

Unit Trust Dividends and Tax Treatment

We give you the lowdown on how dividend payouts affect a unit trust's NAV, the tax credit applicable to you on such dividends and also how to fill up your tax returns

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In life, nothing is certain except death and taxes. Given that almost everything is taxed, from your paycheck to your imported goods and even your teh tarik in an upmarket kopitiam, your unit trust investment is no exception.

In this article, we give an explanation on how dividend payouts affect the Net Asset Value (NAV) of a unit trust and on the tax credit on such dividends and also how to fill up your tax returns.

A DROP IN NAV

A unit trust's profit comprises dividends, interests and gains from trading (i.e. buying/selling) of securities such as equities and bonds. This

profit is retained in the unit trust's balance sheet, thus increasing the unit trust's NAV.

From time to time, the fund manager might choose to release some of the retained income to unit holders in the form of a dividend payout. The dividend payout would initially result in a drop in the unit trust's NAV (see Example 1).

Following the dividend payout, the fund manager of Unit Trust A then performs a dividend adjustment on the past NAVs of Unit Trust A. This is so that the latest NAV (ex-dividend) of RM1.3000 is comparable with past NAVs. Conversely, if the past NAVs were not adjusted, there would be a sharp drop in the NAV from RM1.70 to

RM1.30 and this would distort the unit trust performance.

25% TAX CREDITS

Building on the Example 1, let's say Charlie receives a dividend voucher from Fundsupermart.com (see Illustration 1).

Not every detail is relevant. The important things to note here are:

1. Charlie would only receive the net dividend of RM4,500 (in the form of extra units reinvested in Unit Trust A); and
2. The RM500 tax paid ($RM2,000 \times 25\%$) entitles Charlie to claim a Section 110 tax credit of the same amount when furnishing his tax return for 2012.

EXAMPLE 1: UNIT TRUST A DECLARES A GROSS DIVIDEND OF RM0.5000 PER UNIT WITH A PAYMENT DATE OF 31 MARCH 2012

DATE	28 MAR 2012	29 MAR 2012	30 MAR 2012	31 MAR 2012 (*CUM-DIVIDEND)	31 MAR 2012 (**EX-DIVIDEND)
NAV (RM)	1.5000	1.6000	1.7000	1.8000	1.3000
Adjustment working	$RM1.5000 \div RM1.8000 \times RM1.3000$	$RM1.6000 \div RM1.8000 \times RM1.3000$	$RM1.7000 \div RM1.8000 \times RM1.3000$		-
Adjusted NAV (RM)	1.0833	1.1556	1.2278	1.3000	

Source: Fundsupermart compilations
*Cum: with; **Ex: without

ILLUSTRATION 1: DIVIDEND VOUCHER FROM FUNDSUPERMART.COM

CHARLIE
JALAN MEGA,
47000 PETALING JAYA

Account Number : M0000000
Dividend Number : DIV000001
issued Date : 31/03/2012

Dividend Statement

Summary of Income Distribution for Financial Year Ended 31 March 2012

Dividend Pay Date	Fund Name	Payment Method	Net Dividend Amount (RM)	Dividend Reinvest Price (RM)	Units Reinvested	Units Entitled for Distribution	Units After Reinvestment
31/03/2012	Unit Trust A	Cheque	4,500.00	1.3000	3,461.5385	10,000.0000	13,461.5385

iFAST Capital Sdn Bhd

Level 29, Menara Standard Chartered, No. 30 Jalan Sultan Ismail, 50250 Kuala Lumpur

CHARLIE
JALAN MEGA,
47000 PETALING JAYA

Dividend Number : DIV000001
Dividend Pay Date : 31/03/2012
Account Number : M0000000

Malaysia Subsidiary Tax Voucher

No. of units	Taxable income (1) (RM)	Tax		Non-Allowable Expenses - (4) (RM)	Non-Taxable Income + (5) (RM)	Distribution Equalisation + (6) (RM)	Net Payable = (7) (RM)
		Malaysian - (2) (RM)	Foreign - (3) (RM)				
10,000.0000	2,000.00	500.00	0.00	0.00	3,000.00	0.00	4,500.00

We hereby certify that Malaysian income tax deducted as below has been or will be accounted for by us to the Director-General of Inland Revenue Malaysia. Please retain this certificate for submission to Tax Authorities.

Income Distribution Info:

	(RM) Per Unit
Gross Distribution	0.5000
Net Distribution	0.4500

Source: Fundsupermart compilations

ILLUSTRATION 2: DIVIDEND VOUCHER FROM FUNDSUPERMART.COM

CHARLIE
JALAN MEGA,
47000 PETALING JAYA

Account Number : M0000000
Dividend Number : DIV000002
issued Date : 31/01/2012

Dividend Statement

Summary of Income Distribution for Financial Year Ended 31 January 2012

Dividend Pay Date	Fund Name	Payment Method	Net Dividend Amount (RM)	Dividend Reinvest Price (RM)	Units Reinvested	Units Entitled for Distribution	Units After Reinvestment
31/01/2012	Unit Trust B	Cheque	4,250.00	1.5000	2,833.3333	15,000.0000	17,833.3333

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CHARLIE
JALAN MEGA,
47000 PETALING JAYA

Dividend Number : DIV000002
Dividend Pay Date : 31/01/2012
Account Number : M0000000

Malaysia Subsidiary Tax Voucher

No. of units	Taxable income (1) (RM)	Tax		Non-Allowable Expenses - (4) (RM)	Non-Taxable Income + (5) (RM)	Distribution Equalisation + (6) (RM)	Net Payable = (7) (RM)
		Malaysian - (2) (RM)	Foreign - (3) (RM)				
15,000.0000	0.00	0.00	0.00	250.00	4,500.00	0.00	4,250.00

We hereby certify that Malaysian income tax deducted as below has been or will be accounted for by us to the Director-General of Inland Revenue Malaysia. Please retain this certificate for submission to Tax Authorities.

Income Distribution Info:

	(RM) Per Unit
Gross Distribution	0.3000
Net Distribution	0.2833

Source: Fundsupermart compilations

Here's another example (see Illustration 2). Let's say Charlie receives a dividend voucher for his investment in Unit Trust B.



IN ILLUSTRATION 2, CHARLIE HOLDS 15,000 UNITS OF UNIT TRUST B WHICH PAYS A GROSS DIVIDEND OF RM0.3000 PER UNIT. WHAT IS THE AMOUNT OF DIVIDEND THAT CHARLIE WOULD RECEIVE AND HOW MUCH IS HIS TAX CREDIT?

ANSWER:

THE AMOUNT THAT HE'LL RECEIVE IS RM4,250 (IN THE FORM OF 2,833.3333 EXTRA UNITS IN UNIT TRUST B), AND THIS DIVIDEND PAYOUT DOES NOT CARRY ANY TAX CREDIT.

FILLING UP YOUR TAX RETURN

Individuals need to fill up the HK-3 working sheet of their annual tax returns. Some investors might already be familiar with this working sheet as it is commonly used to fill up the tax credit details of dividends received from share investments and unit trusts. Don't forget that the original dividend vouchers have to be attached as proof of entitlement to tax credits.

Based on Illustration 1, the HK-3 form for year of assessment 2012 is filled up as such (see Illustration 3).

WHAT DETERMINES WHETHER THERE ARE TAX CREDITS OR NOT?

The short answer: the balance remaining in the Section 108 (Income Tax Act 1967) account of the unit trust.

All companies (unit trusts included) maintain a Section 108 account from which the company passes on tax credits to investors. A Section 108 account balance is the total of all tax paid prior to 2008, less the amount of tax credits passed on to investors by way of dividend distributions.

Once this balance is used up (or by 1 Jan 2014, whichever is earlier), no more tax credits are passed on to investors.

Most companies have already used up their Section 108 balance and are declaring dividends with no tax credits attached (single

tier dividends). However, there are still unit trusts (and companies) that have a sizeable balance in their Section 108 accounts.

SUMMING IT UP

Every time you see a sharp drop in a unit trust's NAV, it doesn't necessarily mean that the unit trust has made a loss. Sometimes it might be due to a dividend payout which has not yet been adjusted.

Also, unit holders would need to check their dividend statements to see whether they have any Section 110 tax credit. This tax credit would help reduce the tax payable of the unit holders, particularly those that fall into the lower tax brackets. **FSM**

ILLUSTRATION 3: (HK-3) TAX DEDUCTION UNDER SECTION 51 OF FINANCE ACT 2007 (DIVIDENDS)

List of dividend income:

No.	Date of Payment	For year Ended	Warrant No. / Serial No.	Name of Company	Gross Dividend		Income Tax Rate	Tax Deducted		Net Dividend	
					RM	sen		RM	sen	RM	sen
1	31/03/2012	2012	DIV000001	Unit Trust A	5,000	00	25%	500	00	4,500	00

Source: Fundsupermart compilations
Words in red are filled in by the investor