UK Reporting Fund FAQ guide

The contents of this document set out certain features of the UK taxation of Vanguard Irish domiciled funds (including our ETFs) registered as UK Reporting Funds (Reporting Fund) for individual taxpayers resident and domiciled in the UK who are subject to income tax and capital gains tax.

This document should not be regarded as obtaining tax advice. You should seek independent tax advice when completing your tax returns.

Contents

Completing your tax return

If you have holdings in Vanguard Irish-Domiciled funds (including our ETFs) registered as UK Reporting Funds (Reporting Fund)* you'll need to consider two forms of income to complete your income tax self-assessment return.

The two forms are:
1. Cash distributions received (dividend and interest)
2. Excess Reportable Income (ERI). Both income and accumulation share classes may have ERI.

There may also be additional tax considerations when you dispose of a Reporting Fund, which are covered in more detail in Section 3 below.

The Vanguard Irish-Domiciled funds (including our ETFs) which are registered as Reporting Funds can be found here.

Section 1
Cash distributions received

Q: **How do I know if I need to report cash distributions received? And where do I find the information?**

A: If you have received any cash distributions during the tax year, then these will need to be included in the relevant tax return.

If you invest via a third party they should provide the relevant information regarding your cash distributions. If this unclear, please contact them.

The Report to Participants (see Section 2 below) also summarises distributions made in respect of a reporting period, and can be found here.

*This excludes Reporting Funds held in an ISA or SIPP investment.

Please make sure that you refer to both the Report to Participants *and* the cash distribution information provided to you as you should only be taxed on distributions you have actually received in the relevant tax year.

Q: **When should I report my cash distributions received?**

A: Cash distributions are taxable on a 'receipts basis' which means they are taxable as received (i.e. on the pay date in the tax year in which they are received).

The pay date will determine which income tax year the cash distributions are taxable, which you'll find in the cash distribution information provided to you.

Q: **Should the cash distribution be treated as 'dividend income' or 'interest income'?**

A: All our Report to Participants now identify if a Reporting Fund is a 'Bond fund' or an 'Equity fund'. This allows you to determine if any distributions should be treated as interest income or dividend income for the purposes of completing your tax return.

Bond fund = interest income
Where the share class holds **more than 60%** of its investments in debt securities (or similar) the share class is a **bond fund** and the distribution should be treated as **interest income** in the hands of the investor.

Equity fund = dividend income
Where the share class does **not hold more than 60%** of its investments in debt securities (or similar) the share class is an **equity fund** and the distribution should be treated as a **dividend income** in the hands of the investor.

Section 2
Excess Reportable Income

Excess Reportable Income (or ERI) per unit (found in the Report to Participants and referred to as '**Excess of reportable income over distributions**') should be used to calculate the **total amount of ERI** to include in your income tax self-assessment return (see below for how this is calculated).

This is in addition to any cash distributions which you may have received during the tax year.

ERI is treated as income and is treated as received by you on the Fund Distribution Date (six months after the last day of the fund's reporting period). **This means you may need to refer to the previous years Report to Participants when you complete your current year tax return. The previous periods Reports to Participants are available on our website.**

The Report to Participants now refers to the relevant UK tax year for the purposes of assessing when ERI is taxable (in the footnotes).

Q: **How do I know if I need to report Excess Reportable Income?**

A: You'll need to report ERI if you hold an investment in a Reporting Fund on the last day of the fund's reporting period. The fund's reporting period is stated on the Report to Participants.

You calculate the total amount of ERI by applying the per unit rate of **'Excess of reportable income over distributions'** to your shareholding on the last day of the reporting period.

Example ERI calculation

Excess of reportable income over distributions	X	Number of shares held by you on the **last day of the reporting period**	=	Total Excess Reportable Income to be included in tax return

You're obliged to report ERI for the full period even if you acquired the holding on the last day of the reporting period.

You should refer to the Report to Participants for each reporting period you held shares.

The currency of amounts shown in the Report to Participants is shown under '**Share class currency**'. All amounts are shown in the share class currency indicated. UK tax returns should be completed in GBP. Conversion to GBP may be made on the relevant distribution or Fund Distribution Date, as long as you apply a consistent basis each year. You are free to choose which exchange rate to use and will need to look the rate up yourself.

Note: If you sell your shares and buy them back within a 30-day period (and this activity straddles the reporting period end) you'll still need to calculate ERI for your holding, as if you continued to hold the shares at the reporting period end.

Q: **In which tax year should I report Excess Reportable Income?**

A: The 'Fund Distribution Date' is the date on which any ERI is deemed to be received by you for UK tax purposes. You must declare this amount as taxable income even though you have not received cash.

This date is fixed at six months after the last day of the reporting period of the fund, which is stated on the Report to Participants.

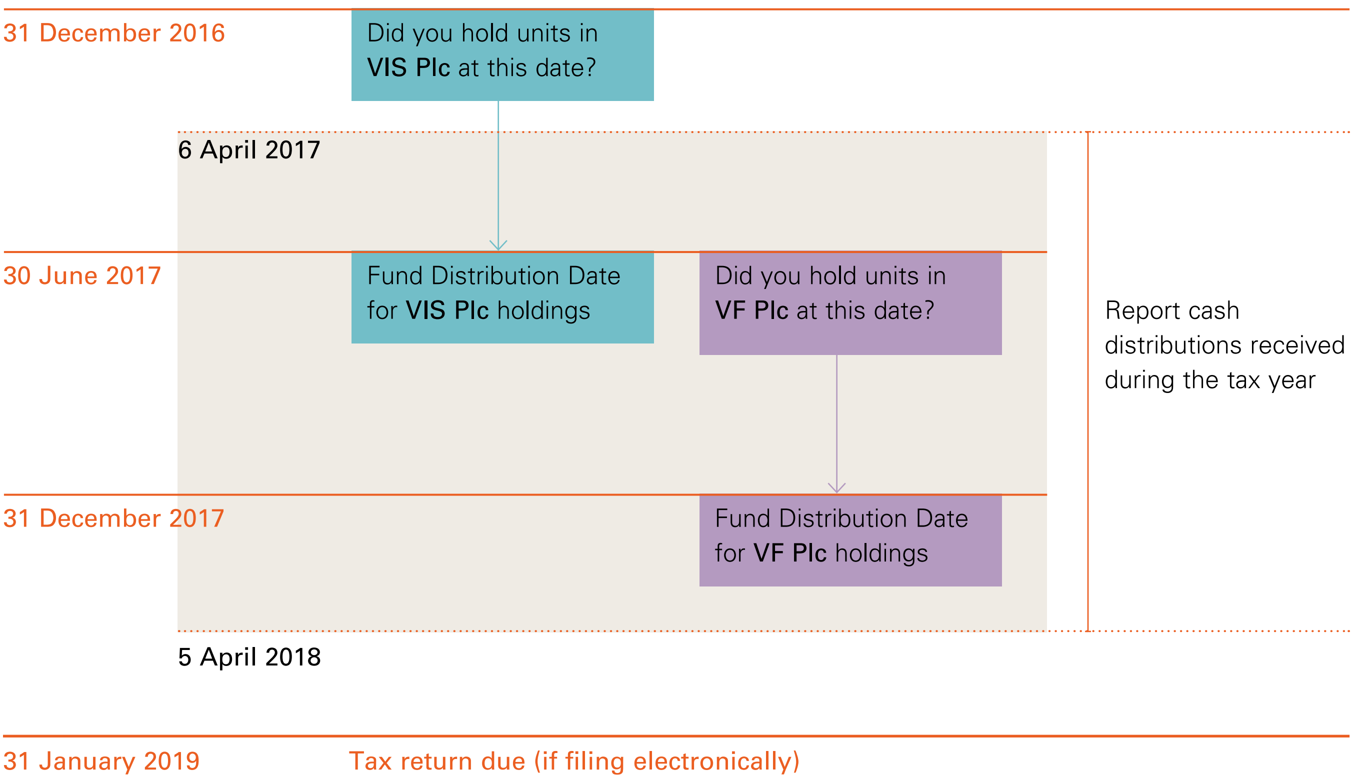
Example timeline

The following timeline is an illustrative example of how ERI which may arise in respect of your holdings in a Vanguard Reporting Fund and, cash distributions received should be considered in a given tax year:

- Reporting period = Fund Financial Year
- Fund Distribution Date = 6 months after Fund Financial Year-end
- UK Individuals tax year = 6 April – 5 April following

Vanguard Investment Series Plc (VIS Plc)
Irish domiciled mutual funds
- Reporting period = 31 December 2016
- Fund Distribution Date = 30 June 2017
- Relevant tax year = 6 April 2017 – 5 April 2018

Vanguard Funds Plc (VF Plc)
Irish ETFs
- Reporting period = 30 June 2017
- Fund Distribution Date = 31 December 2017
- Relevant tax year = 6 April 2017 – 5 April 2018



Q: Is there anything else I need to be aware of?

A: Reporting Funds may elect to operate full equalisation which may result in the reporting of an additional investor per unit amount, included in the Report to Participants. This is only relevant to investors who have purchased their units after the beginning of the reporting period and is optional.

Vanguard Funds Plc

Vanguard Funds Plc do not provide '**Investor average equalisation adjustment**' rates for the purposes of the UK Reporting Funds Regime. No further action is required.

Vanguard Investment Series Plc

Vanguard Investment Series Plc has opted to apply '**full equalisation**'. This means share classes listed on the Vanguard Investor platform (and any registered as UK Reporting Funds) may report a 'per share' rate of equalisation specific to each distribution event (or, annually for accumulation classes) This is referred to as the '**Investor average equalisation adjustment**' in the Report to Participants.

If you acquire units during a reporting period you may be able to reduce the taxable amount of cash distributions and/or ERI by the relevant amount of equalisation – calculated from the '**Investor average equalisation adjustment**' per unit provided. This may reduce the amount of taxable income to declare.

For the purposes of income share classes the adjustment rate relating to the first cash distribution following purchase will be the relevant rate to use to calculate the amount of equalisation. You can calculate the total amount of equalisation by applying the per unit rate of 'Investor average equalisation adjustment' to the number of shares purchased.

Investor average equalisation adjustment	X	Number of shares purchased	=	Total equalisation adjustment available to deduct from taxable income.

Example calculation

Mr Smith purchased 100 units in GBP Income Shares of Vanguard Global Small-Cap Index Fund (a sub fund of Vanguard Investment Series Plc) on 21 November 2016 and continued to hold these at the reporting period end (31 December 2016).

You can find the relevant information in the Report to Participants shown below:

Vanguard®

UK Reporting Status

Final schedule of taxable amounts

Vanguard Investment Series, plc
UK Reporting Fund Status (UKRFS)

Account period: 1 January 2016 to 31 December 2016

All share classes included below remain reporting funds at 31 December 2016

Fund distribution date: 30 June 2017[1]

This Report to Participants has been prepared in accordance with Regulation 90 of the Offshore Funds (Tax) Regulations 2009 (the "Regulations") and is intended for relevant participants of the below listed funds for the reporting period ended 31 December 2016. 'Relevant participants' are defined in the Regulations as those investors who are tax resident in the United Kingdom or are Reporting Funds at any point during the reporting period.

ISIN Code[2]	Fund name	Share class name	Income / accumulation	Share class currency	Income distributed per share in respect of the reporting period[3]	Ex-date on which distribution was declared[4]	Excess of reportable income over distributions[5]	Investor average equalisation adjustment[6]
IE00B3X1LS57	Vanguard Global Small-Cap Index Fund	GBP Income Shares	Income	GBP	0.7103	31 March 2016	0.1469	0.2180
					0.9319	30 June 2016		0.4325
					0.7139	30 September 2016		0.5380
					0.5921	30 December 2016		0.1671

The Report to Participants includes the following information which is relevant to Mr Smith:

'**Income distributed per share in respect of the reporting period**' of GBP 0.5921 per share declared on 30 December 2016 (per the distribution notice, a pay date of 13 January 2017)

'**Excess of reportable income over distributions**' of GBP 0.1469 per share and a '**Fund Distribution Date**' of 30 June 2017

'**Investor average equalisation adjustment**' of GBP 0.1671 the adjustment rate relating the distribution declared on 30 December 2016 which is the first distribution following Mr Smith's purchase.

As Mr Smith purchased his shares during the reporting period he should be able to use the relevant '**Investor average equalisation adjustment**' to calculate the equalisation which will reduce the amount of income in respect of that period that is subject to income tax. His equalisation amount would be £16.71 (100 x 0.1671).

The cash distribution received will have been £59.21 (100 x 0.5921) paid on 13 January 2017 (this should be checked – the cash distribution information provided to you and the ERI will be £14.69 (100 x 0.1469) deemed to arise on 30 June 2017. The impact of equalisation on Mr Smith can be summarised as follows, assuming he chooses to offset the full equalisation first against ERI followed by cash distributions received.

	Total Income	Equalisation adjustment	Net taxable income	Relevant tax year	Report in electronic tax return by
	GBP	GBP	GBP		
Excess Reportable Income Fund Distribution Date 30 June 2017	14.69	(14.69)	0.00	5 April 2018	31 January 2019
Cash distribution received Pay date 13 January 2017	59.21	(2.02)	57.19	5 April 2017	31 January 2018

Investors can choose to deduct equalisation first from cash distributions received and then from the ERI or from the ERI first and then cash distributions received, in respect of the reporting period in which the relevant purchase was made. The amount of taxable income cannot be reduced to less than zero.

Section 3
Disposing of a Reporting Fund

Provided your holding is a Reporting Fund throughout the entire period you've held it, any gain upon disposal should be subject to capital gains tax (at rates of up to 20%) rather than income tax (at rates of up to 45%).

Any calculation of the gain or loss on disposal should take into account any ERI, equalisation and reinvested distributions. It's important for you to check that any ERI is not missed even if the Fund Distribution Date is after the date of disposal.

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