

"RECLAIMING THE 'HIDDEN' TAXES ON OVERSEAS INVESTMENTS"

By
 Martin S. Foont, President *
 Globe Tax Services Incorporated
 New York City, New York

Every year global custodians, private banks and brokerage firms leave more than \$1-Billion of their clients' money unclaimed, uncollected and overseas! Clearly this is not the best fulfillment of their fiduciary responsibility.

This unclaimed money is the recoverable portion of the tax withheld on dividends of foreign securities, even if they are in American Depositary Receipts (ADRs). Typically these unclaimed, recoverable amounts equal or exceed 15% of the interest or dividend. Furthermore, this is after tax income. In 1995, more than half the recoverable amounts for ADR and a significant portion for foreign securities were left unclaimed. As global trading increases from the current \$1.9-trillion in foreign shares, reclaimable funds are also growing, but at the foreign tax authority rather than in clients' accounts.

Bilateral government tax treaties allow for the recovery of a significant portion of the withheld taxes. For many countries, these taxes range from 25%-50% of the gross dividend. The treaty tax rates are approximately 50% less than the statutory withholding rates. That means that a large sum can be reclaimed. So, in fact, the key to better performance lies within the existing portfolio by collecting your full entitlement.

Owners of cross-border securities rely on their trustees, custodians, or service provider to assemble the necessary documentation, prepare the tax reclaim applications, obtain the necessary tax certification and file with the foreign tax authorities directly or through their respective agent banks in the issuing countries.

Most brokers and some global custodians do not offer the tax reclaim service. They might even think they are getting back the full entitlement. The subject area can be so confusing that in all too

* Mr. Foont is the President and founder of Globe Tax Services, Inc., the only independent provider of tax reclamation services.

many cases, they believe they are performing the service even when they are not. The major global custodians offer reasonably comprehensive tax reclaim services, but the quality varies enormously. They may forego reclaiming amounts below some set arbitrary level, or they may offer the service only to certain clients. What is more important, clients do not know about the reclaim process to which they are entitled.

Many investors who do not proactively go after the tax reclaim may believe they can write off the entire originally withheld amount or take it as a tax credit. The IRS permits a tax credit or deduction only for the irrecoverable amount. However, if you proactively go after the recoverable amount *and* deduct the irrecoverable amount, you will have the fullest return on your investment.

The following chart shows the power of tax reclamation for a handful of countries. For example, in Switzerland, for a dividend of 100, 35 is withheld and the investor's initial credit is 65. If you are entitled to reclaim (all U.S. entities are entitled to reclaim), you can file for and collect an additional 20, bringing the total received to 85.

Recently, Morgan Stanley stated that 80% of the worthwhile investments are outside the United States. Institutional portfolios continue to increase their overseas holdings because these investments have such growth potential. The portion allocated to foreign investment, currently at 6%, is expected to grow to 20%-30% of the total portfolio by the end of the century. By then, it is anticipated that U.S. pension funds will hold \$725-billion in foreign securities, or about 12% of the total portfolio. A shift to 15% would add \$3-trillion to cross-border equity flow.

Knowledge about this tax reclamation process is true empowerment for today's investor. It is the other side of "let the buyers beware" because it tells the purchasing agent that she or he is dealing with an "informed customer." Investors should satisfy themselves by demanding to see written evidence of the "credits" from the tax reclamation to their accounts. If they don't demand the reclaim of the full amount due, it is equivalent to walking away from their own money—something neither customer nor custodian should allow.

HIGHER INCOME FROM YOUR INTERNATIONAL INVESTMENTS

PROACTIVELY RECLAIM YOUR WITHHELD TAXES ON ADRs AND FOREIGN SECURITIES

COUNTRY	DIVIDEND	TAXES WITHHELD	DIVIDEND RECEIVED (PASSIVE)	RECOVERABLE TAXES	DIVIDEND RECEIVED AFTER TAX RECLAIM (PROACTIVE)
AUSTRALIA	100	25	75	10 or 25	85-100
CANADA	100	25	75	10 or 25	85-100
FRANCE	100	25	75	25 or 52.5	100-127.5
GERMANY	100	26.875	73.125	16.875 or 26.875	90 -100
ITALY	100	32.4	67.6	17.4	85
NETHERLANDS	100	25	75	10 or 25	85-100
NEW ZEALAND	100	25	75	10 or 25	85-100
SPAIN	100	25	75	10	85
SWITZERLAND	100	35	65	20	85

Important Notes:

The unrecoverable portion of the funds withheld may be taken as a tax credit or deduction.

- Australia non-taxable entities (e.g.: pension, charities) can recover the full 25 withheld.
- Canada non-taxable entities (e.g.: pensions, charities) can recover the full 25 withheld.
- France non-taxable entities can recover 25 while a taxable investor can recover 52.5. (Yes, 52.5, *not* a typographic error)
- Germany Charities can recover the full 25 withheld.
- Netherlands non-taxable entities (e.g.: pensions, charities) can recover the full 25 withheld.
- New Zealand non-taxable entities (e.g.: pensions, charities) can recover the full 25 withheld.