



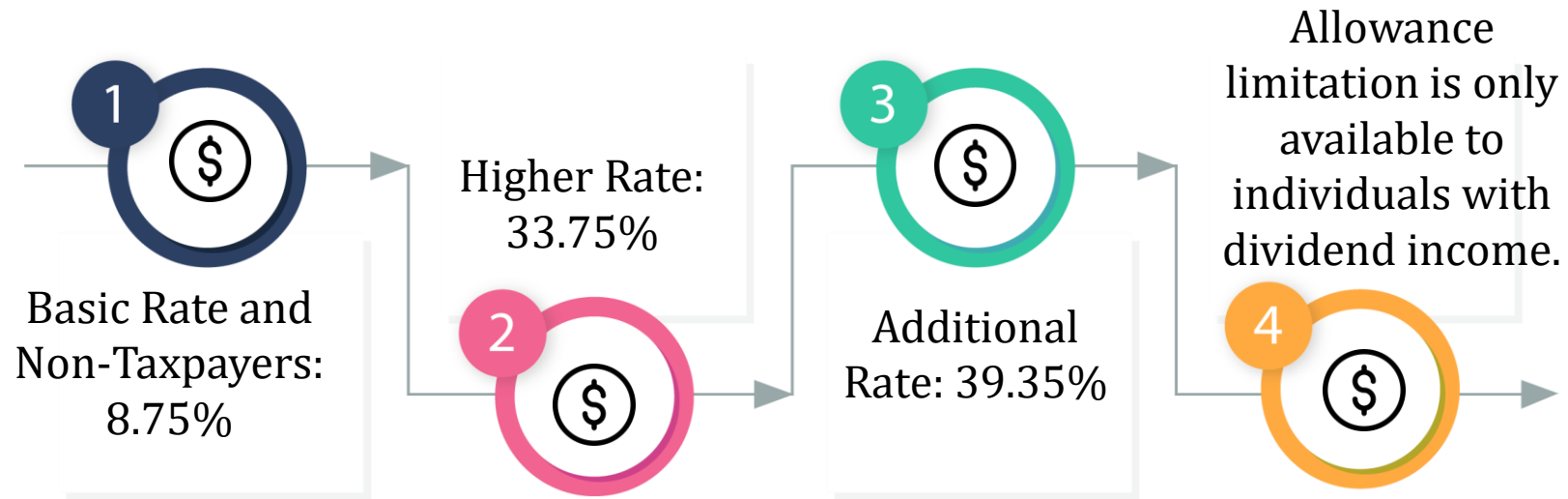
## Chapter 5 - Aspects of Taxation

3 Questions

# Taxation of Dividends

UK-based companies pay dividends from profits already taxed at the company level.

Tax Rates on Dividends Over £1,000:

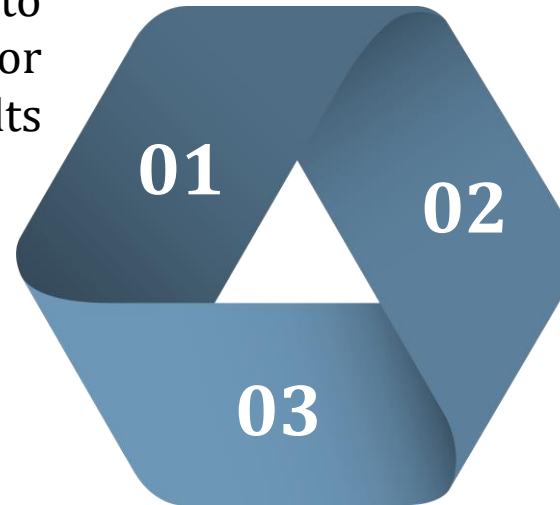


## Conventional and Index-linked Gilts

UK individual investors are liable for income tax on interest receivable on gilts. Interest is normally paid gross, but investors may opt for net payment.

Further requirements include:

Individuals are not liable to capital gains tax (CGT) or income tax on the sale of gilts



No stamp duty or stamp duty reserve tax (SDRT) is payable on purchases or sales of gilts

UK individual investors may be liable for tax on accrued interest on the purchase and transfer of gilts

## Corporate Bonds

- UK individual investors are **liable for income tax on interest received on corporate bond**
- Most corporate bonds are **payable gross**
- Certain corporate bonds are **not liable to pay CGT**  
E.g. Sterling denominated without rights of conversion or rights to subscribe
- **No stamp duty or SDRT is payable** on purchases or sales of UK corporate bonds

## Gilt Strips

- All gains/losses are taxed as income on an **annual basis**
- End of Tax Year - gilt strips are treated as if they have **sold** and then immediately **repurchased** them at their **market value at that time**
- Any gain/loss during the year should be added to the gain/loss on any strips maturing in the tax year
- The overall gain/loss is taxed as income.

## Overseas Investors (FOSTRA)

- Gilts on FOSTRA terms, and the interest on these bonds, are **exempt from tax** when held by persons who are **not ordinarily resident** in the UK

Capital Gain Tax (CGT) is payable on profits from most assets, including equities.

Exemptions are on profits from the sale of gilts and qualifying corporate bonds for UK private investors

Here is an example:

**An investor purchases 1,000 shares in ABC Corporation at £1.30 per share, selling all 1,000 shares 1 year later for £4.00 each.**

$$\text{Capital Gain} = (1,000 \times 4.00) - (1,000 \times 1.30) = 4000 - 1300 = \mathbf{\pounds 2700}$$

## CGT Rates for Tax Year 2023-24:

10% and 20% for general gains (excluding residential property and carried interest)

18% and 28% for gains on residential property and carried interest

20% for trustees or for personal representatives of someone who has died (not including residential property)

28% for trustees or for personal representatives of someone who has died for disposals of residential property

10% for gains qualifying for Business Asset Disposal Relief

Individuals have a £6,000 exemption, which is deducted from net gains before calculating CGT liability.

# Tax Treatment of Discount Securities

Discount Securities are those purchased below their par value.



Original Issue Discount (OID) exists when a bond issued at a price lower than its redemption price.



If an OID bond is purchased below its issue price due to a decline in market value, it may be subject to market discount rules.



Market discount must be declared, on an accreted basis, as ordinary taxable income in the year a bond is sold or redeemed.



# Withholding Tax (WHT)

Withholding Tax (WHT) is the tax on income payments to nonresidents in the country where the income originates.

WHT is typically deducted by the issuer or paying agent and paid directly to local tax authorities.

01

02

Investors usually reclaim WHT through their custodian, who handles the process with local tax authorities.

03

In some jurisdictions like the US, tax relief can be applied directly at the source, eliminating the need for custodians to reclaim WHT.

# Double Taxation Treaties (DTTs)

There are over 1,300 double taxation treaties (DTTs) worldwide with the UK holding the largest DTT network.

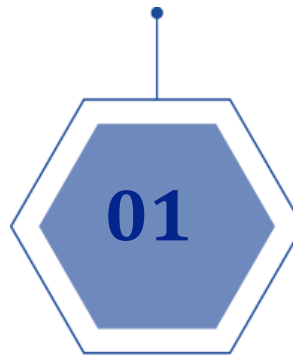
The objectives of DTTs include:



# Double Taxation Treaties (DTTs)

The following factors have been identified as obstacles to streamlined tax processing:

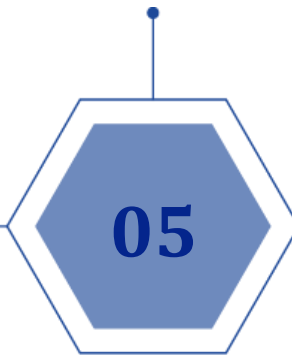
Different jurisdictions maintain unique tax frameworks, hindering streamlined processing



Inconsistent tax procedures limit custodians' ability to standardize and automate processes, increasing costs and risks



Fees and resource costs can make smaller tax reclaims uneconomical



Different instruments may have varying withholding tax rates within the same country, requiring case-by-case processing

Some jurisdictions impose heavy reporting demands on custodians

# Double Taxation Treaties (DTTs)



## Qualified Intermediary (QI) Program

QIs report non-US clients holding US securities, report income for US residents, and withhold taxes on US securities



## Foreign Account Tax Compliance Act (FATCA)

Requires US taxpayers holding foreign financial assets that exceed given thresholds to report those assets to the IRS



## Common Reporting Standard (CRS)

Standardizes financial account reporting globally and aligns with FATCA, but with a broader global focus.

# Transaction Taxes

Transaction Tax is imposed on trading specific assets like shares or property and is calculated as a percentage of the transaction's value or as a flat fee.

## Examples in the UK:



**Which tax is levied on income payments to nonresidents in the country where the income originates?**

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- A. Value Added Tax (VAT)
- B. Capital Gains Tax
- C. Withholding Tax
- D. Excise Tax