

---

## TAXATION OF PERSONAL DIVIDENDS DISTRIBUTIONS FROM OFFSHORE FUNDS

---

### Who is likely to be affected?

1. Individuals in receipt of distributions from offshore funds.

### General description of the measure

2. Since 6 April 2008, individual shareholders with shareholdings of less than 10 per cent in non-UK resident companies have been entitled to a non-payable dividend tax credit. However, the tax credit was withdrawn for offshore funds as some collective investment schemes were seeking to exploit the extension by locating their cash or bond fund ranges offshore, with the intention of securing tax advantages.
3. Legislation will be introduced in Finance Bill 2009 to restore the non-payable dividend tax credit for offshore funds which are largely invested in equities. It also provides that where the offshore fund is substantially invested in interest bearing assets, individuals receiving distributions will be treated for tax purposes as having received interest and not a dividend or other type of distribution.
4. These rules apply equally to all holdings in offshore funds (whether less than 10 per cent, or 10 per cent or more).

### Operative date

5. These changes will have effect on and after 22 April 2009.

### Current law and proposed revisions

6. Distributions made as dividends from offshore funds received by individual shareholders are currently taxed at rates of 10 per cent for basic rate and 32.5 per cent for higher rate taxpayers. Where the distributions are from non-corporate offshore funds they may be taxable at different rates depending on the type of fund and (in some cases) the nature of the fund income.

7. See BN21 for further background on the taxation of foreign dividends and the changes now being made.
8. Legislation in Finance Bill 2009 will amend section 397A of the Income Tax (Trading and Other Income) Act 2005 to extend further eligibility for the non-payable tax credit to individuals in receipt of dividends from non-UK resident companies including offshore funds that are companies.
9. However, where the offshore fund holds more than 60 per cent of its assets in interest bearing (or economically similar) form, any distribution will be treated in the hands of the UK individual investor as a payment of yearly interest. This will mean that no tax credit will be available and the tax rates applying will be those applying to interest.
10. This mirrors the current treatment of UK corporate investors with holdings in similar funds (in the UK or offshore) and also means that UK individuals will pay tax on interest-like distributions at the same rate as tax is borne by individual investors on interest received by UK authorised funds.
11. This change will not affect the taxation of UK investors in offshore funds which are transparent for the purposes of tax on income as in such cases the investor is taxed on their share of the underlying fund income according to the type of income received and not on the distribution made.

#### **Further advice**

12. If you have any questions about this change, please contact John Buckeridge on 020 7147 2560 (email: [John.Buckeridge@hmrc.gsi.gov.uk](mailto:John.Buckeridge@hmrc.gsi.gov.uk)). Information about Budget measures is available on the HM Revenue & Customs website at [www.hmrc.gov.uk](http://www.hmrc.gov.uk)