INCOME EQUALISATION

ILLUSTRATIVE EXAMPLE FOR UK RESIDENT INVESTORS

BLACKROCK®

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INTRODUCTION

The following examples have been provided to give guidance on tax reporting to UK resident investors who have invested in Share classes operating Income Equalisation.

Please note that these examples are intended as guidance only for investors and do not constitute tax advice. Investors should seek their own professional tax advice in relation to their investment, tailored to their own specific circumstances.

The guidance below is organised into sections to cater for a number of possible scenarios. Please refer to the appropriate section number for guidance on your particular circumstances.

1. I am a UK taxable investor who held Shares in a UKRF class that made distributions and:

a I have held a constant number of Shares in the class for the entire reporting period.

b I have disposed of all or part of my Shares during the reporting period.

c I have purchased Shares during the reporting period.

2. I am UK taxable investor who held Shares in a UKRF class that did not make distributions and:

a I have held a constant number of Shares in the class for the entire reporting period.

b I have disposed of all or part of my Shares during the reporting period.

c I have purchased Shares during the reporting period.

3. I am a UK taxable investor who held Shares in a class that did not have UKRF.

4. I am not a UK taxable investor.

DETAILED EXAMPLES

1a. I am a UK taxable investor and have held Shares in a UKRF class that made distributions – I have held a constant number of Shares in the class for the entire reporting period – what do I need to do in terms of computing the amounts to be reflected on my tax return?

A distribution received by a UK taxable investor will normally be taxable as income, subject to any applicable reliefs or exemptions. This is expected to be the case, even where a fund makes a distribution out of capital. An investor who has held a constant number of Shares in the class for the entire reporting period will not need to refer to the equalisation rates provided via this website.

However, you may be deemed to receive Excess Reportable Income where the reportable income rate of the class is greater than the Distribution rate. Please refer to **blackrock.co.uk/reportingfundstatus** for further details on the UK Reporting Fund regime and the Excess Reportable Income Rate for the class.

1b. I am a UK taxable investor and have held Shares in a UKRF class that made distributions – I have disposed of my Shares (either in whole or in part) during the reporting period – what do I need to do in terms of computing the amounts to be reflected on my tax return?

When Shares are disposed of, the redemption price may include an element of earned income. UK taxable investors disposing of interests in a UKRF fund should normally be subject to capital gains tax on the redemption proceeds (including the accrued income element) and therefore, you should not generally need to refer to the equalisation rates provided via this website. (Note: this represents a departure from the previous rules that operated under the UKDS regime). The table below illustrates how the gain should be calculated.

Redemption proceeds	Total redemption proceeds from the fund (deduct any incidental costs of disposal)
Cost of Shares	Original purchase cost (including any incidental costs of acquisition) **Add:** Any Excess Reportable Income amounts since the Shares were purchased. **Less:** Income Equalisation on the original acquisition of the Shares.

For guidance on how to calculate the Income Equalisation on the original acquisition of the Shares, please refer to 1(c) overleaf.

1c. I am a UK taxable investor who held Shares in a UKRF class that made distributions – I purchased my Shares during the reporting period – what do I need to do in terms of computing the amounts to be reflected on my tax return?

You should receive a distribution shortly after the end of any distribution period arising within the reporting period.

As a UK taxable investor you will need to know the amount of Income Equalisation that is included within your share of the class' Excess Reportable Income and distribution. This is so that the Income Equalisation amount can be excluded from your taxable income.

There are two options available in adjusting for your income equalisation amount when calculating your reportable income. Option 1 requires any actual distribution to be reduced by your Income Equalisation. If the Income Equalisation amount is greater than the actual distribution, any remaining amount should be deducted from your excess treated as additional distributions. Option 2 requires any Income Equalisation amount to be deducted from your excess treated as additional distributions. If the Income Equalisation amount is greater than your excess treated as additional distributions, any remaining amount should be deducted from your distribution. Option 1 and option 2 will return the same total result, however, where a fund makes multiple distributions it would be expected that option 1 would allow relief for Income Equalisation to be realised sooner than would be achieved under option 2.

The income equalisation amount, to the extent it is relieved, under either approach should be deducted from the capital gains base cost of your investment when computing your capital gain on any eventual disposal (see guidance under 1(b) above). Any excess reportable income arising should be added to the base cost, even if equalisation is netted against this.

In order to calculate the Income Equalisation element you will need to know the Equalisation Rate on the date you purchased your Shares. To find this information you need to access the equalisation information available via this website, searching for the equalisation rates for the relevant fund and Share Class.

The following example illustrates how the information should be used:

Example A:
An investor purchases 1000 Shares in a fund on 10 June (partway through the fund's reporting period ending 31 March) and receives their first distribution on 15 January. At the end of the period, the investor still holds 1000 shares. The Excess Reportable Income Rate is 0.2000. The Distribution Rate per share is 0.1000.

The Income Equalisation adjustment will be the Equalisation Rate per share on 10 June multiplied by the number of shares purchased on 10 June.

Equalisation rate date	Equalisation Rate per Share	Number of shares purchased	Income Equalisation adjustment
10 June	0.2050	1000	205

The income taxable on the investor is calculated as follows:

Option 1

	Per Share	Total
Distribution Rate	0.1000	100
Income Equalisation Adjustment	(0.205)	(205)
	(0.105)	(105)
Excess Reportable Income	0.2000	200
Deemed distribution to be taxed as income (excluding tax credit)	–	95

Option 2

	Per Share	Total
Excess Reportable Income	0.2000	200
Income Equalisation Adjustment	(0.205)	(205)
	(0.005)	(5)
Distribution Rate	0.1000	100
Deemed distribution to be taxed as income (excluding tax credit)	–	95

The Income Equalisation of £205 is treated as capital for UK tax purposes and is therefore not taxable. This amount will need to be deducted from the capital gains base cost of the investment when computing any eventual capital gain on the disposal of the 1000 shares (see guidance under 1(b) above).

2a. I am a UK taxable investor and have held Shares in a UKRF class that did not make distributions – I have held a constant number of Shares in the class for the entire reporting period – what do I need to do in terms of computing the amounts to be reflected on my tax return?

An investor who has held their investment in the class throughout the reporting period (and did not purchase any additional Shares in the class during that time) should not generally need to refer to the equalisation rates provided via this website.

However, you may be deemed to have received Excess Reportable Income where the fund has reportable income. Please refer to **blackrock.co.uk/reportingfundstatus** for further details on the UK Reporting Fund regime and the Excess Reportable Income Rate for the class.

2b. I am a UK taxable investor and have held Shares in a UKRF class that did not make distributions – I have disposed of my Shares (either in whole or in part) during the reporting period – what do I need to do in terms of computing the amounts to be reflected on my tax return?

When Shares are disposed of, the redemption proceeds may include an element of earned income. However, UK taxable investors disposing of interests in a UKRF fund should normally be subject to capital gains tax on the redemption proceeds (including the accrued income element) and therefore, you should not generally need to refer to the Income Equalisation rates provided via this website.

The table below sets out how the gain should be calculated.

Redemption proceeds	Total redemption proceeds from the fund (deduct any incidental costs of disposal)
Cost of Shares	Original purchase cost (including any incidental costs of acquisition) **Add:** Any Excess Reportable Income amounts since the Shares were purchased.

2c. I am a UK taxable investor who held Shares in a UKRF class that did not make distributions – I purchased my Shares during the reporting period – what do I need to do in terms of computing the amounts to be reflected on my tax return?

As an investor in the fund, you may have Excess Reportable Income. This Excess Reportable Income amount may include an element of Income Equalisation.

Any equalisation adjustment should be deducted from your Excess Reportable Income. The remaining Excess Reportable Income is taxable as income and should be reflected in your tax return for the period.

As an investor who has purchased Shares during the reporting period, you will need to know the Equalisation Rate on the date you purchased the Shares. To find this information you need to access the equalisation information available via this website, searching for the equalisation rates above for the relevant fund and Share class.

Example B:
An investor purchases 1000 Shares in an accumulating fund on 10 June (partway through the fund's reporting period ending 31 March). The investor is deemed to receive their Excess Reportable Income six months after the reporting period end date on 30 September. The Excess Reportable Income Rate is 0.2000. There is no distribution rate as the fund does not make distributions.

The Income Equalisation adjustment will be the Equalisation Rate per share on 10 June multiplied by the number of shares purchased on 10 June.

Equalisation rate date	Equalisation Rate per Share	Number of shares purchased	Income Equalisation adjustment
10 June	0.2050	1000	205

The income taxable on the investor is calculated as Excess Reportable Income less the Equalisation adjustment.

	Per Share	Total
Excess Reportable Income	0.3000	300
Equalisation Rate	(0.2050)	(205)
Deemed distribution to be subject to tax as income (excluding tax credit)	–	95

The Income Equalisation of £205 is treated as capital for UK tax purposes and is therefore not taxable.

3. I am a UK taxable investor who held Shares in a class that did not have UKRF – what do I need to do in terms of computing the amounts to be reflected on my tax return?

If you are a UK investor with interests in an offshore fund without UKRF you may receive distributions (dependant on whether you are investing in a distributing or accumulating Share class). There will be no Excess Reportable Income.

Where this is the case, you should not need to use the equalisation information above. Ordinarily, UK investors should be taxable on any dividends received and gains on disposal as income.

4. I am not a UK taxable investor. Do I need to give consideration to equalisation?

If you are not a UK taxable investor, the impact on your tax position of equalisation will depend on the tax rules applicable in the country in which you are taxed. The guidance above is only in relation to the UK tax implications for a UK resident individual. You should seek your own professional tax advice.

WHY BLACKROCK

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Source: BlackRock, data as at 30 June 2013.

FOR MORE INFORMATION

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