

## Important information

# RECENT CHANGES TO SAVINGS AND INVESTMENTS TAX – GROSS PAYMENTS

- In the March 2015 and 2016 Budget announcements, the UK Government introduced changes to the way savings and investments are taxed in the UK
- All payments from Equity Funds\* and Bond Funds\*\* will be paid gross of UK tax

This document outlines the tax changes and how they might affect you in more detail.

**Please note that tax treatment depends on your individual circumstances. If you are unsure how these changes affect you, please refer to [www.gov.uk/hmrc](http://www.gov.uk/hmrc) or speak with your tax adviser.**

## What were the changes and how do they affect my investments?

### 1. Equity Funds\*: income from dividend distributions is now regarded as gross income

#### Abolition of notional dividend tax credit

The 10% dividend tax credit was abolished on 6 April 2016 and replaced by a new tax free Dividend Allowance of the first £5,000 of dividend income per year. Consequently, all income from dividend distributions, including those paid by Equity Funds\*, is now regarded as gross income.

This means that you may be liable to pay dividend income tax on any dividend income you receive over the sum of £5,000 per annum.

### 2. Bond Funds\*\*: payment of gross interest distributions from 6 April 2017

#### Introduction of Personal Savings Allowance

From 6 April 2016, basic rate taxpayers have a £1,000 Personal Savings Allowance (PSA) before they have to pay any tax on the interest they earn from their savings and investments that pay interest (rather than dividends). The PSA for higher rate taxpayers is £500 and there is no allowance for additional rate taxpayers.

Currently, Bond Funds\*\* are required to withhold 20% income tax on interest distributions to UK individual investors (though non-UK investors, corporate investors and UK ISA investors can receive gross distributions).

With the introduction of the PSA, the UK Government is changing the existing tax rules for Bond Funds\*\* so that interest distributions must be paid to all investors without deduction of 20% income tax, effective from 6 April 2017. This means that funds that distribute interest payments rather than dividend payments (i.e. Bond Funds\*\*) will distribute income gross of tax, subject to any further changes announced by HMRC.

If you are a basic rate taxpayer and receive savings income or interest of more than £1,000 a year (£500 a year for higher rate taxpayers), including interest distributions from Columbia Threadneedle Investments, you may have additional tax to pay.

Basic and higher rate taxpayers may be able to reclaim income tax deducted from Bond Fund\*\* distributions for the period 6 April 2016 to 5 April 2017 (between the introduction of the PSA and the effective date of gross payments) – within the limits of their PSA – from HMRC.

Details of any income tax deducted from your Bond Fund\*\* investments over this period will be outlined on your tax voucher\*\*\*.

### 3. Exception: Threadneedle UK Property Authorised Investment Fund

Income from Property Authorised Investment Funds is split into three separate streams for UK tax purposes: *Property income*, *Interest income*, and *Other (dividend) income*.

While dividend income and interest income will be paid gross, property income will remain subject to UK income tax withholding at 20% after 6 April 2017.

The above will apply to the Threadneedle UK Property Authorised Investment Fund, however its feeder fund – the Threadneedle UK Property Authorised Trust – is treated as an Equity Fund\* for tax purposes, therefore any distributions are paid gross of tax.

#### Summary of changes to taxation of dividend and interest distributions

Fund Type		Distributions	Taxation
Equity Funds		Dividend	Paid gross from 6 April 2016
Bond Funds		Interest	Paid gross from 6 April 2017
Property Funds	Threadneedle UK Property Authorised Investment Fund (PAIF)	Interest, Property & Other (dividend)	Dividend and interest income – paid gross from 6 April 2016 and 6 April 2017 respectively, property income will continue to be paid net of 20% income tax after 6 April 2017
	Threadneedle UK Property Authorised Trust (Feeder)	Dividend	Paid gross from 6 April 2016 – treated as an Equity Fund for taxation purposes

## Do I need to take any action?

You do not need to take any action regarding the payment of gross income from your investments as this will happen automatically.

Basic and higher rate taxpayers may be able to reclaim any UK income tax deducted from Bond Fund\*\* distributions between 6 April 2016 and 5 April 2017 from HMRC. Details of any tax deducted by Columbia Threadneedle Investments over this period will be shown on your tax voucher\*\*\*.

## Further information

Further information, including a more detailed Q&A, is available on our website at [columbiathreadneedle.com/grosspayments](http://columbiathreadneedle.com/grosspayments). Alternatively you can call our Client Services Team in the UK on 0800 953 0134† between the hours of 08:00 and 18.00 UK time, Monday to Friday.

Please note tax treatment is subject to change and is based on our interpretation of the rules. Columbia Threadneedle Investments cannot give tax advice or comment on an individual's tax position. Please visit [www.gov.uk/hmrc](http://www.gov.uk/hmrc) or speak with your tax adviser for further information.

†Calls may be recorded.

\* Investment funds that invest principally in stocks that pay dividend distributions.

\*\* Investment funds that invest at least 60% in interest-bearing assets that pay interest distributions.

\*\*\* Retail ISA investors will receive an annual consolidated tax voucher from Columbia Threadneedle Investments in June/July. All other investors will receive their tax voucher with their distribution confirmation.