



# Reclaiming foreign dividend taxes

*Ensure your mutual funds and ETFs are returning value to the investors*

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Foreign taxing authorities are scrutinizing reclaim submissions of foreign dividend withholding more so than ever before. As these FTAs demand a stricter burden of proof prior to processing reclaims, billions in withholding dollars are at risk of not being returned to fund shareholders.

Many U.S. investors and funds have assets with foreign companies, including popular names like Nestlé (Switzerland), SAP (Germany) and Canon (Japan). These equities fall under local jurisdiction, and countries in search of more tax revenue are becoming more aggressive in collecting revenue on fund dividends. These taxes, as high as 35% in some countries, are automatically deducted before payout. Cumulatively, the foreign tax withholdings on dividends number in the billions each year.

However, the U.S. has bilateral tax treaties in place with countries for the return of withheld taxes to the funds. The treaties set thresholds for direct and indirect shareholders residing in the U.S. that, when met, increase the amount of dividend taxes that can be reclaimed from foreign tax authorities. These allow the funds to avoid the higher tax rate and recoup more of their assets.

Standards for proving a successful reclaim, though, are stricter than ever. Using Broadridge's Global Tax Reporting Solution, asset managers can supply irrefutable proof that is accepted by foreign tax authorities.

## **BILATERAL TAX TREATY COUNTRIES**

Australia	Finland	Ireland	Spain
Belgium	France	Japan	Sweden
Canada	Germany	South Korea	Switzerland



## HOW FUNDS ARE LOSING OUT ON BILLIONS

In omnibus accounts used by recordkeepers and retirement plans, it is cheaper and more convenient for registered investment companies to roll the assets together and perform summary trades rather than work at the individual account level. However, summary trades fail to disclose residency. This means asset managers cannot prove that the percentage of underlying U.S. shareholders surpasses the threshold for reclaiming the global tax. It is important to note that it is the investor's country of residence, regardless of citizenship, that determines whether they are a U.S. shareholder.

Reclaiming the 35% dividend tax withheld in Switzerland, for example, requires that at least 95% of shareholders reside in the U.S. In the past, a funds' prospectuses or extrapolated samples of individual investor data sufficed as proof that the fund ownership surpassed the threshold for successfully reclaiming a global dividend tax. Now, more due diligence is needed to prove a reclaim.

## COUNTRIES WITH THE HIGHEST FOREIGN TAX RATES AND THEIR STATUTES OF LIMITATIONS

Country	Dividend tax rate	Statute of limitations
Switzerland	35%	3 years EOY
Australia	30%	7 years P/D
Finland	30%	5 years EOY
France	30%	2 years EOY
New Zealand	30%	4 years*
Sweden	30%	5 years EOY

\* 8 years EOY for income paid through 3/31/2013



## TIMING IS EVERYTHING

Even with the data to verify the percentage of underlying U.S. shareholders, funds could forfeit their reclaims if they are slow to act. The statute of limitations for initial reclaim will vary by region, but generally is around two to five years. While that might seem like ample time, the processes for preparing and filing a reclaim can be time-consuming, especially when dealing with reclaims spanning multiple countries, years and investment vehicles.

In cases where an initial claim is rejected, registered investment companies have another set timeframe before re-submittal opportunities are exhausted. With governments putting more of the onus on asset managers to prove their cases, those windows of opportunity can slam shut faster than you might think.

Settling dividend reclaims as quickly as possible is also crucial for investor relations. Investors that move out of a fund while a reclaim is being processed might miss out on the dividend reclaim entirely. Further, proactively recouping money owed can help build trust between individual investors and asset managers, supporting long-term retention and increased asset allocation.

## SUCCESSFUL RECLAIMS ARE NOT THE END OF THE LINE

As part of a reclaim, asset managers will either have to work with the IRS or take foreign tax credits. If the IRS closing agreement method is used, the IRS imposes an 85% tax on the reclaim amount.<sup>1</sup> Exceptions regarding tax-exempt accounts and retirement accounts (IRAs, 401(k)s, and defined contribution plans) also require proving your position with definitive data.

Choosing to take foreign tax credits can sometimes be more beneficial to shareholders. The decision on whether to pursue an IRS closing agreement or a foreign tax credit would depend on the net return of the reclaim.

## PURSUIITS REQUIRE CROSS-FUNCTIONAL TEAMS

The growing complexity around reclaims with foreign tax authorities requires a team of experts for each phase. Keep in mind that there will be instances where, even if your shareholders are entitled to a reclaim, the costs of pursuing it will not be worth the effort when you weigh the labor costs, fees, foreign exchange rates, etc.

## Global Tax Reclaim Report

### Bruckner Funds

Country	CUSIP	Fund Name	Shareholder Accounts	Shares	Assets
<b>Portfolio name: Bruckner Emerging Markets Fund</b>			<b>Position date: 12/31/2021</b>		
FRANCE	BR999F880	Bruckner World Equity Fund Ordinary Class	22	7,246	\$136,736
JAPAN	BR999F880	Bruckner World Equity Fund Ordinary Class	11	1,397	\$26,361
SINGAPORE	BR999F880	Bruckner World Equity Fund Ordinary Class	11	2,657	\$50,132
SWITZERLAND	BR999F880	Bruckner World Equity Fund Ordinary Class	11	3,261	\$61,536
UNITED STATES	BR999F872	Bruckner World Equity Fund Institutional Class	2,486	1,015,886	\$19,423,733
UNITED STATES	BR999F880	Bruckner World Equity Fund Ordinary Class	10,241	5,122,696	\$96,665,266
<b>Summary for Bruckner Emerging Markets Fund</b>			<b>12,782</b>	<b>6,153,142</b>	<b>\$116,363,764</b>

Sample of a quarterly Global Tax Report for a fund.



When an asset manager decides to pursue a reclaim opportunity within a jurisdiction, a designated subject matter expert will typically lead the filing process with support from a custodian that can help with documentation. Later, legal and compliance experts might be needed to provide expertise around a particular jurisdiction. It is prudent to have a governance structure in place for pursuing a claim, as any delay could threaten the window of opportunity.

### **VERIFIABLE DATA SITS AT THE HEART OF RECLAIM SUCCESS**

Data from a trusted authority will be the essential component for pursuing global tax reclaims. Broadridge Global Tax Reporting provides the substantiating details regarding shareholder residency that are accepted by foreign tax authorities. The innovative analytical tools use unprecedented transparency into shareholder data in annual reports that will confirm your tax reclaims. Use it to streamline tax processes and maximize shareholder gains.

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*Broadridge's Global Tax Reporting Solution can compile irrefutable proof that is accepted by foreign tax authorities.*

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### **ABOUT THE AUTHOR**

Creating solutions that help clients reduce risk and increase operational efficiencies, David Paletta has been with Broadridge since 2007. His professional experience of 40 years has focused on operations and business process re-engineering. He has managed large client service and technology departments and has taken on large enterprise projects focused on operations and risk mitigation.

Learn more about Broadridge Global Tax Reporting.  
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### **FOOTNOTES**

<sup>1</sup> Per IRS Notice 2016-10.

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