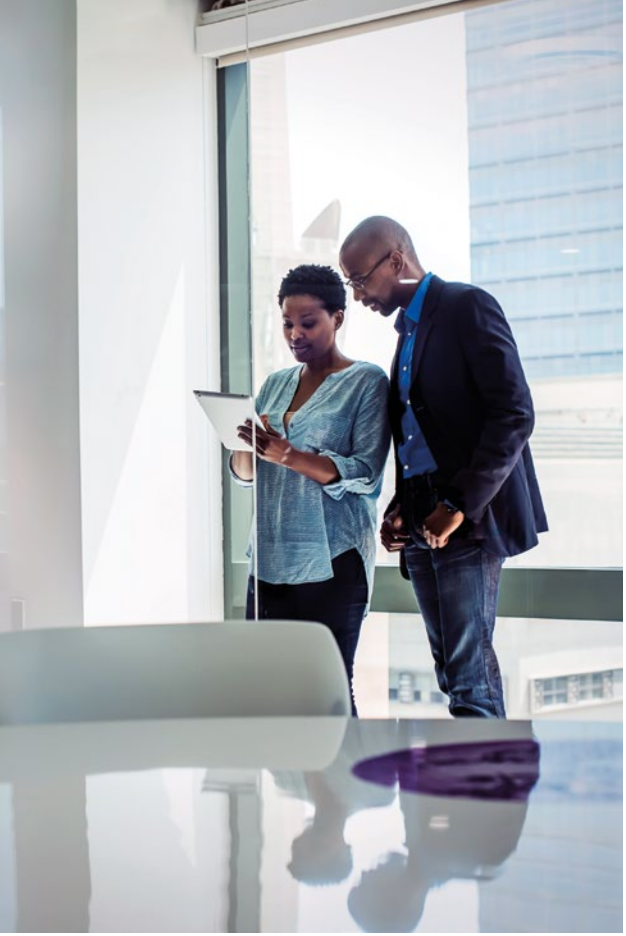
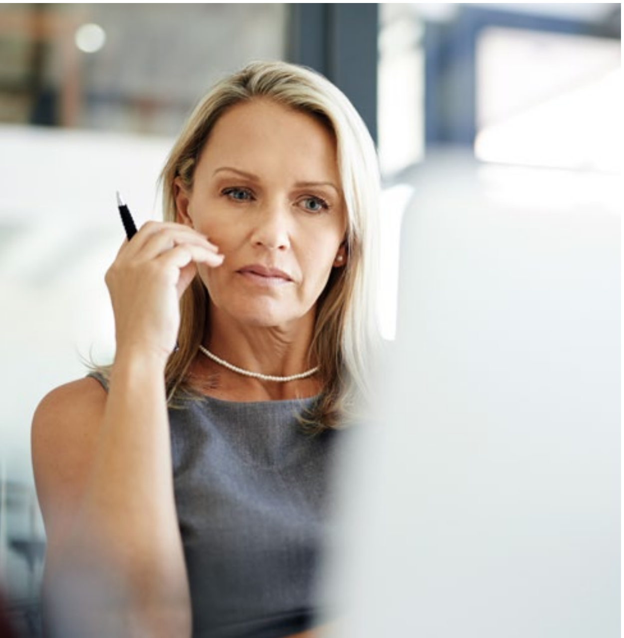
PwC Switzerland
US Tax Services: Navigating PFIC Compliance





Understanding PFICs

Passive Foreign Investment Companies (PFICs) are a classification under the United States tax code, specifically designed to discourage US persons from deferring taxes through foreign investments. This classification has significant implications for the taxation of income and distributions associated with foreign investment entities.

Examples of common PFICs include foreign mutual funds, foreign exchange-traded funds (ETFs), foreign real estate investment trusts (REITs) and other pooled investment vehicles. These investment structures often encompass diversified portfolios of securities, real estate or other assets managed on behalf of investors. The PFIC designation is crucial as it triggers a different set of tax rules, which are aimed at neutralising the benefits of tax deferral that may otherwise be available through US investments.

Identifying PFICs

The process of identifying a PFIC is pivotal and hinges on two fundamental tests prescribed by the IRS:

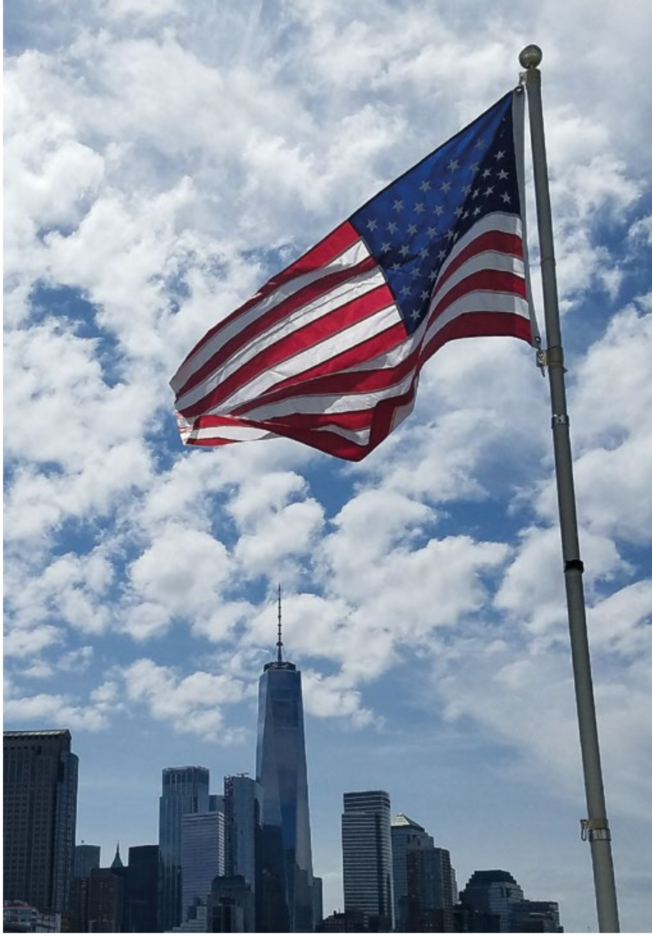
- **Income test:** A foreign corporation is deemed a PFIC if 75% or more of its gross income for the taxable year is passive income. Passive income encompasses earnings such as dividends, interest, rents, royalties and other types of investment income.
- **Asset test:** A foreign corporation qualifies as a PFIC if 50% or more of its assets, averaged over the taxable year, are held for the production of passive income. This measurement can be based on either the fair market value or the adjusted basis of the assets, depending on the circumstances.

Guidelines provided in Sections 1291 through 1298 of the Internal Revenue Code offer a comprehensive framework for the identification and taxation of PFICs, shedding light on the intricate details of this classification.

Tax implications

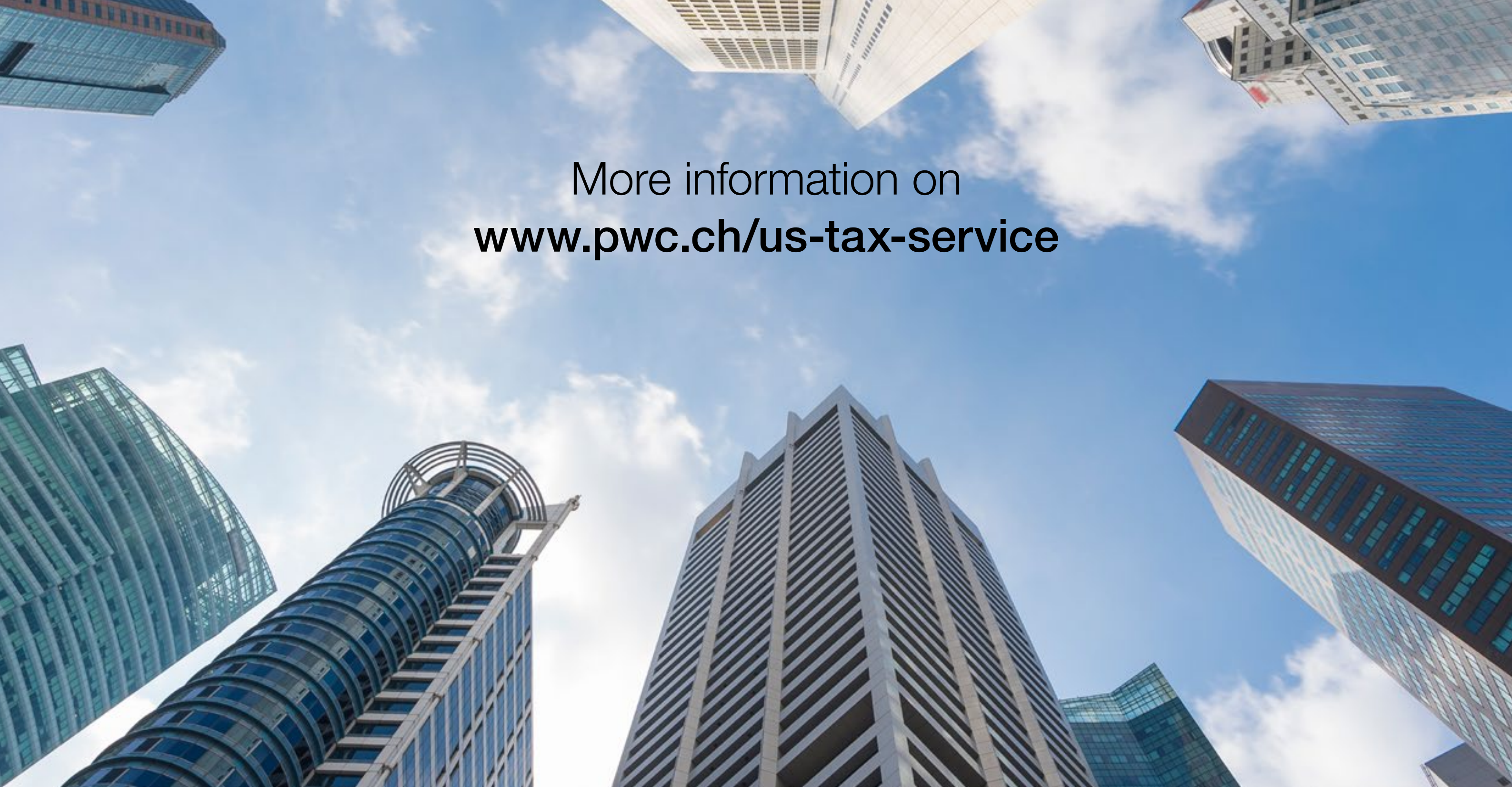
The tax implications surrounding PFICs are complex and multifaceted. Under the default taxation regime stipulated in Section 1291, excess distributions and gains from the disposal of PFIC shares are subject to tax at the highest rate applicable to ordinary income, augmented by interest charges for the deferral period. This can result in substantial tax liabilities for US persons holding PFIC shares.

Alternatively, US shareholders have the option to make elections that can potentially alleviate the tax burden. The Qualified Electing Fund (QEF) election under Section 1295 allows shareholders to elect to include their pro rata share of the PFIC's ordinary earnings and net capital gain in their income annually. On the other hand, the Mark-to-Market (MTM) election under Section 1296 permits shareholders to recognise unrealised gains and losses on PFIC shares, which are then subject to ordinary income rates.



Our services

PwC's adept US Tax team in Zurich specialises in PFIC reporting and consulting services, delivering tailored solutions to banks, portfolio managers and investment firms. Our in-depth understanding of the PFIC regulatory landscape coupled with a client-centric approach ensures precise compliance and optimal tax positioning for our clients navigating through the complexities of PFIC taxation.



Contact our experts

Connect with the PwC US Tax team in Zurich to address your PFIC concerns and discover how we can assist you in navigating the PFIC regulatory maze.

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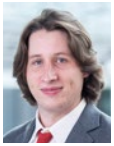

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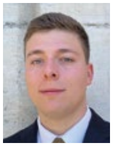

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