

Urdorf, 31 October 2016

## Modelling of share transactions around ex-date in XENTIS

**Following the introduction of the Investment Tax Reform Act of 19 July 2016, the refund or offsetting of German Capital Gains Tax (Kapitalertragsteuer, KESt) is now only possible under particular conditions. The introduction of the new Art. 36a of the Income Tax Act (Einkommensteuergesetz, EStG) is intended to ensure the taxation of dividends in Germany and to remove the basis of so-called cum-cum trades. Irrespective of whether individual market participants have been involved in such trades, the credit services sector and the investment industry are obligated to collect extensive data, with retroactive effect from 1 January 2016, in order to check that the requirements for the treatment of KESt have been correctly applied, thus enabling the fixing of the fund price to be performed to the point. In close cooperation with its customers, Profidata Group has developed a solution in XENTIS that fulfils this regulatory requirement for investment companies (Kapitalverwaltungsgesellschaften, KVG) which handle the administration of domestic funds.**

In the past, foreign investors could transfer the shares and participation certificates of German companies to resident taxpayers exempted from tax (such as investment companies) just before the dividend payment date, using cum-cum trades to avoid paying KESt. The German legislator has now closed this tax loophole with the amendments introduced in Art. § 36a of the EStG. KVGs are now required to hold the equity securities managed in investment funds for a continuous period of at least 45 calendar days and with a hedge ratio of less than 30 % beyond the dividend payment date.

XENTIS not only provides proof of compliance with the holding periods, but also details of positions that are hedged for tax-reducing. XENTIS users have access to a standardised reporting module for this purpose which takes minor effort to implement. The report includes a detailed listing of all holdings based on the first-in-first-out principle prescribed by the legislator. For these lots, the information reported includes the pro-rata dividend amount, the holding period per disposal and the required and booked provisions for KESt. In addition, XENTIS supports both the conservative and progressive interpretation of Art. 36a of the EStG, so that users can choose to set aside their provisions for KESt either when booking dividends or to only do so once the holding period is breached. In accordance with customer specifications, or in the sense of exception handling, the report only lists positions that are liable to KESt. On top of that, the report compares the market values of the holdings liable to KESt against the economic exposure of the hedge transactions, and highlights any deviations from the maximum permitted quota. When calculating the hedge ratio, the collateral contribution of related parties, e.g. subsidiaries, is also considered.

Stefan Rockel, Managing Director of Universal Investment GmbH and Chairman of the Tax Committee of the German federal industry association 'Bundesverband Investment und Asset Management e.V.', summarises the situation: 'The entry into force of the Investment Tax Reform Act entails a lot of extra workload, ties up considerable human resources for all investment companies affected, and also puts us under time pressure. Although there are still a lot of unanswered questions, it is even more important that Profidata has come up with an appropriate solution incredibly quickly so that tax treatment can be handled correctly. We are confident that XENTIS will also be able to accommodate the new regulations on the taxation of retail and institutional investment funds due to come into force on 1 January 2018 to our full satisfaction.'

### Profidata Group

Profidata Group is a Swiss provider of investment and wealth management software solutions and services for the financial industry, founded in 1985. Its headquarters are located in Zurich. The company has subsidiaries and representative offices in Vaduz, Frankfurt/Main, Saarbrücken, Luxembourg, London and Singapore.

Please find further information at [www.profidatagroup.com](http://www.profidatagroup.com).

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