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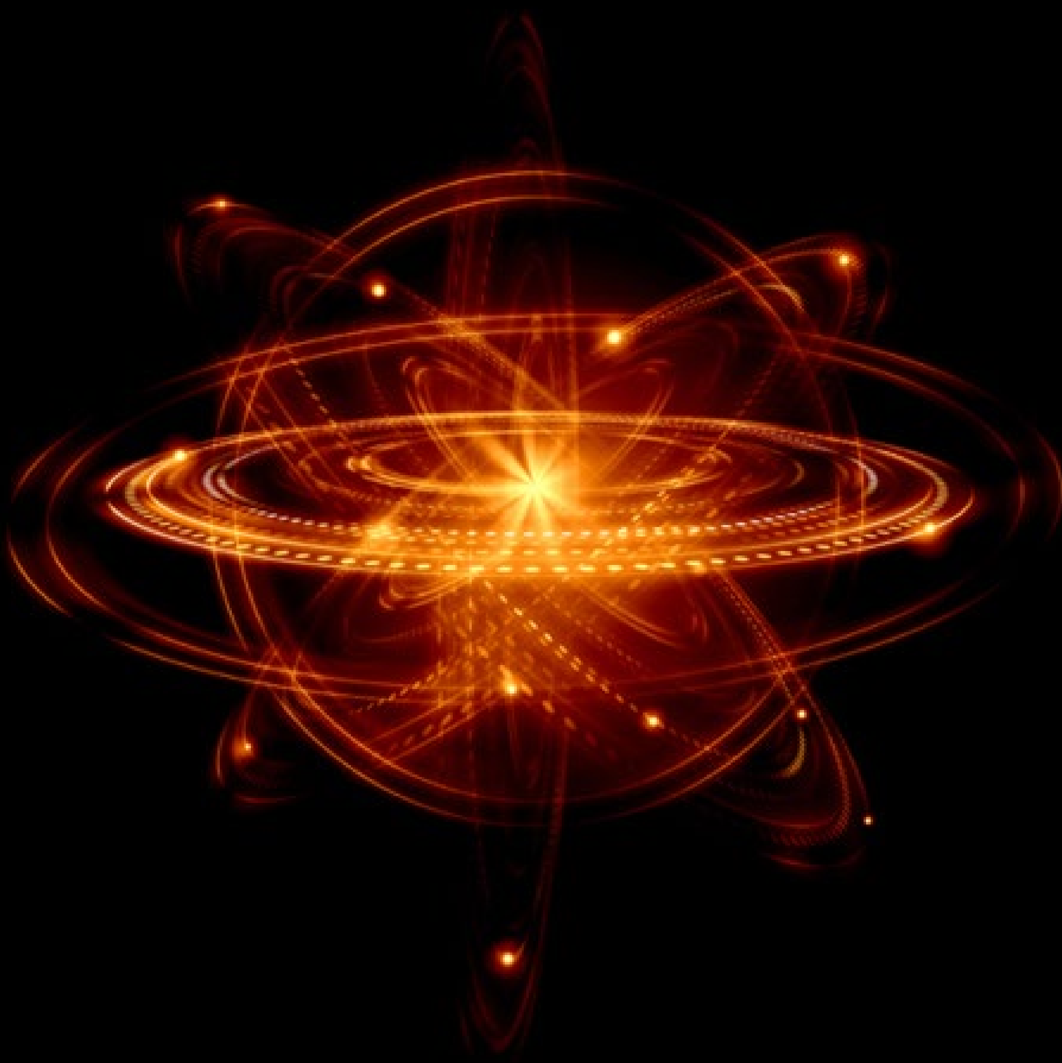

# iPACS Global Capital Gains Tax

## Our investment management solution

MAKING AN IMPACT THAT MATTERS since 1845

# iPACS Global Capital Gains Tax

iPACS Global Capital Gains Tax is a disruptive technology solution, designed by Deloitte for asset managers and asset servicers to help manage fund portfolio-level capital gains taxes. Our global experts have collaborated to create a new digital platform that provides you with easier, faster access to our international tax specialists.

As a way to raise revenue whilst preserving voting base, many governments are imposing capital gains tax ("CGT") on gains derived by non-resident investors, including funds. Funds anywhere in the world with investments in markets which operate a non-resident CGT regime will be subject to these costs e.g. India, Pakistan and UK.

iPACS Global Capital Gains Tax helps fund managers and asset servicers by:

1. Calculating a CGT liability to support NAV pricing so that CGT can be appropriately accrued for, and pricing errors can be avoided
2. Providing tax agency and facilitating tax filing requirements
3. Preparing the CGT numbers for your statutory accounts whilst ensuring that the correct accounting standards are being appropriately applied

Deloitte's Global CGT solutions include:

- UK non-resident CGT on indirect holdings (PAIF/REITs)
- CGT accruals for accurate NAV pricing
- Global tax agency services


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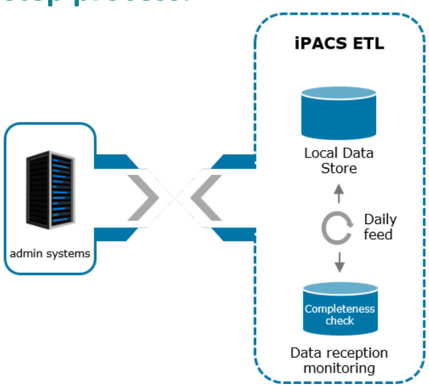
# Non-resident capital gains taxes

The growing challenges faced by the investment management industry regarding the management of non resident CGT regimes that apply to fund investments are increasingly apparent, with a particular focus on transparency. Calculating portfolio CGT, with the accuracy required for NAV pricing, is crucial. Add to that the complexities of different costing methods in different countries, along with the intricacies of corporate actions and derivatives, creates a very difficult area to navigate.

This is why we developed iPACS Global Capital Gains Tax, our latest addition to the iPACS Global Fund Tax suite of applications to provide, amongst others:

1. Periodic CGT accruals to support NAV workings,
2. Year-end amounts to be accrued or disclosed within the financial statements,
3. Methodical evidence of the above to report to the auditors, and
4. Tax computations for submission to the relevant tax authorities.

## iPACS CGT has been built with input from local Deloitte offices based on the following three step process:




**1. Data Collection**

Mediocre in means mediocre out. Which is why the tool's data extraction focusses on gathering high-quality data in a secure manner without the need for data transformation or enhancement. iPACS Global CGT has direct access to fund administrator servers following which it intelligently performs completeness and reasonableness checks.

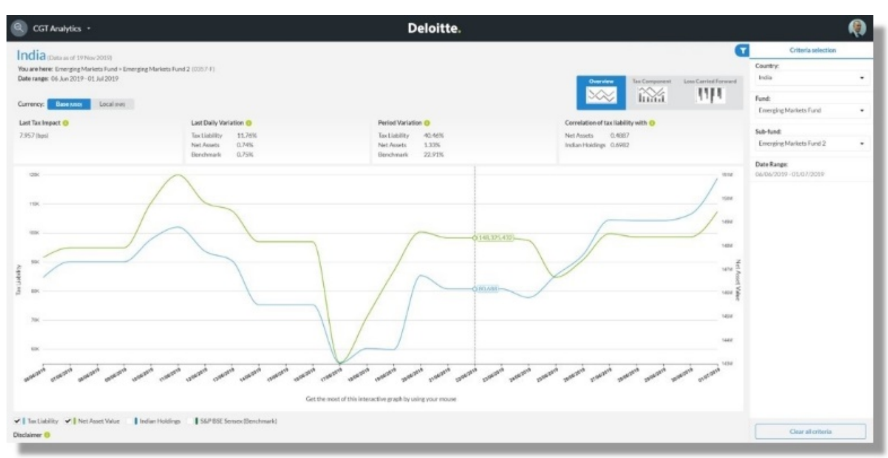
**2. Data Processing**

Once data is extracted from the fund administrators, the tool applies our global tax law technical knowledge, via coded algorithms, to the raw fund data.

**3. Oversight and Monitoring**

The tool contains two different output formats in order to provide as flexible and useful information as possible to the various business units that may benefit from non-resident CGT monitoring of a fund:

- A standard Excel sheet provides static information, e.g. remaining losses carried forward, realised/unrealised and short/long term gains.
- A dynamic visual graphic expands on the static data to provide oversight, and includes key metrics such as the daily variation, bps impact and loss carried forward position.



## Challenge 1: The requirement for funds to appropriately accrue for CGT in the NAV

While approximating a CGT accrual is straightforward, determining the actual number, as required to accurately determine NAV, is complex due to different costing methods (e.g. FIFO) and the impact of corporate actions and derivatives. As funds become truly global in their range, with rising investment in emerging markets, it becomes increasingly important to ensure that attention is paid to accruals to prevent any pricing errors in the NAV.

*Why now?*

As a number of recent cases have highlighted the cost of NAV errors is significant. Firms have an obligation to report errors to regulators and shareholders. The consequences of inaccuracies, for whatever reason, are threefold: reputational damage, compensation costs to investors and regulatory fines. The financial impact of compensation and fine payments are felt by the fund, the time required to process the compensation and correction takes precious resources away from other sectors of the business, all of which leads to a loss of business growth. All three can lead to a loss of business for the manager.

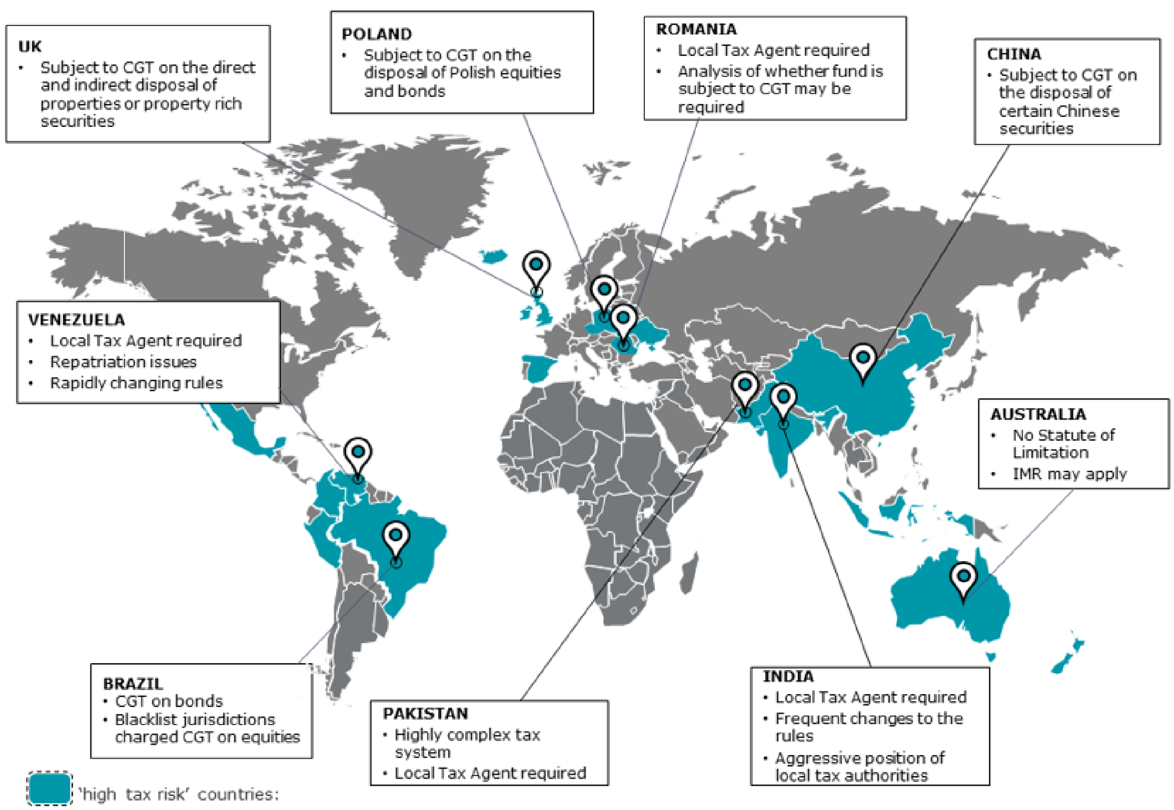
## How can iPACS Global Capital Gains Tax help?

*We simplify reporting.*

The rulesets embedded in the computational engine are verified and monitored by Deloitte tax experts in all investment markets. The computational engine also includes internal controls and reconciliations to provide a high quality output. This means your results are easy to understand, analytical and bespoke for ease of review.

With automatic data extraction from over 40 fund administrators, iPACS Global Capital Gains Tax delivers accurate accruals that tie back to the fund accounting data with analytical capability.

## Examples of high-risk countries:



## Challenge 2: Global tax agency, CGT filing and payment obligations

With the number of jurisdictions applying non-resident CGT increasing, many funds will find themselves with a growing year-end tax compliance burden.

Each jurisdiction operates its own deadlines for the filing of tax returns and the payment of tax. The industry has experienced an increase in queries from auditors with regards to portfolio level non-resident CGT.

It is therefore vital that managers have controls in place to avoid missed deadlines. To add to the compliance burden, certain countries enforce a legal requirement to appoint a local tax agent.

*Recent changes include:*

### UK

From 2019, the UK expanded the scope of its non-resident capital gains tax to include gains derived from the direct and indirect disposal of commercial property requiring funds to consider whether they fall within the scope of these new rules.

### India

In 2018 India removed the exemption from non-resident CGT for long term gains, resulting in a tax filing and payment obligation for all funds holding Indian investments. In order to invest in India a tax agent is required.

### Taiwan

Foreign institutional investors that hold investments in Taiwan are required to appoint a local tax agent to ensure that all taxes due on income derived from the investments are settled correctly.

### How can iPACS Global Capital Gains Tax help?

The tool's daily accrual calculations are reconciled to tax agent calculations. The CGT calculation in relation to each disposal is stored within the solution and can be extracted as part of the tax compliance process.

iPACS Dashboard provides an online, intuitive tracking system showing progress against compliance goals. Your bespoke cyber-secure dataroom provides a safe location for file sharing. Our global network of tax specialists who provide regular input to the tool, also have experience in providing tax agency services in their country. Working with the tool, human support works with you and iPACS Global Capital Gains Tax to provide a central point of contact for monitoring all your portfolio tax requirements. iPACS Global Capital Gains Tax is the comprehensive service for all your non-resident CGT accrual calculations and tax compliance needs.

## Challenge 3: CGT for the statutory accounts and accurate accounting standards data

With the increase in the number of funds investing in to emerging markets, where foreign investment is largely a relatively new concept, the potential for taxes to arise as a result of disposal of investment is becoming a risk area in the majority of fund statutory audits.

Companies preparing their accounts under US GAAP are familiar with the requirements of FIN 48, however the introduction of IFRIC 23 – “accounting for uncertain tax positions” to companies preparing their accounts under IFRS places stricter requirements on companies when preparing their tax-related disclosures and provisions to be included in their financial statements.

The FRC are increasingly scrutinising the accounting and disclosing of tax within financial statements which has led to audit firms being instructed to challenge clients on their accounting for tax.

Documented audit trails and evidence of attention to this area is essential to satisfy the regulators that tax numbers in the financial statements are calculated appropriately.

### How can iPACS Global Capital Gains Tax help?

The tax rates and rules built in to iPACS Global Capital Gains Tax are updated regularly by local tax experts in each jurisdiction to ensure the correct tax rates are applied to each of the unique calculations on a daily basis. Fund managers wishing to calculate their year end accruals and disclosures will find Deloitte calculations supported by iPACS Global Capital Gains Tax to be an accurate and cost effective solution.

With local specialists reviewing the tool outputs and the calculations regularly, the technology can be relied upon to provide a figure which is calculated in line with the local tax rules and accounting policies.

We expect audit firms to appropriately test the NAV pricing to prevent any pricing errors and iPACS Global Capital Gains Tax may therefore be an item to discuss with your auditor.

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