

## A general update for Guernsey tax resident investors in accumulation funds

This note is a general update and is issued for information purposes only. This is therefore not tax advice and individuals that consider they may be affected by this should discuss this with their tax adviser. Should individuals require tax advice but do not have an adviser, Ravenscroft have consulted with a tax adviser on these matters and can make an introduction should one be required.

On 12 August 2020, The Guernsey Revenue Service (“GRS”) issued updated guidance on the Guernsey tax treatment for Guernsey resident investors in ‘accumulation funds’, which is defined as a fund that in some way accumulates or rolls-up income and importantly does not distribute income due to the terms of its prospectus. If a fund simply does not distribute income in a particular year due to commercial factors it does not necessarily make it an accumulation fund.

**The guidance was issued via a Statement of Practice (“SOP”) referred to as ‘M19’.**

Ordinarily a disposal or part disposal of a fund would, on general Guernsey tax principles, be regarded as a capital disposal and not subject to Guernsey income tax. However, the GRS’s longstanding view is that a disposal of units in an accumulated fund is a taxable event for Guernsey tax purposes on the basis that the value of the fund has been enhanced by the income that has not been distributed. One important exception to this rule is that a transfer/switch between units with identical features (other than a lower fee structure) may not be treated as a disposal. Specifically, the GRS has confirmed that the following switches/transfers within the following sub-funds in March/April 2016 were not disposals:

Ravenscroft (previously Huntress) Global Balanced Fund: I Accumulation Class transferred/switch to the O Accumulation Class.

and:

Ravenscroft (previously Huntress) Global Growth Fund: I Accumulation Class transferred/switch to the O Accumulation Class.

### **Guidance on declaring income**

The updated M19 provides greater clarity as to the GRS’ expectations of investors in accumulation funds. In short any profit/income from a disposal/part disposal (disposal) will be subject to Guernsey income tax and should be disclosed in the “any other income” section of the tax return for the year of disposal. The defining features of a disposal are also contained within M19. Generally, a sale/redemption/liquidation of interests (including a transfer/switch between different units of the same fund unless the exception above applies) amounts to a disposal for income tax purposes, whether proceeds are received and in what form.

There are two main ways this can be declared. Please note the failure to declare correctly on a timely basis under either method may lead to surcharges.

#### **1. Disposal basis**

Essentially any accumulated income that arose during the holding period of the units be subject to tax in each and every year there is a full or part disposal, unless the alternative approach referred to below (2. Annual basis) is applied.

Investors should disclose the amount of accumulated income they have disposed of, and where some portion of this is not yet known (e.g. in relation to the last year of disposal) an estimate should be made and then adjusted once the final figures are known. Guidance on this is set out in M19.

#### **2. Annual basis**

Alternatively, the “accumulated income” generated each year may be declared annually by the taxpayer.

If the fund or its manager provides the investor with details of the accumulated income on a regular (at least annual) basis, the investor can choose this alternative option and include this amount on their tax return each year and be assessed accordingly. If this is not provided to the satisfaction of the Director of GRS then surcharges may be applied.

Where an investor takes the alternative approach, any subsequent disposal should not be subject to income tax on the basis that the accumulated income has already been declared.

### **Guidance on reporting holdings**

Irrespective of which approach is adopted, the GRS will expect to be notified annually of any holdings by an individual in an accumulation fund.

Where option 2 ‘annual basis’ is applied, the GRS will expect this to be declared annually on the tax return.

### **Next steps**

It is the responsibility of a Guernsey tax resident individual to declare the necessary information to the GRS. As investment manager to the Ravenscroft Fund range, Ravenscroft will provide you with the relevant information to complete the declaration on your Guernsey tax return; this information will reflect the level of accumulated income to be declared but is not, and should not be construed as, tax advice.

We recommend you speak to your independent tax advisor or similar financial services professional regarding the most suitable approach for declaring the accumulated income on your Guernsey income tax return.

We are committed to providing you with comprehensive information in line with that as required by the GRS and with regular reporting, online access, and a voice at the end of the telephone, Ravenscroft continue to keep you in the loop regarding your investments.