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# Taxing funds & Other Investments – Real-Life Scenarios

Jane Florides  
Kennelly Tax Advisers

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T A X A D V I S E R S

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- Bonds
- Equities
- Funds



# Bonds



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- Direct/Through funds
  - Corporate/Government
  - Income – top rate
  - Gain – CGT
  - Irish Government, Bord Gáis, Irish Water etc. CGT exempt

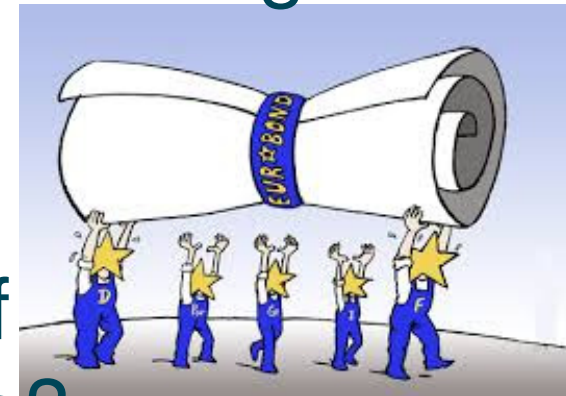
# Bonds – if holding directly



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- EU government bonds – can treat gain as exempt?
- Hold for < 2 years: is part of proceeds taxable as income?
- Hold for very short period: make sure not during a coupon payment



# Bonds



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**Example:** EUR100k loan stock 7% interest  
Interest paid in March of each year

1. Buy bond in Jan for EUR106k.
2. Interest paid March EUR7k.
3. Sell April for EUR100k.

Real return EUR1k before tax

Client will pay top rate income tax on EUR7k

# Equities

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- Direct equities
- Via funds (30%-50%)

# Direct equities

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- Return is CGT
- Dividends: income tax at marginal rate





# Dividend tax credits

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- Foreign tax (up to 15%)
- “Underlying” credit (including 15% above)
  - France 43%
  - Japan 44%
  - Belgium 44%
  - Luxembourg 34%
- UK REITs – 15% UK tax credit is a “real” credit



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# Funds



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# Fund gains – tax rates



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- Irish/EU/EEA/OECD DTA funds:  
Tax now 41%. 8 year charge
  - Outside EU/EEA/OECD funds: high tax  
Normal income tax: up to 55%. No 8 year  
charge
  - Not a fund:  
CGT on gain. No 8 year charge

# Funds – more issues



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- Losses on Irish and “EU” funds are not allowable
  - “EU” funds 8 year charge
  - Non-domiciled: no remittance basis for EU fund gains
  - All funds: tax charge on death
  - Reporting for intermediaries

# 8 year charge



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- EU fund
  - Bought February 2006 for EUR100,000
  - Worth EUR130,000 in February 2014
  - Deemed disposal after 8 years
  - Gain EUR30,000 must be shown on 2014 return
  - Consider gifting to child to offset tax

# Which are funds?

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1. Spider Pharma ETF
2. First Trust Nasdaq ETF
3. Eurostoxx Banks ETF
4. Marshall Wace UCITS Fund
5. Standard Life GARS
6. Cazenove UK Absolute Target Fund

# Which are funds? (cont)

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7. M&G Global Dividend Fund
8. Cazenove European Fund
9. Liontrust Special Situations
10. iShares Eurostoxx ETF
11. iShares FTSE 100 ETF



# The simple rules

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- Outside EU/EEA and OECD treaty countries
  - Virtually all investment vehicles
  - Trading companies are not funds
- Inside EU/EEA and OECD treaty countries
  - If not UCITS authorised and not authorised/regulated by anyone, not a fund
  - If UCITS authorised, definitely a fund
  - If authorised/regulated but not UCITS authorised, more analysis required





# Identifying a fund

- Even within the same category there can be differences
  - iShares
  - Investment trusts
  - ETFs
  - SPDRs



# Identifying a fund – going through the steps

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# Step 1



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## Check the country of residence









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# Country of residence



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1.	Spider Pharma ETF	US	
2.	First Trust Nasdaq ETF	US	
3.	Eurostoxx Banks ETF	Germany	
4.	Marshall Wace UCITS Fund	UK	
5.	Standard Life GARS	Luxembourg	
6.	Cazenove UK Absolute Target Fund	UK	

# Country of residence



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7.	M&G Global Dividend Fund	UK	
8.	Cazenove European Fund	UK	
9.	Liontrust Special Situations	UK	
10.	iShares Eurostoxx ETF	Germany	
11.	iShares FTSE 100 ETF	Irish	

- 1 Irish Fund
- Other 10 are EU/EEA/OECD resident

# Irish fund



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- 
- iShares FTSE 100 ETF
  - Exit tax?
  - Nominee
  - Held in recognised clearing system (e.g. Euro Clear)

# Step 2 – EU/EEA/OECD DTA funds



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## Check which are authorised under UCITS rules

- Prospectus
- FCA website (UK)
- Central Bank website (Ireland)









# 4 are not UCITS



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1.	Spider Pharma ETF	No	
2.	First Trust Nasdaq ETF	No	
3.	Eurostoxx Banks ETF	No	
4.	Marshall Wace UCITS Fund	UCITS	
5.	Standard Life GARS	UCITS	
6.	Cazenove UK Absolute Target Fund	UCITS	








# 4 are not UCITS



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7.	M&G Global Dividend Fund	UCITS	
8.	Cazenove European Fund	UCITS	
9.	Liontrust Special Situations	UCITS	
10.	iShares Eurostoxx ETF	No	
11.	iShares FTSE 100 ETF	UCITS	

# Cazenove European

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- Prospectus: UCITS compliant
- FCA website: UCITS authorised

# Step 3 – Non UCITS funds

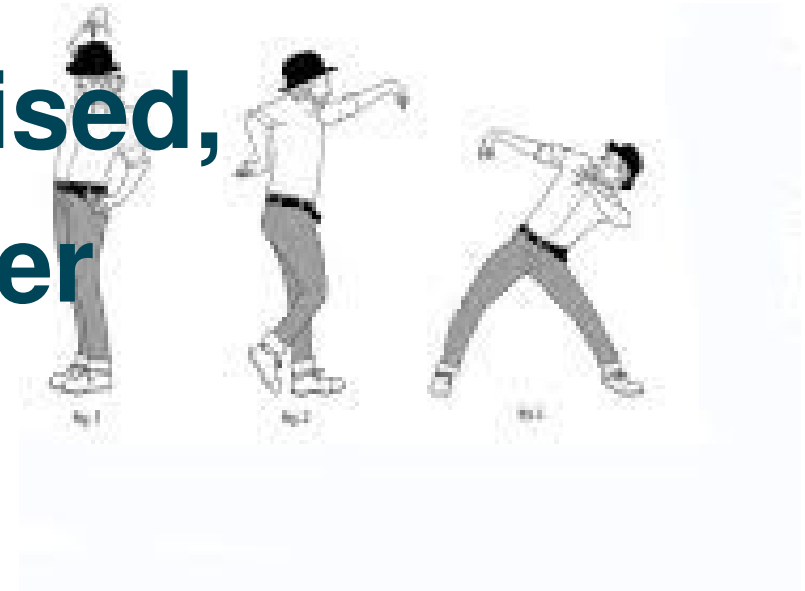
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**If not UCITS authorised,  
there are only 2 other  
categories of  
EU/EEA/OECD DTA  
country funds**



# Legislation section 747B



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# 1. Authorised investment company

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- Similar to Part XIII investment company; [Key: provides facilities for public to redeem shares or ensures shares trade within 5% of NAV]
- Which raises capital by promoting the sale of its shares to the public

**and**

- Authorised/regulated (grey area)

## 2. Authorised unit trust scheme

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- Similar to Irish authorised unit trust scheme; [Key: provides facilities to investors to redeem units directly with trustees. Also: management company]
- Which provides facilities for the participation by the public, as beneficiaries under the trust, in profits or income.....
- Authorised/regulated (grey area)

# Non-UCITS investments



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1. iShares Eurostoxx ETF (Germany) 
2. Spider Pharma ETF (US) 
3. First Trust Nasdaq ETF (US) 
4. iShares Eurostoxx Banks ETF (Germany) 



# Blackrock iShares Eurostoxx and Eurostoxx Banks



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- Regulated/authorised? (grey area)
- Company which issues bearer certificates to investors
- Section 747B: *“which raises capital by promoting the sale of its shares to the public”*



# SPDR Pharma and First Trust Nasdaq ETF



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- US trust and company respectively
- Individual investors trade shares on a secondary market on an exchange
- Only “Authorised Participants” can create or redeem units directly with the ETF. One creation unit = 50,000 ETF shares
- Do not provide facilities for redeeming shares. May also fall down on requirements for public to participate as beneficiaries, to have a manager

# Of our 11 “funds”

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- 1 Irish fund
- 6 EU funds
- 4 CGT (arguably)



**When is a fund  
not a fund?**



**When it is  
CGT**

# Switching classes in funds



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- Be careful
- From 1 January 2012 units in a sub-fund of a “EU” umbrella fund can be exchanged for units in another sub-fund without a tax charge
- New units take on cost and acquisition date of original units

## But watch

- Non-“EU” funds
- “CGT” funds (unregulated funds)
- Swapping for other units in the same sub-fund



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# Portfolio distribution

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## Personal

- CGT investments, low income (1<sup>st</sup> choice)
- Fund investments

## Pension

- High income
- Bonds
- High yield equities
- “bad” offshore funds

## Trusts

- High yield investments

## Corporate

- Direct equities
- Domestic life policies

# Get your clients dancing with joy

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- Underlying tax / REIT credit claims
- Large fund encashments December 2013:  
Pay 2014 PT by direct debit?
- Irish funds/life policies – check if correct  
tax deducted
- Can you achieve CGT rather than funds  
tax treatment?



“We’re fools whether we  
dance or not, so we might  
as well dance”.



Japanese proverb