspondence with the German investor

Fund administrator
- Responsible for delivering the required documents and information for the preparation of the tax return

WM Daten
- Classifies the investment vehicle and discloses the tax regime to be applied according to its information

Taxation of investors

a) Private investor
Any distribution or realization on disposal of the fund unit is taxed at a flat rate of 26.375%.

Depending on the investment vehicle's structure, the provisions of the German Foreign Tax Act (CFC or PFIC rules) may become applicable, i.e., if the investment vehicle invests in certain corporate entities domiciled in low-tax countries (tax rate lower than 25%). This may lead to taxation of undistributed income at a flat rate of 26.375%.

b) Partnership
Any distribution or realization on disposal of the fund unit is taxed at the personal tax rates applicable to the partner or investor. The distribution and the realization on disposal may be 40% tax exempt if certain requirements regarding the liability for taxation and the tax burden of the investment vehicle itself are met.

Depending on the investment vehicle's investment structure, the provisions of the German Foreign Tax Act (CFC or PFIC rules) may become applicable, i.e., if the investment vehicle invests in certain corporate entities domiciled in low-tax countries (tax rate lower than 25%). This may lead to taxation of undistributed income at the partner or investor's personal tax rate. The 40% tax exemption is not available for this portion of income.

c) Institutional investors
Any distribution or realization on disposal of the fund unit is taxed at the corporate tax rate in addition to trade tax. The distribution and the realized result on disposal may be tax exempt if certain requirements regarding capital ownership percentage of the investor, and the liability for taxation and the tax burden of the investment vehicle itself, are met.

Depending on the investment vehicle's structure, the provisions of the German Foreign Tax Act (CFC or PFIC rules) may become applicable, i.e., if the investment vehicle invests in certain corporative entities domiciled in low-tax countries (tax rate lower than 25%). This may lead to taxation of undistributed income at the corporate tax rate, in addition to trade tax. Exemptions according to German tax law are not available for this portion of income.
Our EFTR services in Germany

German fund tax reporting is a core business for us. We have a dedicated team of German tax experts, based in Frankfurt, who provide client service and technical support locally, but who are also able to draw on the resources of our pan-European EFTR group in other tax jurisdictions.

(1) Tax reporting services for investment funds

We have invested heavily in technology and resources to ensure that we have the capabilities to provide our clients with an efficient EFTR service that takes account of the increasing complexities of tax reporting requirements. We can be engaged either to perform a full calculation and certification or to review and certify the calculations undertaken by the fund administrator. In both cases, this includes uploading relevant information to the German Federal Gazette, filing tax figures with WM Daten and reviewing the published data in the German Federal Gazette.

Both delivery options are outlined below, and process maps illustrating the complete process for each, stage by stage, are set out in the Appendix.

Review and certification process
Using our specially developed tools, we undertake an annual review of all the work steps for the German tax reporting calculation process by fund administrators. This enables us to verify whether the calculation methodology and the asset classification have been applied correctly. It also allows us to detect any errors and infringements that could materially affect the tax information to be published.

Full calculation process
Using the raw data supplied, we first reconcile back to the financial statements and then classify all financial instruments in preparation for the calculation process, which entails:
- Determination of the amortization amounts for issue yield papers and any required correction of the realized result
- Reclassification of the realized result from certain debt instruments
- Separation of the realized result into grandfathered and non-grandfathered amounts
- Determination of the income base for creditable WHTs and creditable WHTs for German investors
- Complete target fund calculations (consideration of interim profit, accumulation and distribution according to the published tax figures, including the determination of the adjustment amounts for the realized result) under consideration of the corresponding equalization amounts

We then process and upload the share class publication in the German Federal Gazette, produce and file the WM Daten forms, as well as provide a review sheet with a summarized overview of the whole tax calculation process.

EY technology working for everyone
Our state-of-the-art technology is highly automated to mitigate the risk of manual errors and is based on the raw data from the accounting systems of the fund administrators. These calculation tools not only cover the core calculation, based on the final tax buckets, but also the pre-processing of the accounting raw data necessary to determine these tax buckets. These tools are fully comprehensive with built-in plausibility and consistency checks, providing an extremely efficient technology-driven solution to the German tax reporting process.
(2) Tax reporting services for investment companies

Investment partnerships
We undertake all the necessary preparation and filing of the required partnership (and, potentially, CFC) tax returns, as well as corresponding with, and reviewing the assessment notices released by, the relevant German tax office.

Other investment vehicles
We undertake all the necessary preparation and filing of corporate tax returns if the investment vehicle is subject to limited tax liability in Germany. We also analyze the application against the provisions of the German Foreign Tax Act (CFC or PFIC rules) and, if required, prepare and file the tax return. Throughout the process, we deal directly with the relevant German tax office.

Although the investment vehicle itself may not be required to file a tax return in accordance with the provision of the German Foreign Tax Act (CFC or PFIC rules), our services include the analysis and, if applicable, preparation of the tax return that will enable fund managers to provide investors with a service to ensure full compliance.

Communicating with our clients
Alongside the technical aspects of our work, we feel it is important to have an ongoing dialogue, ensuring that our clients are kept up to date on any possible issues relating to figures provided and with any technical or legal changes that might impact upon their business.

Oversight of German daily tax figures
Although the German daily tax figures (Aktiengewinn, Zwischen gewinn and Immobiliengewinn) generally prepared by the fund administrator are not subject to a legally required certification or review, the tax consequences to investors of inaccurate computation can be material. As an oversight measure, we can perform a review or re-computation of these tax figures. This review can be undertaken with varying degrees of detail, either as a sample checking against the movement in the NAV, as a review and sign-off of the calculation methodology used by the fund administrator or as a complete re-computation of the daily tax figures over a certain period of time.
Fund tax calculation process

**Step 1**
- Automatic data transfer

**Step 2**
- Automated pre-processing tools

**Step 3**
- Automated tax calculation tool

**Step 4**
- Automated data output

**Asset classification**
- Fund of fund tool: target fund processing
- WHT tool: withholding tax processing
- AGS/GDF tool: issue yield calculation and reclassification, determination of grandfathered amounts
- Reconciliation tool: aggregation of balance of accounts and reconciliation to financial statement

**24-hour and 7-day tracking and task monitoring**

**German tax calculation tool**
- Publication for German Federal Gazette
- WM Daten form
- Client reconciliation sheet
The German government issued a draft law of the German Investment Tax Reform Act (InvStRefG “Investmentsteuerreformgesetz”) on February 24, 2016. It is aimed at radically amending and simplifying the taxation of income from investment funds by abolishing the look through principle for retail investment funds. The look through principle for special funds is subject to modifications. Changes in the course of the legislative process are expected and need to be observed carefully. The legislative process is expected to be completed before parliament’s 2016 summer recess. In the following is a brief overview of the key points of the draft law.

(1) New scope of the German Investment Tax Act

The expanded scope of the application of the GITA (German Investment Tax Act) will be as set out below. Partnerships generally will no longer fall within the scope of the German-Investment Tax Act.

Scope of application:
- Any collective investment undertaking which collects capital for one or a number of investor(s) to invest it in accordance with a defined investment policy for the benefit of the investor(s) and which is not an operational active company outside the financial sector
- Tax exempt corporations for which commercial/business operations are prohibited

Exemptions:
Partnerships (unless structured as UCITS, pension funds or comparable to the German “Sondervermögen” as defined in the KAGB [“Kapitalanlagegesetzbuch”: German Investment Code])
(2) Future Classification of Investment Vehicles
The future classification of investment vehicles will follow the principle as set out in the following chart:

<table>
<thead>
<tr>
<th>Individual persons as investors (fund units held as private assets)</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment fund</td>
<td>No</td>
</tr>
<tr>
<td>New non-transparent taxation regime</td>
<td>No</td>
</tr>
<tr>
<td>Legal requirements fulfilled (comparable to the current system)</td>
<td>Yes</td>
</tr>
<tr>
<td>and no active or entrepreneurial management of assets</td>
<td></td>
</tr>
<tr>
<td>(threshold of 5% of income) and not more than a total of 100</td>
<td></td>
</tr>
<tr>
<td>investors (with certain exceptions and grandfathering rules)</td>
<td></td>
</tr>
<tr>
<td>Special funds: Current transparent taxation regime with</td>
<td></td>
</tr>
<tr>
<td>modifications</td>
<td></td>
</tr>
</tbody>
</table>

(3) Future taxation of Investment Vehicles and their Investors

Investment Funds
The current taxation system with its comprehensive reporting requirements as set out on pages 16ff. will be replaced by the following new non-transparent taxation regime. A requirement to calculate and publish the certified tax bases as well as the daily German tax figures will cease to exist.

Taxation of Investors
The draft law proposes a lump sum taxation regime, whereby the following will be subject to tax on the level of the investor:
- Dividends distributed by the investment fund
- Lump-sum income ("Vorabpauschale")
- Gains on the disposal of investment fund shares

- In a first step no distinction between different investor types (individual, business or corporate investor) and
- No partial tax exemptions for capital gains from equities applicable
- Instead: Different partial exemption of income dependent on investment structure and investor type
- No current taxation or taxation at disposal/sale if the fund is held in a certified Retirement and Basic Pension Plans
- No lump-sum income in connection with other retirement provision contracts and retirement provisions
The draft provides for partial exemption of income (dividends, lump-sum income and capital gains from the sale of investment fund shares) as follows:

<table>
<thead>
<tr>
<th>Fund Type</th>
<th>Individual Investor</th>
<th>Business Investor</th>
<th>Corporate Investor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity funds (investment in equities throughout BY ≥ 51%)</td>
<td>30%</td>
<td>60%</td>
<td>80%</td>
</tr>
<tr>
<td>Mixed funds (investment in equities throughout BY ≥ 25%)</td>
<td>15%</td>
<td>30%</td>
<td>40%</td>
</tr>
<tr>
<td>Real Estate Funds (investment in real estate/real estate entities throughout BY ≥ 51%)</td>
<td>60%</td>
<td>60%</td>
<td>60%</td>
</tr>
<tr>
<td>Real Estate Funds (investment in real estate/real estate entities outside Germany throughout BY ≥ 51%)</td>
<td>80%</td>
<td>80%</td>
<td>80%</td>
</tr>
</tbody>
</table>

This partial exemption is granted in order to avoid a higher tax burden on income due to the taxation on fund level, the denial of partial tax exemptions for capital gains from equities and for dividends (relevant for business and/or corporate investors) and the fact that foreign withholding tax is not credited.

**Special Funds**

Under the current legislation, a special fund is defined as a fund that meets the requirements of investment supervision, right of redemption, risk diversification and compliance with various investment limits and which has not more than 100 investors. However, in contrast to the current rules, the indirect investment of a natural person via a partnership generally will no longer be permitted; current legislation already disallows direct investments. A grandfathering rule will apply for a limited period to existing special funds that have natural persons holding investments via partnerships. In certain cases, an investment by a natural person will be possible, provided the shares are held as business assets. If the prerequisites for a special fund are not/no longer met, the special fund will be deemed to have been dissolved and will be treated for tax purposes as a retail fund. It will not be possible to change (back) to the taxation regime applicable to special funds.

**Taxation of a special fund**

Special funds will be taxed in the same way as retail investment funds with German dividend income, German real estate income and certain other German income being subject to taxation on the level of the fund. This German income can be exempted from tax upon application.

**Taxation of investors**

Taxation on investor level will remain (semi-) transparent.

However, positive and negative tax carryforwards will be assessed on investor level.

In addition, the option of applying income equalization will no longer be available. As a result, income and expenses will be allocated to the investors on a pro rata ownership basis.

Undistributed capital gains will become subject to tax on investor level after 15 years.

For income that has already been taxed on fund level, 60% German dividend income or 20% German real estate income and other German income is tax-exempt on the level of the investors.

A third daily tax figure – exemption gain (Freistellungsgewinn) – will be introduced. It will represent the tax-privileged income subject to partial tax exemption from investments in target funds.
(4) Transitional provisions

The new investment tax regime will come into effect as of January 1, 2018. The current rules will therefore cease to apply either at the regular end of the fiscal year if it coincides with the calendar year-end or the fiscal year will be deemed to end as of December 31, 2017 (for non-calendar fiscal year-ends).

The grandfathering provisions for investment funds that do not meet the new requirements for funds introduced by the AIFM-StAnpG [“AIFM-Steueranpassungsgesetz”: German AIFM Tax Adjustment Act] have been extended until December 31, 2017.

For investment funds whose fiscal year is deemed to end on December 31, 2017, the deadline for the last publication of the tax bases will be extended to December 31, 2018 or eight months after the dividend resolution.

Shares in investment funds, capital investment companies and undertakings that fall within the scope of the German Investment Tax Act for the first time will be deemed to have been sold as of midnight on December 31, 2017 and as purchased on January 1, 2018. The investor will not have to pay tax on the gain on the deemed sale until the shares are actually sold.
Tax reporting obligations

General
Until 2008, collective investment schemes could file their audited financial statements with the SFTA (Swiss Federal Tax Administration), which calculated the taxable income as well as taxable wealth values and organized publication in the official gazette (Kursliste).

As of the financial year ending in 2009, collective investment schemes with a license for public distribution in Switzerland (Foreign collective investment schemes authorized by FINMA - the Swiss Financial Market Supervisory Authority) have a legal obligation to carry out the respective fund tax reporting calculations in line with the published circulars of the SFTA and to report the taxable income values to the SFTA.

It has also become the market standard for funds without a Swiss distribution license (such as hedge funds and private equity funds) to calculate the numbers for their Swiss individual investors. Often it will also be requested by your Swiss distribution partner (e.g. Private Banks) and in many cases your funds will only figure on Swiss banks lists of recommended investments if you do perform Swiss fund tax reporting.

Timing and deadlines
There is no hard reporting deadline for foreign funds. However, a timely calculation and publication of the taxable values is in the interest of Swiss individual investors, as they rely on this information for their personal tax return. In particular, for distributing share classes of collective investment schemes, a timely calculation and publication can be beneficial if distributions include tax-free components (e.g., capital gains) that might otherwise be published as fully taxable income without correct calculation.

Roles and responsibilities

Fund promoter
- Responsible for entering into a contract with a Swiss representative for regulatory purposes

Swiss tax service provider
- Responsible for calculating and filing the annual income tax figures with the SFTA on behalf of the fund

Swiss Federal Tax Administration
- Responsible for publishing the tax figures in Kursliste

Fund administrator
- Responsible for delivering the required documents or information for the annual filing

Swiss individual fund investors
- Obliged to self-declare fund holdings, income tax and wealth tax figures (from Kursliste or other sources) in their annual tax returns
Taxation of investors

Private investors
Swiss fund tax reporting is essentially performed for Swiss private investors who need the information for their annual individual tax compliance. Capital gains derived from privately held assets are not taxable for Swiss tax-resident individuals and therefore a distinction between capital income and capital gains must be made, which is a large part of the reason for Swiss fund tax reporting.

For the individual investor, the effective distribution received during a calendar year is taxable. Distribution of more than 100% of the total taxable amount is treated as distribution of capital gains and is therefore tax free. Non-distributed taxable income (distribution in the range of 70% to 100% of the total taxable income) needs to be carried forward for Swiss fund tax reporting purposes and the taxation is deferred.

A fund qualifies as accumulating if it does not affect any distributions. The total reinvested income is taxable by Swiss tax law as per FYE of the fund.

A fund that distributes less than 70% of the total taxable income as per Swiss tax law qualifies as a mixed fund. In this case, the taxable income for the individual investor consists of the effective distribution received during the calendar year as well as the reinvested amount at the FYE of the fund as calculated based on Swiss tax law.

Taxable income
- Dividends (excluding distribution from capital contribution reserves from Swiss companies)
- Interest
- income from derivative contracts which economically corresponds to dividends and interest, e.g. from Swaps, ILS, CFD etc.
- Taxable target fund income (proportionate aggregation)
- Other income (e.g., securities lending fees)
- Equalization related to such income items

Deductible expenses
- Interest expense, manufactured dividends and fees paid for securities lending, as well as equalization related to such expense items, are fully deductible
- Expenses, such as management fees, custodian fees and other service fees, as well as equalization related to such expense items, are deductible, but capped at 1.5% of the NAV of the fund (different calculation options exist)
- Expenses in connection with generating primarily capital gains (e.g., performance fees) are not deductible

Funds will qualify as either “distributing,” “mixed” or “accumulating” for Swiss fund tax reporting purposes
To qualify as distributing, a fund is required to distribute 70% or more of the taxable income according to Swiss tax law. If the taxable income in a financial year does not exceed certain thresholds, no distribution is necessary to retain the qualification as distributing.
Our EFTR services in Switzerland

Swiss fund tax reporting is a core business for us: we have a dedicated team of Swiss tax experts who provide client service and technical support locally, but who are also able to draw on the resources of our pan-European EFTR group in other tax jurisdictions.

Our intention is to keep interaction with clients to a minimum during our reporting work, so they can devote their time to the rest of their business. That is why, after agreeing our scope and time line, and having secured the data we need, we generally work quietly in the background on behalf of our clients.

The full extent of an organization's tax reporting obligations are outlined in the following pages. Our EFTR service covers all aspects of Swiss tax reporting requirements which, in practical terms, means that we reconcile data for accuracy before calculating the taxable income for each (sub-) fund share class, including the contribution of taxable income from target funds.

We follow up with plausibility checks, addressing any anomalies directly with the administrator, and making the necessary adjustments. In most cases, we file the respective numbers with the SFTA on behalf of the client, after review and sign-off.

In the case of Sub-funds with a special focus for Swiss investors, we calculate minimum distribution amounts per share class prior to the effective decision on the distribution, so that taxable income can partially be converted into tax-free capital gains or at least be deferred. Such share classes would then follow a tax-optimized distribution policy for Swiss purposes.

The process map in the Appendix illustrates the complete process, stage by stage.
Communication with the SFTA
We have regular calls and meetings with the SFTA to discuss directly questions of interpretation, inadequate results or new reporting options. We may discuss specific tax scenarios anonymously, with our clients’ consent, so that any issues can be resolved prior to sign-off and filing with SFTA.

Other services
We offer a number of services in addition to the core services described above:
- Technical guides and advice for implementing new requirements in accounting systems
- Tax advisory services in relation to the tax implications of investment
- Assistance with calculations for fund mergers and liquidation

EY technology working for everyone
Our advanced technology includes a range of tools set up to minimize the need for manual input (and the risk of human error) and to search for incomplete data. Our calculation tool is based on Excel and is an enhanced and extended version of the official calculation tool used by the SFTA; it has been presented to them and discussed.
Fund tax calculation process

Step 1: Automated data transfer
- Direct data download
- Automated data feed

Step 2: Pre-processing
- Input tool
- Fund data tool
- Error reporting tool
- Reconciliation tool
- Carry-forward archive

Step 3: Tax calculation tool
- Tax calculation tool
- Manual interventions where needed
- Clarifications with fund manager and SFTA
- Four-eyes principle review and EY partner sign-off

Step 4: Data output
- Filing with SFTA
- Confirmation of correct publication
- Fund manager sign-off

Asset classification
Download of raw data from EY eRoom
United Kingdom
Tax reporting obligations

General
Reporting fund status is not a requirement for non-UK funds distributed to UK investors, but there are significant tax advantages for investors, particularly individuals. The rules apply equally to mutual funds and hedge funds. In practice, it is difficult to market a fund to UK investors without reporting fund status.

To obtain reporting fund status, a non-UK fund must submit an initial application to Her Majesty’s Revenue & Customs (HMRC) by the end of the first accounting period for which reporting fund status is required. This application is a one-off process and must be repeated only when new share classes are launched where, again, the deadline for applying is the end of the accounting period in which the class is launched (or three months after launch date if later). Once certified, the fund must comply with the following annual obligations:

- Prepare a computation of reportable income for the period
- Provide investors with prescribed information, including the excess reportable income per share for the period
- Submit a pack of information to HMRC including the computation of reportable income and a copy of the information reported to investors
- Complete the above within six months of the accounting period-end

Timing and deadlines
As described above, the initial application must be made by the end of the first accounting period where reporting fund status is required or, if later, within three months of a new share class being launched.

Once reporting fund status is obtained, the fund must comply with the annual reporting requirements described above within six months of the accounting period-end. Failure to comply with this deadline can result in the fund being in breach of the regulations, although not until 10 months after the accounting period-end will a minor breach be committed. There, is therefore, effectively a four-month grace period, although late reporting can cause investors problems with completing their tax returns and can therefore be reputationally damaging to the fund promoter.

Roles and responsibilities

**Fund promoter**
- Responsible for making the initial application for the fund to become a reporting fund, or engaging a UK tax service provider to prepare the application
- Responsible for sending the report to investors or posting it on their website annually

**UK tax service provider**
- Generally responsible for completing and submitting the initial application for the fund to become a reporting fund - in some cases, the fund promoter undertakes this in-house
- For each accounting period:
  - Responsible for computing the reportable income for the fund
  - Responsible for preparing the report to investors
  - Responsible for submitting the pack of prescribed information to HMRC

**HMRC**
- HMRC will list the fund (share class level) as a reporting fund on its website.

**Fund administrator**
- Responsible for delivering the required documents and information for the annual filing
- In some cases, performs the computation of reportable income

**UK investors**
- UK investors must record the excess reportable income correctly on their income tax or corporation tax returns and record any gain arising on redemption or disposal correctly.
Taxation of investors

Private investors
Individuals invested in a fund that is a reporting fund for UK tax purposes will be subject to income tax on any distribution and excess reportable income reported to them at the dividend rate (currently a maximum effective rate of 38.1%). If the fund is a bond fund, any distribution or excess reportable income will be taxed as interest at the full income tax rate (currently a maximum rate of 45%).

On redemption or disposal of their investment in the fund, provided the fund has been a reporting fund throughout the period of ownership by the individual, any gain will be subject to capital gains tax (currently at a maximum rate of 20%).

If the fund has not held reporting fund status throughout this period, the individual will be subject to income tax on the gain, taxable as an offshore income gain, at the individual’s marginal rate of income tax (currently a maximum rate of 45%). If the fund is a non-reporting fund, the same treatment would apply.

Institutional investors
The tax position for institutional investors holding shares in a reporting fund will vary depending on their tax profile. If, for example, the investor is a pension fund exempt from tax on both income and capital gains, there will be no tax, and whether the fund is reporting or non-reporting will therefore be irrelevant.

Where a mainstream corporate investor, subject to tax on both income and capital gains, holds an interest in a reporting fund that is not a bond fund, any distribution and excess reportable income is likely to fall within the dividend exemption and therefore be exempt from tax, subject to meeting a few conditions. When the investor sells or redeems their holding, this will be taxed as a chargeable gain at the company’s current rate of corporation tax. If the fund is, or has at any time throughout the period held, been a non-reporting fund, the gain will be treated as an offshore income gain, again taxed at the company’s current rate of corporation tax. Other than the availability of indexation allowance if taxed as a chargeable gain, there is little difference for a mainstream corporate investor whether the fund is a reporting or non-reporting fund.

Where the fund is a bond fund, distribution or excess reportable income will be taxed as interest at the company's current rate of corporation tax. The holding will be treated as a loan relationship and, hence annual mark-to-market treatment will apply. There is therefore unlikely to be any benefit of the bond fund being a reporting fund for mainstream corporate investors.

Where the investor is a UK fund (e.g., an open-ended investment company (OEIC), unit trust or investment trust) that is taxable on income profits but exempt from tax on capital gains, any holding in a reporting fund will be subject to tax on dividends or excess reportable income as for a mainstream corporate with the dividend exemption likely to apply, and any gain arising on disposal or redemption of the holding would be exempt as capital. Where the fund is a bond fund, any distribution will be treated as interest income and therefore subject to tax at the fund’s current rate of corporation tax. On disposal, any gain will be exempt, being a profit arising on a loan relationship accounted for as capital. This is the case whether the fund is a reporting or non-reporting fund.

Where the fund invests in a non-reporting fund that is not a bond fund, any gain arising on disposal or redemption of the holding would be subject to corporation tax as an offshore income gain. Therefore, for UK fund investors, there is a significant difference in the taxation of holdings in reporting funds versus the taxation of non-reporting funds where the fund is not a bond fund.
Our EFTR services in the UK

UK fund tax reporting is a core business for us: we have a dedicated team of UK tax experts who provide client service and technical support locally, but who are also able to draw on the resources of our pan-European EFTR group in other tax jurisdictions.

Our EFTR services cover all aspects of the fund reporting process and include liaising directly with HMRC on behalf of the client.

The tax reporting process includes the following stages:

- Reviewing of fund documents to confirm the scope of reporting requirements based on the structure of the fund and its legal nature
- Preparing and submitting the initial application to HMRC to become a reporting fund
- Preparing the computation of reportable income, including all technical adjustments such as effective interest calculations, holdings in other offshore funds and adjustments for derivatives
- Preparing the report to investors
- Preparing and submitting the annual pack of reporting information to HMRC
In some cases, the administrator provides a computation of reportable income for our review and submission to HMRC.

The process map in the Appendix illustrates the complete process, stage by stage.

**Other services**
Further to these core services, we also offer additional services including:

- Accounting opinions in relation to the Investment Management Association Statement of Recommended Practice (IMA SORP) adjustments for complex derivatives
- Reviews of UK tax wording in fund prospectuses
- Tax advisory services in relation to the UK reporting implications of various fund structures

**EY technology working for everyone**
Our tax reporting process centers around an Excel-based workbook that performs the UK tax reporting calculations from raw accounting data. Additional data is fed into our technology so that effective interest adjustments can be calculated.

Although certain areas of UK tax reporting still require manual intervention, such as adjustments for holdings in other funds, we continue to develop our technology to drive efficiency.
Fund tax calculation process

**Step 1**
- Automated data transfer

**Step 2**
- Semi-automated pre-processing tools
  - Direct data download
  - Semi-automatic data feed

**Step 3**
- Semi-automated tax calculation tool

**Step 4**
- Automated data output

**Accounts and portfolio review**
- Effective interest calculator: calculates effective interest adjustment from raw data
- Reconciliation tool: reconciliation to financial statements

**UK reporting data**
- UK reporting workbook
- Internal consistency checks and review checklists
Belgium
Tax reporting obligations

There is no general tax reporting requirement under Belgian law for a foreign fund distributed in Belgium. However, it is generally advisable from a commercial perspective to report information to Belgian resident investors in the context of a number of specific regimes. If investors are not provided with this information, they may not be able to complete their tax return correctly, as a result of which they would be taxed less favorably. Such tax reporting is of particular importance in the context of:

**Belgian savings tax**
- Inspired by the EUSD, the Belgian savings tax applies to capital gains, liquidation proceeds and redemption proceeds realized by a Belgian resident individual investing in a bond fund (both Belgian and non-Belgian, corporate and non-corporate). To determine whether this tax applies, a specific asset test should be carried out.
- These proceeds are subject to Belgian WHT, to be calculated on the basis of the Belgian TIS (taxable income per share). As the Belgian TIS is not entirely identical to the EUSD TIS, a separate calculation may be necessary.

**Breakdown tax reporting for corporate and individual investors**
- Depending on the circumstances, foreign funds may be considered as transparent from a Belgian tax perspective.
- In such cases, Belgian tax law requires that Belgian resident investors are provided with an overview of the income earned by the fund, allowing those investors to comply with Belgian tax rules.
- In the absence of clear rules in Belgian tax law, both on the principle of transparency and the methodology of such tax reporting, it is preferable to obtain an advance ruling decision that provides certainty on these points.

**Breakdown tax reporting for corporate investors**
- For Belgian resident corporate investors in a foreign fund to be entitled to the participation exemption and foreign tax credits in Belgium, reporting with respect to the fund’s investments is necessary, resulting in a “look-through” approach for Belgian tax purposes (even in the context of non-transparent – i.e., corporate – funds).

Our EFTR services in Belgium

Belgian fund tax reporting is a core business for us: we have a dedicated team of Belgian tax experts who provide client service and technical support locally, but who are also able to draw on the resources of our EFTR group in other tax jurisdictions.

Our EFTR service includes all the tasks usually undertaken by a tax representative in Belgium. We cover the full scope of tax reporting obligations which, in practical terms, means the development of calculation and reporting tools for Belgian TIS, as well as reviewing and optimization of tax reporting processes and methodologies. We also provide assistance regarding the calculations necessary for reporting purposes.

**Communicating with our clients**
Alongside the technical aspects of our work together, we feel it is important to have an ongoing dialogue, helping our clients stay up to date with any technical or legal changes that might impact upon their business. We offer on-site training for employees and handbooks that provide useful guidance on the suitability of different Belgian tax regimes.

We operate a “hotline” to help with tax issues as they arise, and offer support in the implementation of existing and new tax rules. We monitor and circulate Tax Alerts when we hear of developments in the market that may be of interest, obtaining advance rulings to provide legal certainty on any changes in tax reporting rules.
Denmark introduced new rules covering qualification as a reporting fund in 2012. These new rules make it easier for foreign funds to qualify and obtain status as reporting funds as of 1 January 2013.

One of the aims of the changes in the Danish reporting regime was to simplify some of the complex rules that made the Danish reporting regime unattractive for foreign funds. At the same time, the new legislation implemented the Undertakings for Collective Investment in Transferable Securities (UCITS IV) Directive and some of the terms were re-named to align with international terms.

As a consequence of the new rules, more foreign funds may consider opting for reporting status in order to be more attractive to certain retail investors. Qualification as a reporting fund does not, in general, change the tax position for Danish corporate and institutional investors but only affects retail investors.

Our EFTR services in Denmark

Danish fund tax reporting is a core business for us: we have a dedicated team of tax experts based in Copenhagen who provide client service and technical support locally, but who are also able to draw on the resources of our pan-European EFTR group in other tax jurisdictions.

Our EFTR service includes all the tasks usually undertaken by a tax representative in Denmark. In practical terms, we are able to assist with the preparation and submission of both initial applications for reporting fund status, and the computations and reports of reportable income.

In addition to the core compliance services, we have significant experience in providing advice for the following:
- Danish fund structuring
- Individual taxation
- Qualification of funds for Danish tax purposes
- Interpretation of the reporting legislation

Communicating with our clients
Alongside the technical aspects of our work, we feel it is important to have an ongoing dialogue, ensuring that our clients are kept up to date with any technical or legal changes that might impact upon their business.
Italy
In January 2012, Italy abolished its previous 12.5% and 27% WHT rates on income from financial investments in favor of a single 20% rate. Starting from July 2014 the single rate increased to 26%. However, income from government bonds and certain other equivalent eligible securities remain subject to the 12.5% WHT rate. The 12.5% tax rate is maintained even when the eligible bonds are held through an investment fund; therefore, asset classification is vital to ensure the correct WHT rate is applied. To identify this rate, the fund manager has to determine the proportion of fund profits that are attributable to eligible assets. This proportion is referred to as the eligible asset ratio (EAR), being the eligible assets considered against the total portfolio assets of the fund. The EAR is calculated twice a year and has to be reported to the paying agent and to the market, in the fund financial reports, on the fund promoter’s website or via third-party information channels. It does not have to be reported to the tax authorities.

Our EFTR services in Italy

Italian fund tax reporting is a core business for us: we have a dedicated team of Italian tax experts who provide client service and technical support locally, but who are also able to draw on the resources of our pan-European EFTR group in other tax jurisdictions.

Within our EFTR service, we offer five packages designed to support funds in recognizing and applying the EAR, introduced in 2012 under Italian tax legislation. These are outlined in more detail as follows.

Methodology review
We review the methodology applied and used as a basis for the EAR computation procedures to identify the eligible assets and to calculate their percentage in respect of the fund portfolio. We report our findings and provide recommendations on how to amend the calculation methodology, if necessary.

Classification review
With this review, we undertake a more in-depth analysis of the procedures to identify the eligible assets correctly. We require a list of bonds, identified by International Securities Identification Numbers (ISINs), together with details of whether the calculation model treats these securities as eligible or non-eligible. We have developed a tool that compares the list of ISINs provided in a csv format with internal databases and those provided by external providers (such as Bank of Italy and Reuters). This enables us to identify any ISINs that are wrongly classified in the calculation methodology and report back to our clients.

Verification of the EAR
We are able to check and validate the EAR resulting from the calculation methodology, using our own software to process the fund portfolios. We issue a report summarizing findings and providing recommendations on how to amend the calculation methodology if necessary. We also provide comfort letters certifying that the calculation is compliant with the Italian law provisions, if applicable.

Full outsourcing of the calculation of the EAR
Using our own software, we perform the entire calculation of the EAR for each relevant level and date. Our report provides details of all assets considered as eligible securities with the applicable EAR.

Advice on legislation
Upon request, we can analyze the impact of changes on calculation processes and advise, in a form to be agreed, on how to comply with them.
Tax reporting obligations

Current reporting obligations
The EUSD was introduced to ensure the taxation of income payments from a paying agent to individuals resident in other EU Member States. The EUSD provides for either a WHT (e.g., in Austria) or an exchange of information to the relevant EU Member tax authorities, or a combination of both regimes (e.g., in Switzerland).

Under the currently applicable laws, any income derived from interest payments distributed by, or realized upon sale, refund or redemption of units is subject to the EUSD rules. However, collective investment schemes investing assets below a certain threshold are out of scope of these rules.

To fulfill the requirements of the EUSD, the following three steps have to be undertaken:

1. The qualification of the investment vehicle based on an annual asset test
2. A calculation of the taxable income per distribution (TID) relevant upon a distribution
3. A calculation of the taxable income per share (TIS) relevant at sale, refund or redemption of units in an investment vehicle

These calculations and tests are usually undertaken by the fund administrators, who have defined parameters in their IT systems to classify assets and to define relevant amounts. To date, no audit of these figures is required by any fiscal authority.

Therefore, to mitigate the risk of either withholding the incorrect amount of tax or reporting the incorrect TIS or TID figure, fund managers need to ensure that the calculation processes and procedures implemented by the fund administrators are correct.

The oversight of the relevant calculations can be obtained by a one-time review of the calculation methodology and parameterization of the IT system of the fund administrator, combined with ongoing sample checks at regular (annual or semi-annual) intervals.

Repeal of EUSD
With the advent of the Common Reporting Standard, the EUSD has been repealed with effect from 1 January 2016. As such, there will no longer be a general requirement to produce TIS and TID calculations under the EUSD Rules. This is subject to a number of important caveats:

Austria and Switzerland are both late adopters of CRS (October 2016 and January 2017 respectively). As such, TIS and TID calculations may be required for Austrian and Swiss reporting beyond the time when these calculations are no longer generally required. However, as of March 2016 no draft of the corresponding changes of the existing WHT regime has been published.

EUSD TIS figures are often used to drive Belgian Savings Tax reporting figures (BETIS). As these figures are a domestic requirement, these will not disappear with the repeal of EUSD. Therefore, where a fund administrator produces BETIS figures, they will need to maintain their EUSD calculation capabilities or find an alternative solution in order to be able to produce BETIS figures going forward.

We are well placed to advise clients on the transition to CRS and assist with understanding the future requirements.

Our EUSD services
At EY, we offer the full range of services relating to the application of the EUSD. In particular (but not solely), we focus on investment funds that straddle different tax jurisdictions, with services that range from:

- Verification of in-scope or out-of-scope status of funds and sub-funds
- Computed verification of taxable income figures
- Reviews of the applied methodology
- Advice on the impact of fund transformations
An example of our approach to the review of the calculation processes of the EUSD is best shown in the following chart:
## Proposed Approach

<table>
<thead>
<tr>
<th>I. Scoping</th>
<th>II. TIS setup review</th>
<th>III. Asset test setup review</th>
<th>IV. TID setup review</th>
<th>V. Master or feeder specifications</th>
<th>VI. Specific events reporting requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree on the structure and specifics of the business analysis</td>
<td>Review TIS calculation and specific national related reportings</td>
<td>Review asset test setup and calculation rules</td>
<td>Review TIS treatment in case of distribution (TID)</td>
<td>Consider FOF structure for TIS purpose</td>
<td>Review reporting to be prepared in specific events</td>
</tr>
<tr>
<td>• Agree on the level of detail of tax setup analysis (potential review of parameters, reports covered, etc.)</td>
<td>• Review taxable and non-taxable accounts</td>
<td>• Review frequencies and thresholds currently in place</td>
<td>• Analyze the EUSD TIS treatment in case of distribution (TIS brought-forward process)</td>
<td>• Test one or two FoF TIS injections in target funds</td>
<td>When applicable, review specific reporting requirements</td>
</tr>
<tr>
<td>• Agree on the size of the samples (one or two portfolios) and fund selection</td>
<td>• Review EUSD TIS calculation rules and parameters</td>
<td>• Describe the treatment of target funds out of scope of EUSD</td>
<td>• Review TID calculation rules and parameters</td>
<td>• Review the setup of a target fund not in scope of EUSD</td>
<td></td>
</tr>
<tr>
<td>• Agree on the treatment of instruments (highlight breaches)</td>
<td>• Assess coherency with specific existing reports</td>
<td>• Review instruments classification to identify clear breaches with legal requirements</td>
<td>• Assess coherency with specific existing reports</td>
<td>• Review TIS calculation in FoF structure</td>
<td></td>
</tr>
<tr>
<td>• Define data input needed from fund administrator</td>
<td>• Testing on one or two fund portfolios</td>
<td>• When applicable, review specific TIS and national reporting calculations</td>
<td>• Testing on one or two fund portfolios</td>
<td>• When applicable, review specific distribution requirements</td>
<td></td>
</tr>
<tr>
<td>• Agree on the need to perform high-level review of existing controls on new accounts</td>
<td>• When applicable, review specific TIS and national reporting calculations</td>
<td></td>
<td>• When applicable, review specific asset test requirements</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Objective

- Agree on the structure and specifics of the business analysis
- Review TIS calculation and specific national related reportings
- Review asset test setup and calculation rules
- Review TIS treatment in case of distribution (TID)
- Consider FOF structure for TIS purpose
- Review reporting to be prepared in specific events

### Key activities

- • Agree on the level of detail of tax setup analysis (potential review of parameters, reports covered, etc.)
- • Agree on the size of the samples (one or two portfolios) and fund selection
- • Agree on the treatment of instruments (highlight breaches)
- • Define data input needed from fund administrator
- • Agree on the need to perform high-level review of existing controls on new accounts

- • Review taxable and non-taxable accounts
- • Review EUSD TIS calculation rules and parameters
- • Assess coherency with specific existing reports
- • Testing on one or two fund portfolios
- • When applicable, review specific TIS and national reporting calculations

- • Review frequencies and thresholds currently in place
- • Describe the treatment of target funds out of scope of EUSD
- • Review instruments classification to identify clear breaches with legal requirements
- • Assess coherency with specific existing reports
- • Testing on one or two fund portfolios
- • When applicable, review specific asset test requirements

- • Analyze the EUSD TIS treatment in case of distribution (TIS brought-forward process)
- • Review TID calculation rules and parameters
- • Assess coherency with specific existing reports
- • Testing on one or two fund portfolios
- • When applicable, review specific distribution requirements

- • Test one or two FoF TIS injections in target funds
- • Review the setup of a target fund not in scope of EUSD
- • Review TIS calculation in FoF structure
- • When applicable, review specific FoF requirements

- • Highlight and comment on specific results or findings on tests performed
- • Description of the “as is” situation in comparison with requirements

### Agreement on the specifics of the oversight required

- Description of the “as is” situation in comparison with requirements
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- Description of the “as is” situation in comparison with requirements
- Highlight and comment on specific results or findings on tests performed
- Description of the “as is” situation in comparison with requirements

### European Fund Tax Reporting Services

Section 9

EUSD
**Austria**

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**Background**  
- Joined EY in 1995  
- Head of Austrian Wealth & Asset Management Sector Tax  
- Leading the European Fund Tax Reporting Service in Austria  
- Member of the Expert Committee for Tax Law of the Austrian Chamber of Public Accountants and Tax Advisors  
- Chairman of the Board of the Austrian Association of the Foreign Fund Industry (VAIOE)  
- Author of publications on Austrian tax law with focus on asset management

**Professional experience**  
- Specialist in asset management tax both in local and international context  
- Tax and regulatory consulting in various fields of banking and asset management (WHT issues, etc.)  
- Tax representation (fund tax reporting) for domestic and foreign investment funds  
- Acting as formal tax representative to over 5,000 investment funds for more than 70 fund promoters  
- Advice to many foreign fund administrators on Austrian tax reporting requirements, reviews or health checks, and also co-development and approval of the implementation of complex fund of funds reporting routines at several major Luxembourg fund administrators  
- Renowned expert in investor taxation (also heavily involved in all voluntary disclosures in relation to the new tax treaties with Switzerland and Liechtenstein)

**Education**  
- Master’s in Economics  
- Certified public accountant and tax advisor

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**Germany**

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**Background**  
- Joined EY in 1988  
- Head of the German FSO Tax practice as well as the German Wealth & Asset Management Sector  
- Leading the European Fund Tax Reporting Service in Germany  
- Speaker on various topics relevant to financial institutions and asset managers

**Professional experience**  
- Specialist in the taxation of asset management vehicles, products and investors  
- Over 15 years’ experience in tax reporting for regulated and non-regulated, open and closed-ended funds (including real estate funds and alternative investments)  
- Advising fund administrators  
- Fund structuring  
- Specialist in WHTs, including FATCA, the EUSD and the US Qualified Intermediary rules  
- Taxation of financial products  
- Managing the German Tax practice with a team of 130 professionals including 45 in asset management

**Education**  
- Master’s in Business Administration  
- MBA in International Taxation
### Switzerland

**Rolf Geier**  
Partner  
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Fax  +41 58 286 30 04  
Mobile  +41 58 289 44 94  
rolf.geier@ch.ey.com

**Background**
- Joined EY in 1999  
- Head of Swiss Wealth & Asset Management Tax Sector  
- Leading the European Fund Tax Reporting Service in Switzerland  
- Trainer and frequent speaker at tax seminars

**Professional experience**
- Seventeen years of professional experience in the fields of taxation of banks, finance companies and asset management businesses  
- Specific experience on providing on-call advice for foreign and Swiss banks, brokers and asset managers on the tax treatment of financial products and capital markets transactions; structuring of acquisitions; relocations of asset managers to Switzerland; delivering global tax change monitoring services and large-scale regulatory (tax) change programs to financial services institutions  
- Vast experience in negotiating tax rulings with Swiss tax authorities and frequent contact with cantonal and federal tax administrations

**Education**
- Lic. iur. at the University of Zurich  
- Attorney at Law  
- Swiss certified financial analyst and portfolio manager; CIIA®  
- Swiss certified tax expert

### United Kingdom

**Lynne Sneddon**  
Partner  
Phone  +44 131 777 2339  
Fax  +44 131 777 2409  
Mobile  +44 7801 639 918  
lsneddon@uk.ey.com

**Background**
- Joined EY in 1991  
- Head of our EMEIA Business Tax Services practice for Financial Services  
- Head of UK Offshore Funds Team  
- Leading the European Fund Tax Reporting Service in UK  
- Speaker at many seminars across Europe on the new UK reporting fund regime; recognized industry expert in this field

**Professional experience**
- Specialist tax advisor to the asset management industry, leading EY tax relations for some of the world’s largest asset managers  
- Specialist focusing on offshore fund clients looking to market their funds into the UK  
- Over 20 years of experience in fund taxation, advising on various aspects of the UK taxation of fund manager groups and the funds they manage  
- Managing the UK Offshore Funds Team, comprising over 20 professionals specializing in advising clients looking to market their non-UK fund range into the UK  
- Responsible for UK reporting for over 3,000 share classes

**Education**
- Bachelor of Law  
- Chartered accountant with the Institute of Chartered Accountants of Scotland  
- Chartered tax advisor with the Chartered Institute of Taxation
## Glossary

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>ADDI</td>
<td>Accumulated deemed distributed income</td>
</tr>
<tr>
<td>AGS</td>
<td>Abgeltungsteuer</td>
</tr>
<tr>
<td>CFC</td>
<td>Controlled foreign corporation</td>
</tr>
<tr>
<td>CIS</td>
<td>Collective investment schemes</td>
</tr>
<tr>
<td>Csv file</td>
<td>Comma-separated value file</td>
</tr>
<tr>
<td>DDI</td>
<td>Deemed distributed income</td>
</tr>
<tr>
<td>EAR</td>
<td>Eligible asset ratio</td>
</tr>
<tr>
<td>EFTR</td>
<td>European fund tax reporting</td>
</tr>
<tr>
<td>EUSD</td>
<td>European Union Savings Directive</td>
</tr>
<tr>
<td>FIDA</td>
<td>Finanza Dati Analisi (Italian provider of financial information)</td>
</tr>
<tr>
<td>FINMA</td>
<td>Swiss Financial Market Supervisory Authority (Eidgenössische Finanzmarktaufsicht)</td>
</tr>
<tr>
<td>GDF</td>
<td>Grandfathered</td>
</tr>
<tr>
<td>German</td>
<td>Federal Gazette – Bundesanzeiger</td>
</tr>
<tr>
<td>HMRC</td>
<td>Her Majesty’s Revenue &amp; Customs</td>
</tr>
<tr>
<td>IMA</td>
<td>Investment Management Association</td>
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<tr>
<td>ISIN</td>
<td>International Securities Identification Number</td>
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<tr>
<td>NAV</td>
<td>Net asset value</td>
</tr>
<tr>
<td>OeKB</td>
<td>Oesterreichische Kontrollbank</td>
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<tr>
<td>OEIC</td>
<td>Open-ended investment company</td>
</tr>
<tr>
<td>PFIC</td>
<td>Passive foreign investment company</td>
</tr>
<tr>
<td>SFTA</td>
<td>Swiss Federal Tax Administration</td>
</tr>
<tr>
<td>SORP</td>
<td>Statement of Recommended Practice</td>
</tr>
<tr>
<td>TID</td>
<td>Taxable income per distribution</td>
</tr>
<tr>
<td>TIS</td>
<td>Taxable income per share</td>
</tr>
<tr>
<td>UCITS</td>
<td>Undertakings for the Collective Investment in Transferable Securities</td>
</tr>
<tr>
<td>WHT</td>
<td>Withholding tax</td>
</tr>
</tbody>
</table>
Austria
Calculation model

Austrian tax reporting

1. Reconciliation of accounting data to financial statements
2. Review of portfolio and reclassification for Austrian tax purposes
3. Request of target fund financials required
4. Provides target fund financial statements
5. DDI calculation
6. Filling csv file with OeKB
7. Providing return file to tax rep
8. Confirmation of return file to OeKB
9. Providing final file to tax rep and official publication
10. Review of published data
11. Confirmation of correct publication
Germany
Model 1: calculation and certification model

Appendix
Process map

German tax reporting

Start

1a. Confirms share classes in scope for German tax reporting

Fund manager

Accounting system

2b. Discussion of deliverables with administrator

EY eRoom

3a. Accounting data

3a. German tax reporting data

Fund administrator

1b. Provision of information request

2a. Discussion of deliverables with administrator

3b. Complete pre-processing tools

3g. Manual adjustments and completion of calculation

4a. German tax calculations

5a. Reporting to WM Daten and Federal Gazette

6a. Check of published data in the Federal Gazette

5b. Copy of published data and review sheet

End

4b. Minimum distribution (if required)

5c. Published data

Fund

4c. Reconciled trial balances

3d. Withholding tax data

3e. Reclassified investment data

3f. Target fund data

EY Germany

WM Daten

Federal Gazette

5a. Reporting to WM Daten and Federal Gazette

6b. Confirmation of correct publication in the Federal Gazette
Germany
Model 2: review and certification model

**German tax reporting**

- **Start**
  - 1a. Confirms share classes in scope for German tax reporting
  - 2a. Calculates the German tax bases in accordance with German tax laws
  - EY eRoom
  - 3a. Reporting to WM Daten und Federal Gazette
  - 4a. Check of published data in the Federal Gazette
  - 4b. Confirmation of correct publication in the Federal Gazette

- **Fund manager**
  - 3b. Copy of published data and review sheet

- **Fund administrator**
  - 2b. Review and sample checks of calculated figures

- **EY Germany**
  - 1b. Review of calculation methodology

- **WM Daten und Federal Gazette**
  - 3c. Published data
Switzerland
Calculation model

Swiss tax reporting

Fund manager

1. Reconciliation of accounting data to financial statements

2. Review of portfolio and reclassification for Swiss tax purposes

3. Provides target fund financial statements

5. Reviews computation and agrees submission to SFTA

End

Fund administrator

EY eRoom

Accounting information

Portfolio information

SFTA

Start

List of target funds for which financial statements are required

4. Report income calculation

SFTA submission pack

7. Review of published data

Clarification of specific issues

6. Filing with SFTA

EY Switzerland

SFTA

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United Kingdom
Calculation model

UK tax reporting

Fund manager

1. Reconciliation of accounting data to financial statements

2. Review of portfolio and classification for UK tax purposes

3. Provides target fund financial statements or reports of income

5. Reviews computation of reportable income and investor report

6. Distributes reports to investors, confirming when complete

Fund administrator

EY eRoom

Accounting information

Portfolio information

Start

List of target funds for which financial statements or reports of income are required

4. Computation of reportable income and report to investors prepared

HMRC submission pack

End

7. Submission to HMRC
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GSA Agency
SRE 1603-552
ED None

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