First State Investments

UK Reporting Fund Status

Frequently Asked Questions

June 2017

UK Reporting Fund Status and First State Investments

Certain share classes within First State Global Umbrella Fund plc and First State Funds plc (together referred to as the 'Funds') have elected to be reporting funds for United Kingdom tax purposes. If you are a UK resident investor and invest in a share class which has Reporting Fund Status ('RFS'), you will need to review the yearly information posted on the First State Investments website and include the relevant details on your UK tax return.

The contents of this document is not meant to constitute tax advice and should not be relied upon in that regard. We would advise that you contact your professional advisor to assist with the UK tax treatment of the return from First State funds.

What is UK Reporting Fund status?

UK Reporting Fund status is part of the offshore funds regime created by the UK Government to combat perceived tax avoidance by UK investors investing in offshore funds and converting income into capital gains by accumulating income offshore. The UK tax rates of income and capital amounts are specific to the facts and circumstances of each investor but generally income tax rates are higher than capital gain rates. In addition, capital losses or the annual capital gains tax exemption can reduce capital gains. If the offshore funds regime was not present, UK investors could accumulate income offshore indefinitely and convert this income into capital on ultimate disposal of the units. The UK RFS regime puts in place requirements for offshore funds and if the offshore funds fulfil these requirements and the shareclass has UK RFS for the entire period of ownership, the investor will still be able attain beneficial capital gains tax treatment on ultimate disposal of the shareclass.

What is UK Distributor Status?

Subject to transitional arrangements, the UK RFS regime replaced the UK Distributor Status regime for accounting periods on or after 1 December 2009. The key difference was that under the Distributor Status regime, physical distributions had to be paid whereas under the Reporting regime, each shareclass must issue a statement of reportable income.

Why is UK Reporting Fund status important?

Your shareholding in the Funds constitutes an interest in an offshore fund from a UK tax perspective, with each share class treated as a separate 'offshore fund'. Where a UK investor holds an interest in an offshore fund and that offshore fund is a 'non-reporting fund', any gain accruing to that investor on the sale or other disposal of that interest will be charged to UK tax as income rather than as capital gain. Alternatively, where an investor holds an interest in an offshore fund that has RFS for all periods of account for which they hold their interest, any gain accruing upon sale or other disposal of the interest will be subject to tax as capital gain rather than income.

What is reportable income and what does this mean for investors?

Shareclasses which have RFS have a requirement to calculate and report to UK investors and HM Revenue & Customs ('HMRC') the reportable income per share and distributions made for each share class for each relevant accounting period that they remain within the reporting regime.

If you hold shares in a share class of the Funds which holds RFS outside of a tax wrapper (such as an ISA or SIPP) at 31 December in any year, you will need to use the 'Reportable Income' report published on the First State Investments website to calculate the amount of income that you will need to include in your tax return.

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

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

This total excess reportable income should be included in your tax return along with any distributions received.

What is the timing of the receipt of excess reportable income?

UK individual investors – The deemed distribution date for excess reportable income over any cash distributions received is 6 months after the end of the accounting period. For example, excess reportable income for the period ended 31 December 2016 will be deemed to arise on 30 June 2017, falling within the UK fiscal year ended 5 April 2018. This must therefore be included in your 2017/2018 tax return.

UK corporate investors – As the deemed distribution date is 6 months after the end of the accounting period, this income must be included in your tax return (to the extent that it does not fall to be treated as exempt income) in accordance with the accounting period in which this date falls.

Do all First State funds hold Reporting Fund status?

Not all shareclasses in the Funds have RFS, a list is maintained on the First State Investments site which confirms which classes have UK RFS. If UK RFS is relevant to your investment, it is very important to review this list before your investment. In order to attain the benefits of investing in a RFS class, the class must have RFS throughout the period of your ownership.

The Directors of the Funds may at their discretion apply for any other current or future share classes to be be included in the RFS regime. However, there can be no guarantee that RFS will be obtained and/or maintained for any share class. Were such application to be unsuccessful or such status subsequently to be withdrawn, any gains arising to shareholders resident or ordinarily resident in the UK on a sale, redemption or other disposal of the relevant share classes would be taxed as offshore income gains (and to income tax for an individual) rather than capital gains.

If a share class that has not previously been a reporting fund then receives recognition as reporting fund, there may be a deemed disposal of shares for shareholders resident or ordinarily resident in the UK if the shareholder makes a deemed disposal election. Such investors may then be taxed on the offshore income gain that accrued up to the point of deemed disposal. If making such an election, it must be made by being included in the return which includes the deemed disposal date or in the case of corporate investors, by being included in the company's tax return for the accounting period which includes the deemed disposal date. Shareholders should seek their own tax advice about making such an election as it's appropriateness can depend on your specific facts and circumstances.