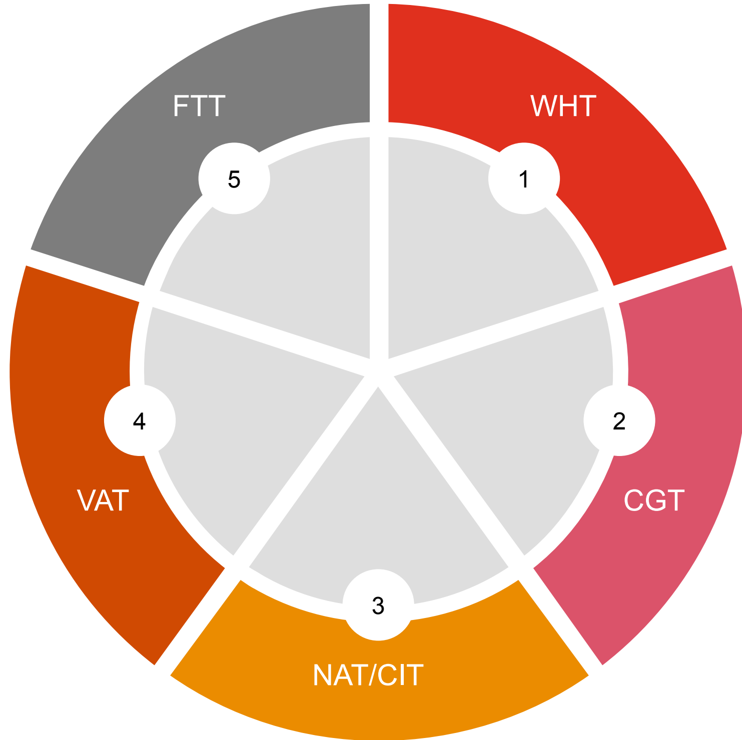
Operational Taxes

Charity Tax Group - March 2025

Key Operational or “Investment” Taxes



1 Withholding Tax

Withholding taxes (“WHT”) are charged by the tax authority of the country of investment on income or gains received by overseas investors. WHT leakage can be a significant factor in the choice of investment vehicle.

2 Capital Gains Tax

This is the tax charged on the increase in value between the purchase and sale price of the asset.

3 Fund Taxes (Net Asset Tax/Corporate Income Tax)

In certain markets, tax is charged on the value of the assets under management of the fund (e.g. taxe d'abonnement in Luxembourg), or on the profits of the fund.

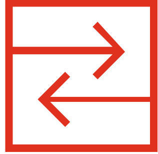
4 Value Added Tax / Goods & Services Tax

VAT is not normally charged on asset purchases, however, it may be charged on services provided to funds or their managers. However, a number of exemptions may also apply here - consult an expert.

5 Financial Transaction Taxes

A number of markets charge for the purchase of securities, predominantly equities (e.g. Stamp Duty, SDRT, and French, Italian & Spanish FTT). In some rare cases there are also taxes on the purchase of fund units (e.g. Switzerland).

Withholding Tax - relief



Relief can be provided at Source (**RAS**), i.e. on payment date based on meeting the required criteria beforehand.

Or

Via **reclaim**, post pay date, by retrospectively providing the required documentation.

Double Taxation Treaties; these typically define the agreed WHT rate for dividends, interest gains and royalties.

They may also tax specific entities differently (e.g. charities).

Domestic law; these can be for a specific type of asset (e.g. the portfolio interest exemption on US debt) or investor type (e.g. US 501(c)(3) provides an exemption for equivalent charities)

Extraterritorial claims; such as those based on EU law (often described as Fokus Bank reclaims or EU reclaims).

WHT - Double Tax Treaties

Relief via DTT is common

Developed markets (like the UK) usually have a large and sophisticated DTT network. They are often publicly available and are occasionally refreshed.

Example of a Swiss investment by a UK entity (simplified):

Article 10 - Dividends

1. Dividends paid by a company which is a resident of Switzerland to a resident of the UK may be taxed in the UK.

2. However, such dividends:

(a) shall be exempt from tax in Switzerland if the beneficial owner of the dividends is:

(i) a company which is a resident of the UK and controls, directly or indirectly, at least 10 percent of the capital in the company paying the dividends; or

(ii) a pension scheme;

(b) except as provided in sub-paragraph (a), may also be taxed in Switzerland, but if the beneficial owner of the dividends is a resident of the UK, the tax so charged shall not exceed 15 percent of the gross amount of the dividends.

It is understood and confirmed that the term "resident of a Contracting State" includes:

(a) a pension scheme established in that State; and

(b) an organisation that is established and is operated exclusively for religious, charitable, scientific, cultural, or educational purposes (or for more than one of those purposes) and that is a resident of that State according to its laws, notwithstanding that all or part of its income or gains may be exempt from tax under the domestic law of that State.

HM Revenue & Customs

Switzerland - United Kingdom: 1977 Income Tax Convention, as amended through 2017

CONVENTION BETWEEN THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND AND THE SWISS CONFEDERATION FOR THE AVOIDANCE OF DOUBLE TAXATION WITH RESPECT TO TAXES ON INCOME

Article 10

Dividends

1. Dividends paid by a company which is a resident of a Contracting State to a resident of the other Contracting State may be taxed in that other State.

2. However, such dividends:

(a) shall be exempt from tax in the Contracting State of which the company paying the dividends is a resident if the beneficial owner of the dividends is:

(i) a company which is a resident of the other Contracting State and controls, directly or indirectly, at least 10 per cent of the capital in the company paying the dividends; or

(ii) a pension scheme;

(b) except as provided in sub-paragraph (a), may also be taxed in the Contracting State of which the company paying the dividends is a resident and according to the laws of that State, but if the beneficial owner of the dividends is a resident of the other Contracting State, the tax so charged shall not exceed 15 per cent of the gross amount of the dividends.

Domestic WHT relief

In addition to treaty reclaims, a country may unilaterally introduce a reduced domestic withholding tax rate. These rates are not conditional on treaty access.

However, the country's tax authorities may have their own criteria in order to benefit from the reduced rate.

The most relevant example is the US exemption under the IRS code 501(c)(3), which applies to charitable organizations. Here are the key requirements:

"To be tax-exempt under section 501(c)(3) of the Internal Revenue Code, an organization must be organized and operated exclusively for exempt purposes set forth in section 501(c)(3), and none of its earnings may inure to any private shareholder or individual. In addition, it may not be an ***action organization****, i.e., it may not attempt to influence legislation as a substantial part of its activities and it may not participate in any campaign activity for or against political candidates."*

Obtaining treaty refunds/relief at source

Generally - tax reclaims are filed by the fund custodians.

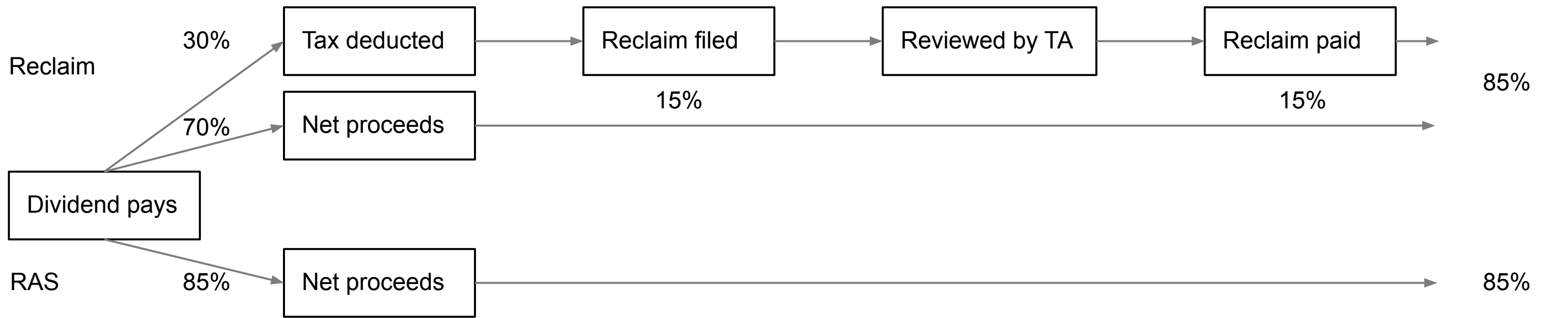
The timeframe to recover the tax suffered can vary significantly - from weeks to years!

Sometimes treaty reclaims are unsuccessful - either the tax authorities argue not eligible to access the treaty or not meeting documentation requirements (e.g. Austria & Switzerland).

There is an obvious time value of money benefit of relief at source.

So why might treaty claims need to be filed?

- Not all countries support relief at source (e.g. Switzerland);
- Some custodians may not support applying relief at source even if correct documents applied.
- Might need tax authority approval.



Fund Investment vs Direct Investment

Funds - positive

- Reduced costs
- Risk diversification
- Minimal tax documentation
- Smaller investment limits
- May provide a wider range of investment options

Funds - negatives

- May lose preferential withholding tax treatment

Direct investment - positives

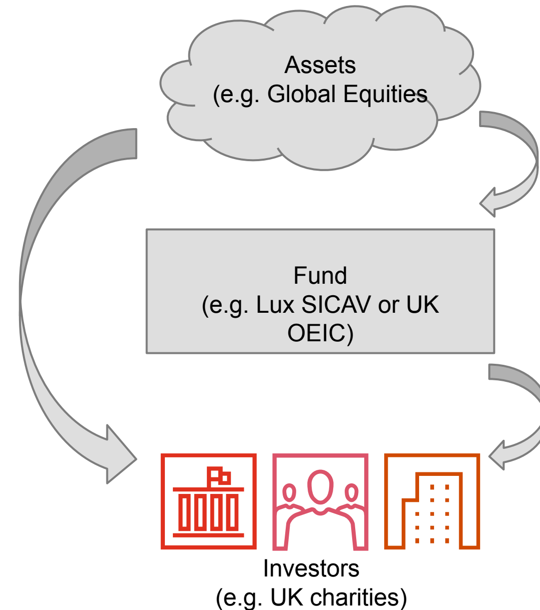
- Ensures beneficial withholding tax treatment applies

Direct investment - negatives

- May need to meet minimum investment thresholds
- Additional tax documentation may be required
- May require the appointment of local tax agents (e.g. India)

Key questions

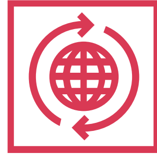
- Consider the post tax returns
- Understand the service provided by the asset manager & custodian
- Additional tax documentation requirements can be supported by outsourced providers



Capital Gains Taxes

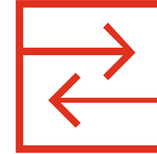
Capital Gains Tax is a tax on the profit when you sell (or 'dispose of') an asset that's increased in value.

It's the gain you make that's taxed, not the amount of money you receive.



CGT is not always levied under domestic law (e.g. US) or it can be **reduced or eliminated** under the DTT between the investor country in a similar way to withholding tax.

Accruals for unrealised CGT are sometimes required by the auditor where the level of unrealised capital gains tax are material to the NAV of the fund and the associated financial statements (e.g. India).



In some cases CGT is only applied where the fund is **black-listed** by the investment country.

The best example is probably Irish funds investing into Brazil where a 15% rate applies compared to the normal rate of 0%.

Financial Transaction Taxes

A number of markets charge for the purchase of securities, predominantly equities (e.g. Stamp Duty, SDRT, and French, Italian & Spanish FTT).

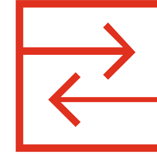
In some rare cases there are also taxes on the purchase of fund units (e.g. Switzerland).

In most cases the tax is charged to the purchaser but in some examples it can be split between the purchaser and seller (e.g. Hong Kong).

The rates are usually pretty low (e.g. Ireland @ 1%).

There are also regular discussions on the implementation of an **EU wide FTT**.

However, unilateral action (e.g. Spain) seems like the most likely approach.



Tax on initial purchase is rarely mitigated, but it can be possible to provide relief in some circumstances where large amounts of equities are transferred *in specie* (e.g. UK Letters of Direction)

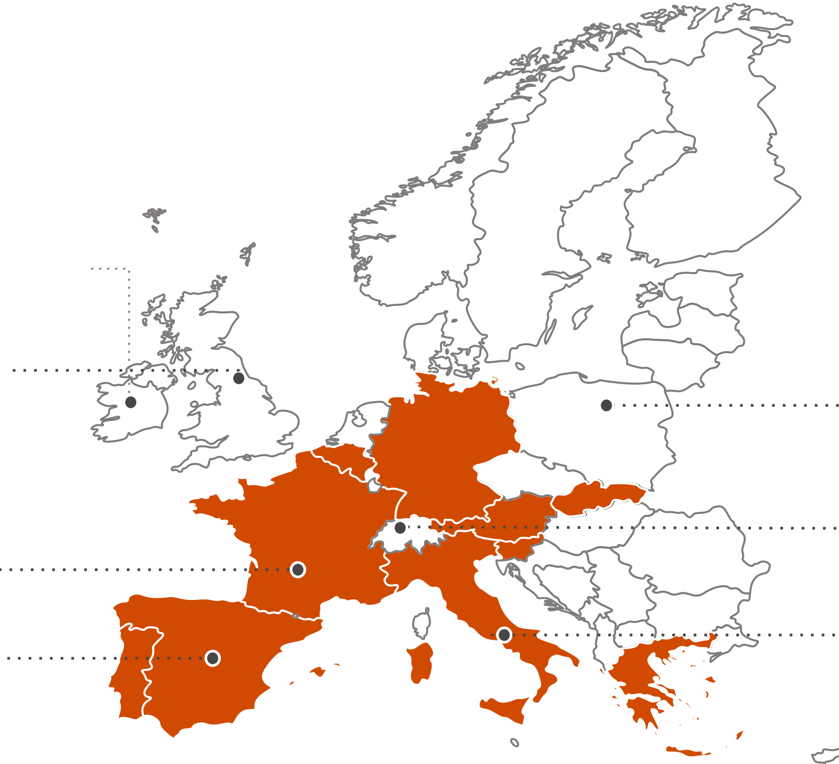
The FTT landscape in Europe

Ireland: stamp duty on Irish shares (and certain debt instruments)

UK: SDRT on UK shares (and certain debt instruments)

France: FTT on certain French equities, ADRs and similar instruments. Limited HFT tax

Spain: FTT on certain Spanish equities and ADRs



EU FTT - 10 Participating Member States
Austria, Belgium, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain

Poland: CLAT on certain financial instruments

Switzerland: Securities transfer tax for transactions involving a Swiss broker

Italian: FTT on certain Italian equities, ADRs and derivatives. HFT tax

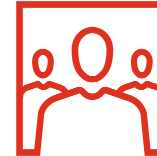
Takeaways

Understand your investment profile:

- Which markets (e.g. MSCI World)?
- Which asset types (e.g. equities or debt)?
- Direct or indirect investment?

Understand your tax position & entitlement:

- How much WHT has been suffered?
- Domestic relief applied (e.g. US 501(c)(3))?
- DTT relief applied (e.g. Switzerland)?



Understand where to get support:

- Asset Manager
- Custodian
- Tax advisor

Contacts

Thomas Daffern

Tax Director

Tel: +44 (0)7483 148636

thomas.daffern@pwc.com

Tom has been a Director in the PwC Asset & Wealth Management Tax team since 2022, specialising in operational taxes matters impacting investment funds, managers, custodians and investors.

Prior to that, Tom was the Head of UBS Asset Management Tax – EMEA. The EMEA Head of Tax position covered all operational tax matters globally for over 500 funds domiciled principally in Ireland, Luxembourg, Switzerland, and the UK. This included European investor tax reporting and technical analysis across all key investment jurisdictions for withholding tax, capital gains and transactions taxes.

Tom joined UBS in September 2018 and prior to that, he worked as an investment funds tax specialist at Northern Trust and Aviva Investors. Tom has been a Chartered Accountant for over 10 years and is a member of the Tax Committee at the UK Investment Association.

Contacts

Kit Dickson

Tax Partner

Tel: +44 (0)7789 273879

kit.dickson@pwc.com

Partner & Operational Taxes Leader, PwC United Kingdom

Kit is an Asset & Wealth Management Tax Partner, with 25 years experience advising clients in the UK and internationally. He is a Tax Reporting and Strategy Partner helping clients manage tax effectively. He helps clients transform how tax is dealt with within businesses. Kit has a particular focus on operational and product taxes, working with clients to identify effective tax structures for investors and investments and to comply with tax filing obligations, manage risk through effective processes and oversight and deliver value through tax efficiencies.

Kit has worked with large international businesses and investors in the Financial Services Sector for many years, including a number of global custodian banks, insurance entities, asset managers, pension and sovereign funds.

Thank you

pwc.com

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers LLP, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2025 PricewaterhouseCoopers LLP. All rights reserved. 'PwC' refers to the UK member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.