

Globe Tax Rolls Out Reclamation Service Bureau

NEW YORK — Reclaiming taxes on cross-border stock transactions is becoming easier as New York- and London-based tax recovery specialist **Globe Tax Services, Inc.** prepares to offer TaxReclaim Service Bureau, an electronic version of its services which will leverage securities and investment firms' connectivity to SWIFT to automate tax processing.

More than \$100 billion may have been over-withheld by foreign governments in any year, estimates Ross K. McGill, Director of Marketing, Globe Tax Services. Globe Tax continues to use a proprietary data format to receive clients' information needed to calculate the value of any potential tax reclaim. Globe Tax spent 14 years creating its proprietary software, which automates most of the withholding-tax process. "We decided rather than sell that system or license it, we would use it to provide an outsourcing service," says McGill. TaxReclaim Service Bureau began operating as of this month. Individuals, fund managers or corporations that own foreign shares as a beneficial owner are all subject to withholding tax, explains McGill.

If the shares owned are cross-border, when the foreign company issues a dividend, by law, the foreign government can deduct withholding tax (the "statutory" rate). The net amount is sent back to the owner or to an intermediary, such as a custodian or a broker. A shareholder can be overtaxed, however, because many pairs of countries have double-tax treaties allowing certain beneficial owners to be taxed at a lower rate, says McGill.

If a stockholder owns French equity shares, for instance, they are taxed at 25 percent. But a treaty between the US and France entitles some US sharehold-

ers to be taxed at 15 percent. "That leaves a 10 percent gap, which the French tax authorities sit on," he says. It could be assumed for every \$500 million in total assets, there would be almost \$2 million in reclaims.


Since many funds typically invest up to 33 percent of their portfolios cross-border, investment managers, brokers with proprietary and client accounts, and custodians have a withholding-tax issue because of double-tax treaties. The shareholder may recover the difference between the statutory withholding rate and the treaty rate. Typically, however, less than 10 percent ever gets back to owners, according to McGill. Most top echelon global custodians do tax reclaims for their clients. But many shareholders never recover any tax.

The next consideration for the shareholder is statute of limitations. "All the major markets have statutes between one and five years, so if you miss the statute of limitations, the money is no longer your entitlement," he says. "If there are about five years worth of statutes, the shareholder is looking at somewhere between \$9 million or \$10 million."

Globe Tax acts for clients at all points in the investment management chain, from representing beneficial owners directly, to custodians or prime brokers who want to outsource the work on behalf of their clients. **Union Bank of California (UBC)** outsources to Globe Tax. It is difficult for many organizations to move forward with straight-through processing (STP) in a banking environment, mainly because if they are doing tax reclamations in their own shops, two-thirds of the process is manual. "If they outsource it to Globe Tax, it gets them closer to STP," says McGill.

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UBC has an agent network around the world and provides custody services for its clients, according to Michael Daly, Manager of Risk Management and Control, Trust and Operations and Trust Systems. Daly's responsibilities include pricing assets, reconciliation and risk mitigation. Prior to using Globe Tax, UBC had a department that dealt with tax reclamations. The process can be quite complicated from country to country. “My experience with Globe Tax Services has been phenomenal, because they bring things to your attention,” says Daly. “We have come up with a program that is very efficient with assets located around the world, making the appropriate reclamation from the individual countries.”

UBC is now focused on tax reclamation involving American Depositary Receipts (ADR), an instrument backed by foreign assets, notes Daly. “Not all organizations take advantage of that opportunity,” he says. “My current focus is getting 100 percent efficiency in the ADR process. That can be a significant amount considering all the clients that are eligible and may not have taken advantage of it.”

Daly points out that Globe Tax has good connections and communications in the individual depositories around the world and keeps up with information. “They are proactive and make sure that when there is an opportunity coming up, the client is notified that they need to file the paperwork,” says Daly. “This allows us to go back four years and file reclaims.”

As Globe Tax sought to expand its service through its work with SWIFT, it discovered additional benefits. The firm created a model that gives custodians true STP on corporate actions while leveraging their SWIFT investment. “It allows the custodian to gain the benefits of standardization in the

messages,” says McGill. Because the TaxReclaim Service Bureau is based on SWIFT messaging, many custodians and asset managers already are receiving notifications of dividend distributions via SWIFT.

“They can automate the process completely so that instead of receiving a SWIFT message and then doing the manual work themselves, the SWIFT message can generate two other SWIFT messages, one of which identifies the beneficial owners, and the other telling how many shares they have for the dividend,” says McGill.

Typically, Globe Tax receives messages and data files from clients once a month, says McGill. Some clients send data files once a day. “Quite often when someone engages the company, they get a nice windfall they didn't think they were entitled to, because we go back five to ten years and make sure that if there is any tax to get, we file the forms,” says McGill.

SWIFT is expanding its community by making additional types of messaging and solutions available, including Globe Tax's TaxReclaim Service Bureau, intended for custodians, but also useful for SWIFT's asset management customers. “Why repeat the model in every institution?” says Linda Bookheim, Senior Business Manager, Partner Solutions, at SWIFT. “Why not outsource it to the people who have expertise?”

A customer using the service can order a Bank Identifier Code and register it on the TaxReclaim Service Bureau. “To use the Globe Tax service outside of SWIFT, they would have to build a proprietary link and manage it,” says Bookheim. “Somebody would have to write a script or pull or send a file daily to Globe Tax. It is more streamlined to use the connection they have through SWIFT.” □