

Communication

October 2017

New German Investment Tax Reform Act effective on 1 January 2018 EFA's services

EFA has developed a service for equity and balanced funds (including funds of funds) in classifying the instruments in their portfolios according to the new law to determine such funds' own percentage of "Kapitalbeteiligungen" (equity participation).

EFA's service allows investment funds to compute, monitor and publish its effective ratio of Kapitalbeteiligungen with each NAV, starting 1 January 2018.

For funds that qualify under the new German law as Aktienfonds ("equity funds" with at least 51% of Kapitalbeteiligungen) or as Mischfonds ("balanced funds" with at least 25% of Kapitalbeteiligungen), their German tax resident investors can benefit from a partial tax exemption of up to 80% on their capital gains, dividends and advanced lump sum amount (scaling by investor and fund type).

Funds in-scope for this service	Equity Funds or Balanced Funds
Investment funds with investors who are tax resident in Germany	<ul style="list-style-type: none">• An investment fund that wants to maintain the status of an Aktienfonds or of a Mischfonds (especially if they are funds of funds) must continuously remain above the relevant threshold (51%/25%), otherwise the investment fund will be in breach and could lose its status resulting in the partial tax exemptions granted to its German tax resident investors being revoked retroactively• This monitoring constraint becomes even more central when the investment fund's equity ratio is close to the applicable thresholds or could be subject to significant variation in case of a dynamic investment policy.
Investment funds acquired by other funds with investors who are tax resident in Germany	<ul style="list-style-type: none">• The investment fund may be requested to publish its percentage of Kapitalbeteiligungen, so that the investing fund can determine and monitor its own ratio of Kapitalbeteiligungen• This becomes decisive for investment funds bought by Funds-of-Funds that want to maintain their status as Aktienfonds to always stay at least 51% invested in Kapitalbeteiligungen.



Our service encompasses:

- Classification of portfolio instruments in accordance with the German Investment Tax Reform Act as Kapitalbeteiligungen
- Identification for target funds of the applicable percentage of Kapitalbeteiligungen using WM Datenservice or other qualified sources
- Calculation of the portfolio's percentage of Kapitalbeteiligungen with each published NAV
- Publication of the percentage at share class level e.g. with WM Datenservice
- Detailed reporting of the calculation components to the fund for full transparency.

This service allows a fund to easily determine in a compliant manner its ratio of Kapitalbeteiligungen, thereby ensuring its investors' rights to benefit of the partial exemptions granted by this new law and complying with market best practices.

Please do not hesitate to contact your Client Relationship Manager for more information about this service.

As the German Investment Tax Reform Act affects the fund and its investors at different levels, e.g. obligation to obtain a "Statusbescheinigung" from the German Tax authority before the end of 2017, we would recommend that you contact your tax advisor.

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