

Investment Funds and Income Tax

This guide explains what information you should report to HM Revenue & Customs (HMRC) on your tax return form when you receive income (distributions) from a UK authorised investment fund, which will be either an open-ended investment company (OEIC) or a unit trust. It also deals with distributions from an offshore fund. It does not deal with income from other types of UK fund such as an investment trust.

If you hold your investment in funds within an ISA or a personal pension, you will not need to report the distribution the ISA or personal pension receives on your tax return form.

TAXATION OF INCOME FROM UK AUTHORISED FUNDS

Your tax position will depend on the type of income received from the fund (interest or dividends), which in turn will depend on the type of assets your authorised fund invests in (eg. shares or bonds).

- Authorised funds invested in gilts, bonds, money market instruments and bank deposits (cash) usually pay out **interest** distributions.
- Authorised funds invested in shares pay out **dividend** distributions.

When the fund pays you a distribution, you will receive a tax voucher from the fund manager. The voucher will show two pieces of information:

- 1) The amount you will receive from the fund as a distribution. (If you have accumulation units, the voucher will show the amount earned from the fund which is reinvested back into the fund instead of being paid to you.)
- 2) Where applicable, the amount of tax on the distribution, which has already been paid by the fund manager on your behalf.

You must transfer the information on all vouchers received during the tax year to the self-assessment tax return form, which can be obtained and completed online at HMRC's website: www.hmrc.gov.uk/individuals/index.shtml

If the offshore fund you invest in is not a company, then for tax purposes it should be treated in exactly the same way as interest. The amount should be declared as 'interest and other income from overseas savings' on the tax return form (see above extract).

WHAT IS THE DEADLINE FOR SUBMITTING YOUR 2010-2011 TAX RETURN FORM?

There are two ways to complete your tax return form – fill in and submit a paper version, or complete the form online. If you are completing a paper version of the form, the deadline for submitting it is 31 October 2011. If you are intending to complete the form online, you will need to submit it by 31 January 2012.

To submit your tax return form online, go to HMRC's website at:

www.hmrc.gov.uk/individuals/index.shtml. Under the section 'Do it online', you will first need to register online for a username and password. This will allow you to access the form.

Helpful Hint

You should keep all documents relating to your investments as you may also need them to work out your capital gains tax liability when you sell the units or shares held in the fund. And, under self-assessment, it is important to keep detailed records in case you need to refer to them again in the future.

HOW YOUR TAX LIABILITY IS CALCULATED

HMRC will calculate your tax liability for you provided that they receive it by 31 October 2011. This applies to forms completed on paper or online.

You can calculate your tax liability yourself if you wish. To do this, you need to request the 'Tax calculation summary' page of the tax return form from HMRC.

ARE YOU STILL CONFUSED?

Don't worry if you are still uncertain about how income from your fund is taxed, what information you need to supply in the tax return form, or even where to find the correct information. Most fund management companies have a customer services department that will be able to help you with any tax questions.

HMRC will also be able to provide assistance and you can obtain a number of helpful leaflets and factsheets about tax from their website at: www.hmrc.gov.uk/individuals/index.shtml. Alternatively you can contact your local tax office (you will find the number in the phone book).

TAX CHECKLIST

You might want to refer to this checklist to make the process of completing your self-assessment tax return form a bit easier.

- Keep all your tax vouchers together.
- Under self-assessment, it is important to keep detailed records, so don't throw away any old documents.
- At the end of the tax year, separate out all the vouchers where the date payable is on or between 6 April 2010 and 5 April 2011 from other vouchers.
- Make sure you have all the vouchers for all the distributions of a fund for the current year.
- Exclude the equalisation figure that appears on your tax voucher. You don't need it for your income tax return. But remember that this figure will be important for calculating your capital gains tax liability when you come to sell the units/shares in your fund.

FURTHER INFORMATION

This guide is produced by the Investment Management Association. We publish a number of other guides on investing, which are all available free of charge. You can download them from IMA's Investor Guide page at: www.investmentuk.org/investor-centre/investor-factsheets

You can also request hard copies of IMA guides from:

IMA's Investment FactLine

c/o IMA

65 Kingsway

London WC2B 6TD

Tel: 020 7269 4639

Website: www.investmentuk.org/investor-centre/investor-factsheets/order-form

If you need financial advice, IMA's online Financial adviser search tool can help you to locate an adviser: www.investmentuk.org/investor-centre/ifa.

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