

What is Excess Reportable Income?

Investment funds based in the UK are generally required to distribute the income that they earn, but funds based outside the UK are not subject to this requirement.

Instead they may adopt 'Offshore Reporting Fund' status, disclosing to HMRC the income that they have accrued during each financial year. Income earned by an Offshore Reporting Fund which is not distributed is commonly referred to as 'Excess Reportable Income'.

UK investors in an Offshore Reporting Fund are liable to tax on the total reported income, ie both the income distributed and any Excess Reportable Income. The intended purpose of this is to align the tax treatment of non-UK resident funds to that of UK resident funds.

Who does Excess Reportable Income affect?

Excess Reportable Income is relevant for all UK tax residents who invest in Offshore Reporting Funds outside an ISA or pension.

The Coutts Multi Asset Funds, Personal Portfolio Funds and Equator Funds are all classified as Offshore Reporting Funds for UK Tax purposes.

Where can I find information on the Excess Reportable Income for my investment?

Details of the Excess Reportable Income for the Coutts Multi Asset Funds and Personal Portfolio Funds and Equator Funds can be found via the 'UK Tax Information' link on coutts.com/cmef, coutts.com/ppf and coutts.com/equator.

In addition, if you receive a UK tax report from Coutts, any Excess Reportable Income for the Coutts Multi Asset Funds, Personal Portfolio Funds and Equator Funds will be included.

What is the relevant taxable date for Excess Reportable Income?

An investor is subject to tax on the Excess Reportable Income of an Offshore Reporting Fund if they hold the asset on the last day of the fund's reporting period. The last day of the reporting period for the Coutts Multi Asset Funds, Personal Portfolio Funds and Equator Funds is 30 November each year.

Excess Reportable Income is 'deemed' to be distributed to relevant investors six months after the end of the reporting period. This is the date that the income is treated as being earned for UK Tax purposes. For the Coutts Multi Asset Funds, Personal Portfolio Funds and Equator Funds the deemed distribution date is 31 May each year.

For example, a UK resident investor that holds a Personal Portfolio Fund investment on 30 November 2018 will be deemed to receive an Excess Reportable Income distribution on 31 May 2019, and this should be included in their 2019/20 tax return.

How does Excess Reportable Income affect my Capital Gains?

Gains in Offshore Reporting Funds are subject to Capital Gains Tax. Excess Reportable Income amounts subject to Income Tax should generally be added to the base cost of the investment when calculating the gain subject to Capital Gains Tax, thereby reducing the taxable gain.

If you receive a UK Tax Report from Coutts, the base cost for the Coutts Multi Asset Funds, Personal Portfolio Funds and Equator Funds will be adjusted for any Excess Reportable Income.

What is Equalisation?

Equalisation is relevant to investors that purchase new shares part way through the fund's reporting period. It represents income earned by the fund prior to the date of purchase and the equalisation has the effect of treating part of the first distribution of income for the investment as a return of capital. This reduces the amount of taxable income for that reporting period and the base cost on eventual disposal. The base costs reflects the equalisation applied to the taxable distribution

For example, a UK resident investor purchases 1 share at £500, on 31 March 2018, in an Offshore Reporting Fund, which has a reporting period ending on 30 November 2018. The report to investors shows Excess Reportable Income of £100 per share and an equalisation factor of £30 per share.

As the investor held the investment at end of the fund year, they will be subject to tax on the £100 Excess Reportable Income. However, as they purchased the share part way through the year, they will need to consider the equalisation factor of £30, which will effectively be treated as a return of capital, as outlined in the calculation below.

Income Tax		Capital Gains Tax	
Excess Reportable Income Distribution	£100	Purchase Price	£500
Equalisation	(£30)	Equalisation	(£30)
		Excess Reportable Income Dist.	£100
Taxable Distribution	£70	Adjusted Base Cost	£570

The Coutts Multi Asset Funds, Personal Portfolio Funds and Equator Funds operate full equalisation, and details of these amounts can be found in the regular reporting sent to investors. If you receive a UK Tax Report from Coutts, any equalisation amounts for the Coutts Multi Asset Funds, Personal Portfolio Funds and Equator Funds will be taken into account.

Why do I have Excess Reportable Income when I purchased a distributing share class?

Whilst fund managers may endeavour to distribute all of the income received, it may not be possible to distribute it all for Excess Reportable Income purposes due to the nature of the fund's underlying investments. For example, if a fund has investments in accumulating shares, the rolled-up income from these investments may be included in the Excess Reportable Income calculation but the fund may not be able to distribute this amount because it does not have the liquidity to do so.

Where can I find further information?

For further information about Excess Reportable Income please visit the Equator ICAV prospectus, which can be found on coutts.com/cmaf, coutts.com/ppf and coutts.com/equator, or visit gov.uk. If you are still unsure of the tax implications of Excess Reportable Income, or Offshore Reporting Funds in general, we recommend that you seek professional tax advice.

Important information

The information provided in this document is based on our understanding of the laws and regulations as at the date of publication but it is not exhaustive and does not constitute legal or tax advice. You should consult your tax adviser to ensure the information is relevant to your facts and circumstances. Please note, the tax treatment of Offshore Reporting Funds may change at any time.