

Tax Reclaims: Adding Value in the New Low-Return Landscape

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Objective: Education

- Current Global Market Conditions
- Increased Compliance Pressures
- The Tax Reclamation Process
- Market Updates and Statistics
- Statute of Limitations Periods
- About GlobeTax

Global Market Conditions

Overview

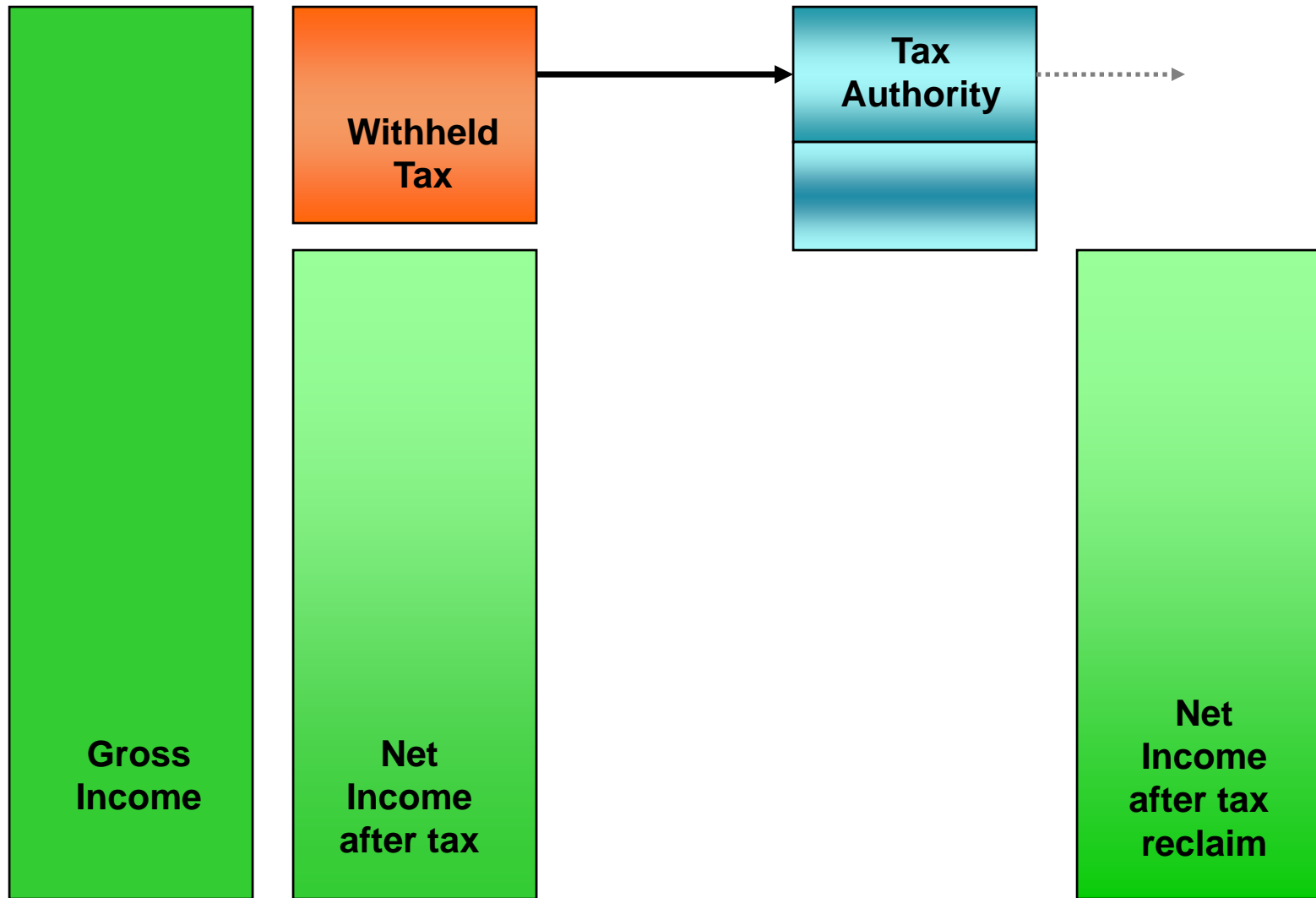
- The Dow and S&P 500 have fallen 50% since YE 2007
- Over \$7 Trillion has evaporated from U.S. equity markets alone
- Global credit crunch has led to a massive forced deleveraging
- Numerous high-profile frauds, e.g. Madoff, lead to reduced investor confidence and increased regulation
- By all estimates, remainder of 2009 will not bring a significant turnaround
- Harmonization of global tax and regulatory regimes are still in early stages

Tax Reclamation

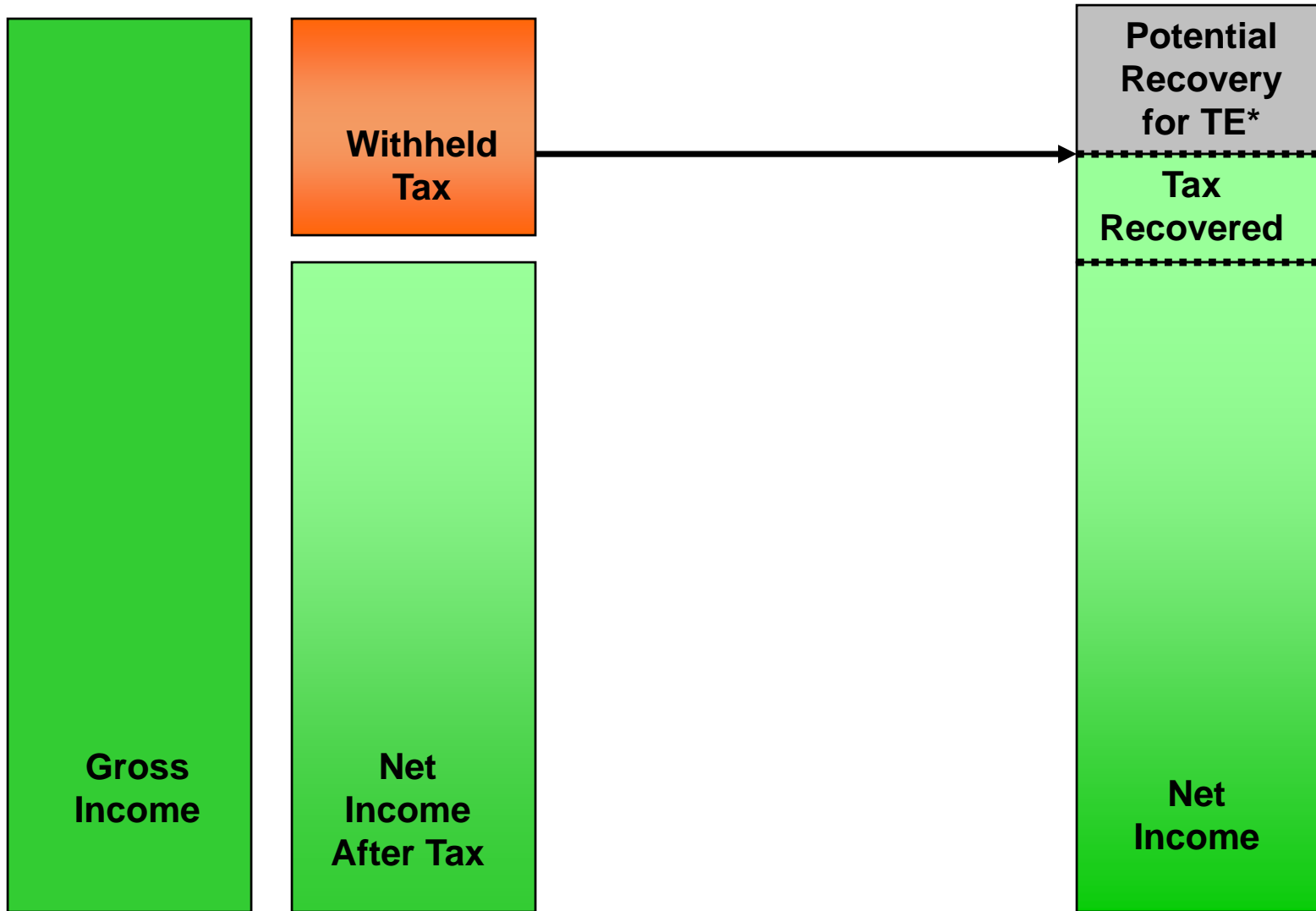
The Basics

- Investors are usually taxed on their cross-border investment income at high statutory rates
- Double taxation treaties between pairs of countries entitle most investors to lower tax rates
- Investors can often recover some (or all) of the tax withheld, which is a legal entitlement
- Engaging in tax reclamation can add 50-100 basis points a year to the average international portfolio (don't forget the impact of Statutes of Limitations!)

Withholding tax on cross border investment income



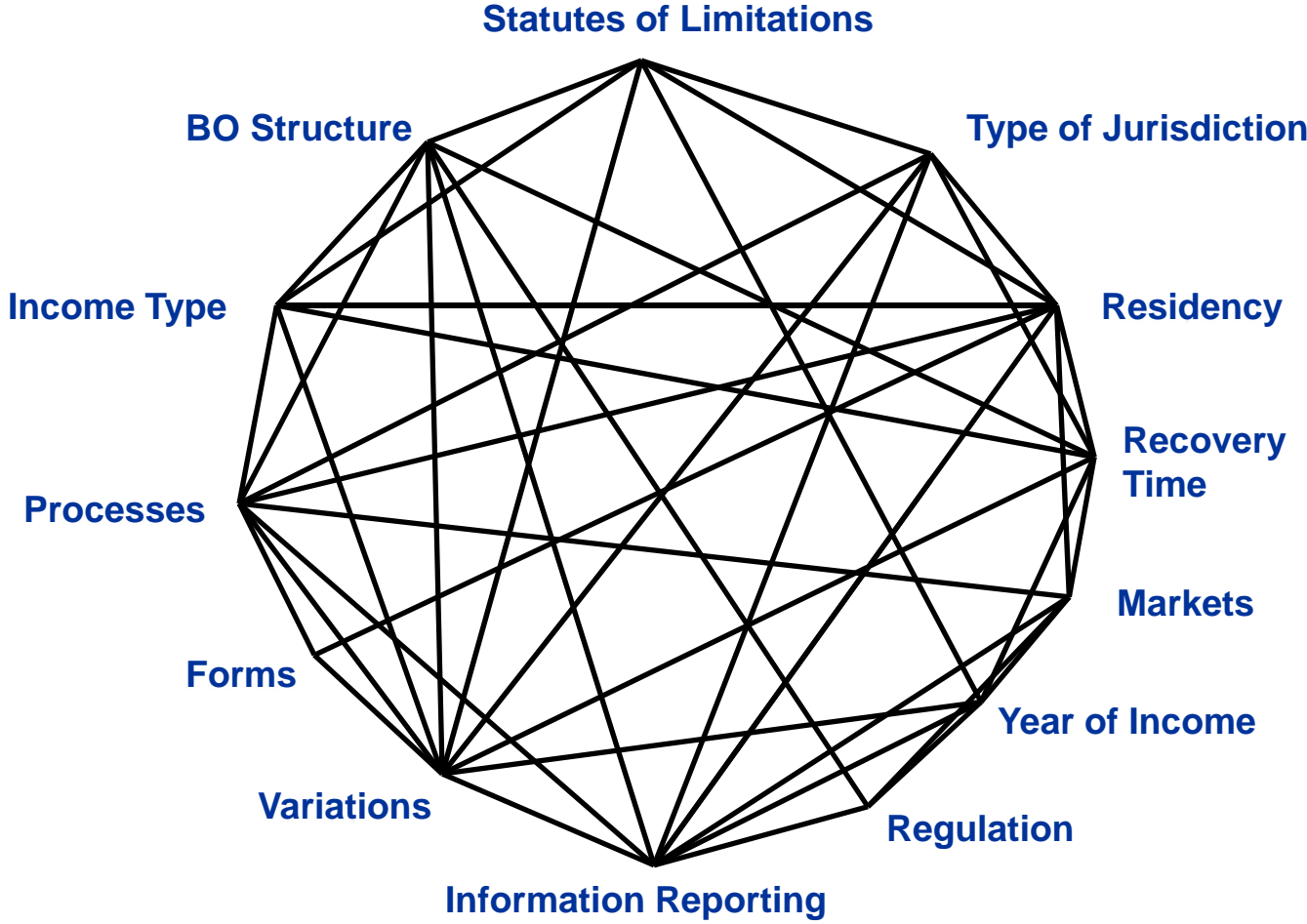
Post Tax Recovery



*Tax Exempts (Dependent on Jurisdiction)

Complex Process

Moving Parts



Compliance Pressures

Corporate Governance

- Post-Madoff , there is greater scrutiny of investment managers to ensure transparency and ethical behavior
- Recently, a bank in the Kansas City Federal Reserve District was ordered by the OCC to reimburse their clients for over-withheld tax that was not reclaimed on their behalf
- This pressure is coming from regulators as well as investors themselves for stronger controls

Regulatory Update

- **OECD / FISCO**

- Proposed harmonization model is combined Relief at Source and Long Form reclaim framework based on documentation and QI processing

- **US Section 1441 NRA**

- Account structures and compliance issues lead to maximum withholding (30%) for many investors
- IRS Notice 2008-98 / Consultation Paper proposes new controls on QIs
- US Treasury Blue Book 2009 proposes doubling penalties and removing caps for non-compliance or “intentional disregard”

Market Updates

- There is increasing complexity in the tax reclamation space, despite continued talk of harmonization
- Effective January 1, 2009, Germany has raised their statutory rate to 26.375% from 21.1%
- The Netherlands has changed the effective date for charities/pensions to be exempt from withholding tax. The date has been changed from 2007 to 2004.
- Under a treaty signed last year between Finland and Australia, dividends are subject to a 15% rate of withholding
- The statute of limitations on reclaims between Austria and Switzerland has been reduced from 60 to 36 months

Statutes of Limitations

Historic reclaims

- **Context**

- Dividends and interest received on cross-border investments in 2008 and 2009 likely to be smaller than in past years

- **Opportunities**

- Those engaging in tax reclamation for the first time may be eligible for multiple years of historic reclaims
- The average cross-border portfolio can see a gain of 50-100 basis points a year from tax reclamation.
- Statute of limitation periods average 3-5 years in most markets; the initial recovery can represent a gain of up to 500 basis points

Statutes of Limitations

Variations

- **Types**
 - Paydate of income event
 - End of calendar year following paydate
 - Tax return filing date
 - End of jurisdictional tax year

Statutes of Limitations

Popular Markets

Australia:	10 Years	Japan:	5 Years
Austria:	5 Years	Korea:	3 Years
Belgium:	3 Years	Netherlands:	3 Years
Canada:	2 Years	New Zealand:	8 Years
Denmark:	3 Years	Norway:	3 Years
Finland:	5 Years	Portugal:	2 Years
France:	2 Years	Spain:	2 Years
Germany:	4 Years	Sweden:	2 Years
Ireland:	4 Years	Switzerland:	3 Years
Italy:	4 Years	United States:	2/3 Years

About GlobeTax

- Volumes Processed: 2,000,000+ reclaims per year
- Clients resident in 40 countries
- Offices: New York, London, Milan
- Outsource service provider for all DR Depositaries: BNY Mellon, Citi, Deutsche Bank and JPMorgan Chase
- Research: 230+ Jurisdictions
- Filing Capabilities: For Ordinary Shares, ADRs, NY Registry Shares (NYRSs), in all markets with reclaim processes in place
- Founded: 1992

Question and Answer

Q: Which markets are the most valuable for tax recovery, based on withholding rates and Statutes of Limitations?

A: As examples, Switzerland, Germany, Australia and New Zealand all present excellent opportunities for tax reclamation. Switzerland and Germany have relatively high rates of withholding (35% and 26.375% respectively), meaning that investors in these markets may have a significant amount to gain from recovery. Additionally, in Switzerland pensions are generally exempt and are eligible to recover ALL of the withholding. Germany extends the exempt rate not only to pensions (effective 1 Jan 2007) but to charities/endowments as well. As well, pensions are eligible for tax-exempt status in Australia. In New Zealand, regardless of whether the investor's home country has a treaty with New Zealand, charities are entitled to exemption under NZ law. These markets also benefit from generous statutes of limitation (10 years in Australia, 8 years in New Zealand). Remember, these are only some examples; there are many other markets which provide similar opportunities for recovery.

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