

Investors in offshore funds

You are receiving this letter as part of an HMRC educational campaign to provide investors with useful information in relation to the tax rules for investments in offshore funds. This is not a compliance check.

Our records indicate you may hold or have recently held investments in an offshore fund.

If you invest in offshore funds, it is important to understand how income and gains from those investments may be taxed.

What you need to do

You should read this letter and the enclosed document **‘Need to know’ for investors in offshore funds**. It will help you understand:

- broadly, what an offshore fund is
- where to check if you hold, or have held, an investment in an offshore fund
- where to find more information about an offshore fund’s reporting status
- the main tax considerations for distributed and non-distributed income, and how to correctly treat any gains you make on disposal.

The guidance also tells you how to get further help if you have any questions and how to amend your tax returns if, after reading this letter, you need to.

If, after reading this letter, you think your tax return needs correcting then information is provided on how to do this within **‘Need to know’ for investors in offshore funds**.

Yours faithfully
HM Revenue and Customs

'Need to know' for investors in offshore funds

This document sets out some of the key rules within **The Offshore Funds (Tax) Regulations 2009**

Offshore funds

This section covers offshore funds, the purpose of the rules and the relevance of 'reporting' status.

What is an offshore fund?

It's a non-UK investment fund that meets certain conditions under UK tax law. If you're not sure whether you've invested in an offshore fund, you can check with:

- the fund manager
- broker or investment platform, if applicable
- your adviser

There are different types of offshore funds. For more about them, go to GOV.UK and search:

- 'HS265 Offshore funds', for our investor helpsheet
- 'Investment Funds Manual', at IFM13300+

Purpose of the offshore fund rules

The offshore fund rules aim to prevent the accumulation (or 'rolling up') of untaxed income in an offshore fund and the conversion of that income into a capital gain upon disposal. The rules achieve this in different ways depending upon whether a fund has 'reporting' status.

It's important to understand whether an offshore fund is a **reporting** or **non-reporting fund** as this determines how any income and gains arising to an investor are taxed.

Reporting and non-reporting offshore funds

Reporting funds are approved by HMRC. They must send an annual report to HMRC and tell investors their share of the fund's income for the year. This information is often published on the fund's website. You can find an up-to-date list of reporting funds at GOV.UK by searching 'Approved offshore reporting funds'.

Non-reporting funds are offshore funds that do not have reporting status. This includes funds that have left or have been excluded from the reporting fund regime.

For more on reporting and non-reporting funds, go to GOV.UK and search 'HS265 Offshore funds'.

Tax considerations for investors in offshore funds

This section covers the treatment of income and gains arising from investments in offshore funds.

Income arising from an offshore fund

- **Distributions received** from reporting and non-reporting funds are taxable as dividend income for the year in which they are received (special rules apply for **bond funds**).
- Any income generated by a reporting fund that is not distributed to investors is called **excess reported income** (ERI). We treat ERI as a distribution of income that you are deemed to have received on the Fund Distribution Date. This is 6 months after the end of the fund's accounting period.
- You should include the total ERI in your tax return for the period which includes the Fund Distribution Date. Your fund manager must provide details of your ERI. They sometimes publish an ERI amount for each unit you hold, so you'll need to work out your total ERI for all your units.

- If the fund is a **bond fund** (broadly, one that is invested in over 60% interest-bearing assets), any distributions, including ERI, are taxed as interest income, not dividend income. If you're not sure whether the fund is a bond fund, ask your fund manager, your investment provider, or tax adviser.

Gains arising upon disposal of units in an offshore fund

- For **reporting** funds, any gains arising on disposal are usually taxable as capital gains.
- For **non-reporting** funds, any gains are treated as **offshore income gains** (OIGs) and charged to income tax at your highest marginal tax rate. You cannot use the Capital Gains Tax annual exemption or offset capital losses against offshore income gains.

If the fund you are invested in is a reporting fund, an offshore income gain may still be chargeable if the fund was previously a non-reporting fund – ask your tax adviser to help you if necessary. You can refer to the helpsheet 'HS265 Offshore funds' (via GOV.UK) for any further information.

How to check and report your position

1. Check the fund's reporting status

Use our list of reporting funds (available at GOV.UK) and the fund manager's report to do this. Reporting status can vary by fund, sub-fund, share class and period.

2. Consider your tax position for the current and previous years

You should report any distributed income and any excess reported income 'ERI' (for reporting funds) on the foreign pages of a Self Assessment tax return. If you dispose of units in a non-reporting fund and an offshore income gain 'OIG' arises, report it under 'Other overseas income and gains' box in this section.

3. Keep records

You should keep any fund statements and investor reports, as well as details of any distributions, excess reported income, disposal proceeds and acquisition costs.

Guidance and Support

This is a complex area of tax, and you may want to seek professional advice or discuss this letter with your accountant, tax adviser or agent.

If you need to correct your tax return, you can:

- Amend your tax return using your digital tax account if within 12 months of the relevant tax year self-assessment deadline date – search 'Self Assessment' on GOV.UK
- Make a disclosure using the digital disclosure service if it has been more than 12 months since the relevant self-assessment deadline date – search 'digital disclosure service' at GOV.UK
- Ask your tax adviser, if you have one, and ask them to make the corrections for you – you may wish to show them this letter

More information

Go to GOV.UK and search:

- HMRC's list of Approved offshore reporting funds, search 'Approved offshore reporting funds',
- HMRC's Investment Funds Manual (IFM13300+ 'Participants within the charge to income tax').

To check if a recent communication from us is genuine, go to GOV.UK and search 'Check a list of genuine HMRC contacts'.