Ravenscroft

M19 Frequently Asked Questions

What is it? How do I calculate it? and much more..

The information provided below has been displayed in a Q&A format to aid you in finding the information you need. It is designed to help clients better understand their obligations under Statement of Practice M19 ("M19"). It is not and should not be considered tax advice. Clients are advised to seek professional advice for specific circumstances.

If your query is not answered below, please email us at funds@ravenscroftgroup.com

What is M19 and how does it work?

M19 is a tax law explaining how Guernsey Residents should treat taxable income that has been rolled-up or accumulated within their fund investments. It allows residents to declare the amount of taxable income earned when they dispose of their holding (in part or in full) or during the course of ownership on an annual basis.

Why is this the first time I have heard from Ravenscroft regarding this Tax Law?

This application of this tax law has been set out in the tax section of our prospectus for many years.

Ravenscroft are not tax advisors and we are not in a position to offer specific advice pertaining to an individual's circumstances, we have therefore not proactively engaged with clients on their tax affairs unless specifically requested to do so. Recently, we have assisted a handful of Guernsey resident clients at their request, who have disposed of Ravenscroft Investment Fund Offshore Accumulation Units allowing them to fulfil their obligations under this tax law.

When we looked at the specific circumstances on behalf of those clients and their obligations under M19 we came across a number of complexities that needed clarity from the Guernsey Revenue Service. We also took note of some of the requirements around accurate record keeping and the need to have access to historical transaction information that may not necessarily be to hand once a return needs to be calculated.

The success of this assistance combined with our desire to make our Fund range accessible to investors of all shapes and sizes - from large one-off investments to smaller regular contributions - has prompted us to be more proactive in communicating investor's possible obligations under this law and to provide as much assistance as possible without providing actual advice.

What is taxable income?

Income that is earned through the receipt of (for example) wages, rental income, interest on cash deposits, bond coupon payments, or dividends paid by companies is considered income and taxable at the prevailing rate of income tax. The taxable income should be declared in your annual tax return for the year the income was received.

What is accumulated income?

Investment funds that earn income from their underlying investments but do not pay this income out in the form of a dividend to their investors are known as roll-up or accumulation funds. This income is typically accreted to the net asset value and the income that is retained is re-invested on investor's behalf in order to generate greater returns.

Does the Fund pay tax on the income it receives and am I therefore paying twice the amount of Tax?

The Fund receives its income net of any taxes owed at source but it does not pay Guernsey Income Tax on this net amount. Investors who receive taxable income from the Fund, such as a distribution or a taxable amount under M19, should treat this as a gross income receipt in their tax return without any ability to claim relief for underlying foreign tax that the Fund may have suffered on its own income.

What are the benefits of declaring upon disposal?

When investors receive a cash dividend they have received money from which they can fund any taxes due. By opting to pay the tax on all the income accumulated throughout the period of ownership at the point of sale, investors have also received cash, part of which can be used to pay any taxes due (unless the disposal in question arose from a taxable unit switch/transfer into an identical value of units)

This method is likely to be more appropriate for 'buy and hold' investors who may only make a few disposals throughout their holding period.

Due to the time value of money, the 'economic' level of tax paid on historical income will be lower than when paying on an annual basis.

Are there any drawbacks that I should consider when declaring on disposal?

The main drawback with declaring under the disposal method is the calculation of accumulated income associated with the units sold, and simply remembering that a disposal was made at some point and needs to be disclosed. Please see the calculation methodology section below and the calculation examples within that section to get a flavor of what this entails. For those investors who have a multiple transaction history such as regular savers, things can get very complicated very quickly.

Investors who intend to declare their income in a future period are increasing their exposure to potential adverse changes in tax law, annual allowances and income tax rates.

Why declare on an annual basis?

Annual declarations may suit investors who do not wish to keep track of multiple purchase transactions over the lifetime of their investment, such as regular savers.

By dealing with your tax liabilities on a pay as you earn basis you have dealt with those liabilities up front so this reduces the risk of inadvertent non-compliance, and you have reduced your exposure to potentially adverse future changes to tax law, personal allowances and income tax rates.

The main drawback investors should be aware of is that the annual declaration method will create a 'dry' tax charge as you will not have received any money from the investment that has created your tax liability. In addition, the time value of money saving will be less relevant.

What if I chose to declare on an annual basis and I sell units prior to the financial year-end?

You will need to calculate the amount of income earned during the holding period between the last financial year-end up until the point of disposal. We will provide you with daily accumulated income figures which will make the calculation as straightforward as possible.

How do you calculate the taxable amount of income under M19?

The following methodology is based on a first in, first out principal. Therefore, investors wishing to manually calculate/check their taxable income will need a transaction history on all purchases and sales of units in accumulation fund holdings and keep an accurate log of which units have been utilised in calculating any accumulated income over multiple tranches of sales.

To determine the amount to be declared, we have used the following calculation:

Taxable income attributable to units sold in any one financial year* = A x B x C

Where:

A = Number of units disposed
B = Number of days held during the financial year
C = Accumulated Income per unit per day attributable to each unit for the financial year (taken from the table in Appendix 1).

* The Ravenscroft Fund's financial year runs from 1st October to the 30th of September

If the holding period spans more than one financial year the calculation above must be repeated for each financial year (or proportion of) that the units were held.

If there were multiple disposals during the period the calculation should be performed for each date of disposal.

The following examples have been created to help explain how the above methodology has been applied to different situations:

(Example One)

An Investor buys 150 units in Ravenscroft Global Balanced O Accumulation on 01 January 2018 and sells 50 units on 20 June 2018

- Accumulated Income per unit per day for the Year Ended 30/09/18 ("YE18"): £0.0033
- Number of days held (all relating to YE18): 170 days

Accumulated Income Calculation

YE 2018 A x B x C = 50 x 170 days x 0.0033 = £28.05

Income taxable during 2018 tax year = £28.05

(Example Two)

This example illustrates a calculation covering a number of financial years.

Investor buys 200 units in Ravenscroft Global Growth I Accumulation on 01 January 2016 and sells all units on 20 June 2018.

- Accumulated Income per unit for the Year Ended 30/09/18 ("YE18"): -£0.0001
- Accumulated Income per unit for the Year Ended 30/09/17 ("YE17"): -£0.0005
- Accumulated Income per unit for the Year Ended 30/09/16 ("YE16"): £0.0026

- Holding period of 200 units in the year of purchase: 273 days
- Holding period during the year of sale: 263 days

Accumulated Income Calculation

YE 2016 A x B x C = 200 x 273 days x 0.0026 = £141.96
YE 2017 A x B x C = 200 x 365 days x -0.0005 = -£36.5
YE 2018 A x B x C = 200 x 263 days x -0.0001 = -£5.26

Income taxable during 2018 tax year = £100.20

(Example Three)

This example looks at applying the first in first out method.

Investor buys 100 units in Ravenscroft Global Blue Chip O Accumulation on 01 January 2016 and a further 100 units on 01 January 2017 and sells 50 units on 20 June 2018 and another 100 units on 30 September 2018, leaving 50 units.

- Accumulated Income per unit for the Year Ended 30/09/18 ("YE18"): £0.0034
- Accumulated Income per unit for the Year Ended 30/09/17 ("YE17"): £0.0030
- Accumulated Income per unit for the Year Ended 30/09/16 ("YE16"): £0.0028

Accumulated Income Calculation

Sale 1 (20/06/2018): 50 units
This will be treated as a disposal of 50 of the 100 units first acquired on 01 January 2016.

YE 2016 A x B x C = 50 x 273 days x 0.0028 = £38.22
YE 2017 A x B x C = 50 x 365 days x 0.0030 = £54.75
YE 2018 A x B x C = 50 x 263 days x 0.0034 = £44.71

Total taxable income from this disposal = £137.68

Sale 2 (30/09/2018): 100 units
This will be taken first to be a disposal of the remaining 50 units acquired on 01 January 2016 and then a disposal of 50 of the 100 units acquired on 01 January 2017, and so two calculations are required.

First calculation relating to 2016 acquisition:

YE 2016 A x B x C = 50 x 273 days x 0.0028 = £38.22
YE 2017 A x B x C = 50 x 365 days x 0.0030 = £54.75
YE 2018 A x B x C = 50 x 365 days x 0.0034 = £62.05

Total taxable income from this disposal of the remaining 50 units acquired in 2016 = £155.02

All units from YE16 have now been treated as fully disposed of.

Second calculation relating to 2017 acquisition:

YE 2017 A x B x C = 50 x 365 days x 0.0030 = £54.75
YE 2018 A x B x C = 50 x 365 days x 0.0034 = £62.05

Total taxable income from this disposal of 50 out of the 100 units acquired in 2017 = £116.80

The total taxable income from the disposal of 100 units spread across FY16 and FY17 = £271.82

50 units acquired in YE17 are still treated as being held after the disposal and will be dealt within as part of the next disposal using the first in first out methodology.

(Example Four)

This example looks at where an investor has chosen (and declared) that they wish to be taxed on an annual basis. This means disposals can be ignored and the calculation is more straightforward looking at the number of units held each year.

With respect to the annual declaration method the following calculation needs to be performed per financial year:

A x B = C

Where:

A = Total number of unit days
B = Income per unit, per day (see Appendix 1)
C = Taxable income

First acquired 500 units of Ravenscroft Global Growth Fund O Accumulation on 01 October 2018, bought an additional 500 units on 01 January 2019 and then disposed of 250 units of 01 February 2019. Finished 30 September 2019 holding 750 units.

- Accumulated Income per unit for the Year Ended 30/09/19 ("YE19"): £0.0018

Accumulated Income Calculation

YE 2019 (1) A x B x C = 500 x 93 days x 0.0018 = £83.70
YE 2019 (2) A x B x C = 1000x 31 days x 0.0018 = £55.80
YE 2019 (3) A x B x C = 750 x 241 days x 0.0018 = £325.35

Income taxable during 2019 tax year = £464.85

I am an investor in both an accumulation unit class and a distribution unit class of one of the RIFO Sub-Fund(s). Historically I received a consolidated tax voucher (CTV) from Ravenscroft that showed my accumulation amount and I put this on my tax return. Is that correct?

The Guernsey Revenue Service has accepted that investors may declare their accumulated income annually rather than on disposal. However, the dividend per unit detailed historically in the CTVs for an accumulation class does not take a deduction for certain expenses. This means the dividend income is overstated and a tax refund may be due. You can use the figures in Appendix 1 to calculate the correct 'net income' that should have been included in the tax return on an annual basis and you have up to six years from the end of the tax year to resubmit the tax return in order to reclaim the overpaid tax.

Going forward, the accumulation CTVs will deduct expenses to be in line with the distribution CTVs.

Can I chose how to declare under M19? How do I notify the Guernsey Revenue Service of my choice and what if I chose to change methods in the future?

It is up to you which method you chose. You will be asked to declare on your tax return any units held in accumulation units and if you wish to use the annual basis this should be declared for that year.

If you choose to change methods this is acceptable but should be declared if you are moving from a disposal basis to the annual basis. We also recommend declaring if you move from the annual basis to the disposal basis.

What should I do if I have disposed of accumulation units in previous years but not made a declaration?

You should declare these disposals and the associated taxable income as soon as is practicably possible. The level of accumulated income needed to make these declarations is set out in Appendix 1 and if you need details of your holdings please email us at funds@ravenscroftgroup.com

Will I be fined for making a late declaration?

As set out in M19 the Guernsey Revenue Service may not seek to collect surcharges so long as the income is declared as soon as possible. You should therefore carefully consider what has or has not been declared and use these FAQs to assist you in bringing your compliance up to date where needed.

If I sell units in the last three months of a calendar year I will not have the relevant information to declare my taxable income on disposal until April/May after the end of that financial year-end. Will I incur a surcharge for a late declaration?

It is acknowledged that investors will not receive up to date information regarding accumulated income, until around April/May in the year following the Fund's 30th September year end date.

The Guernsey Revenue Service has agreed that any accumulated income on disposals is to be treated as taxable in the calendar year in which the accumulated income is reported to investors.

By way of two examples,

(i) If an investor disposed of units on 31 August 2020, with accumulated income information for the Fund's 30 September 2020 year end being provided in April/May 2021, then the relevant entry should be made in the 2020 tax return (due 30 November 2021).

(ii) If an investor disposed of units on 30 November 2020, with accumulated income information for the Fund's 30 September 2021 year end being provided in April/May 2022, then the relevant entry should be made in the 2021 tax return (due 30 November 2022).

Provided that accumulated income on disposals is included in a timely manner as set out above, then surcharges will not be levied in respect of such taxable income notwithstanding that the income is strictly taxable by reference to the date of disposal.

I like to submit my tax return early but I won't be able to do this if I wait for your certificates - Why does it take so long to calculate the accumulated income per unit?

It was agreed between the Fund's Tax consultants and the Guernsey Revenue Service that the accumulated income per unit calculation could mirror that of the reportable income methodology used to submit the Fund's reportable income to HMRC in order to fulfil the requirements under the UK's Fund Reporting Regime. In order to accurately account for all reportable income the Tax consultants need to work off the final set of the Fund's annual accounts that are signed in December. In other words the time required to compile all the relevant information, calculate and submit to HMRC is a lengthy process and cannot be shortened due to the availability of information.

As set out above, if you wish to submit your tax return before the accumulated income figure becomes available, a best estimate can be made and adjusted in a future tax return once the actual figure is known.

Will Ravenscroft still provide consolidated tax vouchers and will the accumulated dividend distribution still be present and can I use it instead of your certificate?

Yes, this will be the case and investors are welcome to use this figure. However, there will be a difference between the dividend distribution figure and the one detailed in your personal certificate due to the calculation methodologies employed. For example, the dividend distribution figure will assume you held the exact number of units throughout the income period which may over or understate the actual amount of income you have earned.

I have already submitted my 2019 Tax return – can I declare my accumulated income as part of my 2020 tax return and should I include the certificates you provide to me?

Again, as stated above you should declare the accumulated income as soon as reasonably possible once it becomes available to you, on your next tax return. In many cases this will mean investors will declare historic amounts in their 2020 tax return.

We encourage investors to send in the tax certificates with the tax return in which the accumulated income is declared. There is no requirement to lodge the certificates with the Guernsey Revenue Service when you receive them.

How does the Guernsey Revenue Service know I have investments in RIFO Accumulation Units?

M19 requires investors to clearly state all ownership and subsequent changes of ownership in accumulation units of investment funds. The Guernsey Revenue Service also has the power to ask for such information from fund registrars. Failure to disclose current and past holdings could lead to enquiries and significant penalties and may be considered tax fraud, which is a criminal offence.

I have noticed that there are losses associated with I Accumulation unit classes and not others – why is this?

The reason there are losses associated with I Accumulation unit classes is due to the higher management fees associated with this class of unit. Management fees and other certain charges can be offset against the income earned. In O Accumulation unit classes the management fees are lower reducing the amount that can be offset against the income earned resulting in a positive (and therefore taxable) return.

I have owned I Accumulation units and switched into O Accumulation units to benefit from the lower management fees when these were launched in 2016. Can I offset the negative accumulated income generated during my ownership of the I units against the positive accumulated income gain in my ownership in the O units?

Yes, you are able to use these losses to offset current positive gains but only under a specific circumstance.

That circumstance relates to the switch that investors carried out when the O accumulation units were launched. Investors will have had to of switched out of the I units into the O units of the same sub-fund in one transaction event.

Investors who sold I units and then bought O units in a different sub-fund or the same sub-fund but at a different time will not be able to utilize those accumulated losses.

Ravenscroft Investment Management Limited **e funds@ravenscroftgroup.com**