

Tax Withholding News

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prepared by **GLOBETAX**

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Pro Rata Temporis

GlobeTax is known for being at the cutting edge of developments in varied facets of withholding tax. Most recently the firm has entered the incredibly complex area of Italian substitute tax, commonly known as "Pro Rata Temporis" (PRT).



In the Italian tax system, withholding tax on bonds is calculated based on the pro-rated time that a beneficial owner held the bond. This calculation is further complicated by a number of factors including:

- the way the bonds are held, bought and sold through chains of intermediaries;
- the fixed dates associated with the bonds (e.g. coupon payments and redemption);
- the purchase and sale dates;
- the beneficial owner's residency; and
- the type of bond involved.

The calculations themselves are just part of the challenge. Any financial institution outside Italy with relationships to non-Italian beneficial owners is considered a "First Level Bank" and must have a reporting affiliation with an Italian financial institution (a "Second Level Bank"). The First Level Bank must make the calculations, arrange debit and credit accounts to manage the tax itself, and file reports to the Italian tax authority. Anecdotally, we have heard that some financial institutions perform these calculations manually, sometimes using a team of up to fifty people, whilst others simply do not allow trading in these instruments at all unless the purchaser is in a 'white list' country where the tax does not apply.

GlobeTax developed a fully automated system to support Italian PRT calculations. The new system, which is built into ESP — our Electronic Submission Portal — is in its final stages of user acceptance testing with one of our newest CSD clients.



Ross McGill discussing regulation, standards and automation at SIBOS 2014's Open Theater.

sibos BOSTON
29 Sep - 2 Oct 2014



SIBOS 2014 Open Theater

GlobeTax was delighted to make an industry presentation to the delegates at this year's SIBOS conference in Boston. We provided updates to several initiatives including: automating market announcements with XBRL; automating complex tax processing using trade data; and the future Authorized Intermediaries model. GlobeTax co-presented a case study with globeSettle, a London Stock Exchange Company and one of the newest and forward thinking CSDs.

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XBRL-US Update



Live XBRL projects around the world

The XBRL-US conference held September 15-17, 2014 in Bellevue, Washington provided for a comprehensive update on various XBRL projects ranging from the mature to nascent.

XBRL fulfills a reporting structure mandated by the SEC for public companies filing their 10-K and 10-Q reports. XBRL (eXtensible Business Markup Language) which uses an XML schema is a highly malleable data format standard which has a variety of uses. Until recently, the only place XBRL has been used is within financial and tax reporting. GlobeTax has been a key player in the XBRL Corporate Actions Pilot launched in 2011. The Pilot demonstrated how XBRL can be used in corporate actions processing to support STP.

The conference provided complete updates on XBRL usage and also gave the opportunity for users to hear business cases for the aforementioned Pilot as well as uses in other industries such as construction where XBRL is being used by the various counterparties for large projects to support the passage of information necessary to support

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Navigating Custody Chains

The custody landscape is changing more rapidly today than it ever has with new regulations across the world. Some of these, like AIFMD, CSD-R, FATCA and T2S, present challenges and opportunities for new players to enter the asset servicing space.

Traditionally, country level custodians have operated a custody network so that their customers can access foreign markets. As a consequence there are often withholding taxes levied on income derived from those cross border investments. The local custodians rely heavily on the expertise of their network counterparts however, they often struggle to provide complete tax relief and reclaim service. They may find it challenging to support some complex client types (e.g. Partnerships), instruments types (e.g. ADRs) or even some of the more difficult markets.

Central Securities Depositories (CSDs) are increasingly stepping into this space, traditionally the purview of the top-tier global custodians. While these organizations perform other core services, their position between many of what would otherwise be counterparties in a complex network gives them the ability to create new centralized services. Among these are tax services. CSDs are well placed to collaborate with GlobeTax to create a centralized, standardized and automated service to allow all their counterparties to access a single, scalable tax relief and reclaim service. The first such CSD to embark on a tax services offering is London Stock Exchange Group's Luxembourg based CSD, globeSettle.

Our already successful electronic submission portal - ESP will be used to allow globeSettle's participants to submit claims electronically. ESP will maintain a tabulation showing the total of each participant's position at the CSD controlling the total position that can be claimed, a feature which delights tax authorities as it creates a closed system eliminating the possibility of duplicate claims (yes, believe it or not, this can be a problem). ESP also has automated on-line reporting in real-time allowing each participant to see the status and progress of their claims. The system is initially triggered for all participants by 'Market Announcements' which are similar to DTCC Important Notices used for ADRs in the US.

GlobeTax works with Issuers and CSDs to enrich corporate actions announcements with the tax relief and reclaim information necessary for downstream participants to understand what they need to do and the appropriate timeline in order to get their clients any available tax entitlements. Highlighting GlobeTax's position in this market, these announcements are created with embedded XBRL tagging which is ISO20022 compliant. This means that all CSD participants, large and small, can benefit from having low cost machine readable notices, thus reducing re-keying time, errors and costs.

Finally, the system is built to allow for cascaded submission. Historically it has been almost impossible for any beneficial owner more than one level away from

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eTaxData Online

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eTaxData – Simplifying Reference Data

eTaxData's extensive online database, which includes withholding tax rates and treaty rates, allows our clients to review historical tax levels, a useful tool in the assessment of future investment and trading strategies. Subscribers have the ability to research on various levels, e.g. beneficial owner, countries of investment and year of income for targeted results. Through our Market Notes section, eTaxData tracks any current or future changes on tax withholding information including rates, treaty updates etc.

Custodians, broker dealers, asset managers and other financial institutions can use eTaxData for planning, research, client service and sales as an added value service. Principal and Agency Securities Lending business units find this tool particularly useful when booking a loan especially if/when a third party lender is involved. eTaxData mitigates the tax withholding risk on a dividend payment, either ADR's or Foreign Ordinary shares, during the lifecycle of a loan by identifying the proper entitlement rate.

Metrics	Residencies	230+	Jurisdictions	230+
	History	2001-2014	Beneficial Owner types	8
	Data Points	7+ million	Market Notes	7,450+

For additional information email us at Info@GlobeTax.com.

Protecting ERISA Beneficiaries' Best Interests

In 2013 Pension Funds experienced 12% asset growth. Additionally nearly 30% of US Pension Funds' assets allocated to equities are in foreign investments. Despite the recovery following the financial crisis of 2008, pension funding gaps still persist in many cases. Regardless of a particular fund's situation, easily available ways to increase returns - without additional risks - are available. An actively managed program of reclamation of foreign tax withholdings is an effective means of increasing fund returns.

Since there are increasing regulations defining fiduciaries and their roles in protecting the rights of beneficiaries, not recovering all monies due pension funds could be construed as a breach of fiduciary duty.

Funds are often able to retain maximum levels of earnings for the benefit of the funds' beneficiaries, thus eliminating the need for additional government



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Market Updates*

Updates reflect changes made through September 15, 2014.

Italy: Effective July 1, 2014 statutory withholding tax rate applicable to dividends and interest increased from 20% to 26% .

Puerto Rico: Effective July 1, 2014 statutory withholding tax rate on dividends paid to individuals increased to 15% from 10% .

Spain: Proposed to be effective January 1, 2015 statutory withholding tax rate applicable to dividends and interest from unlisted bonds will be reduced from 21% to 20%; **proposed** to be effective January 1, 2016 statutory withholding tax rate applicable to dividends and interest from unlisted bonds will be further reduced to 19%.

Spain/United Kingdom: Effective June 12, 2014 under the Spain/UK treaty, the withholding tax rate on dividends is reduced to 10% to 15%. In addition, pension funds are now exempt as of the same date.

**Not an exhaustive list.*

For information on subscribing to our data services, please e-mail: eTaxDataOnline@GlobeTax.com

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XBRL US

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the issuance of Surety bonds. There has also been some discussion of using XBRL in the area of digital medical records.

The exciting part (if standards is your thing) is how easily items can be added to the taxonomy and then how quickly they can be used in a production environment. XBRL has been called a bridge, meaning that by using XBRL, one can benefit from usage of standards without the heavy lift often required to implement the requisite technology. While it is ISO 20022 compliant, for a non-bank, many of the implementation issues one might experience when moving to a standard, simply go away. Our hope is that the benefits will continue to be recognized by the financial services community and others when moving forward with implementing standards around data transmission.

Navigating Custody Chains

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a local custodian to obtain relief or reclaims – simply due to a lack of time, or a simple mechanism able to roll up claimable positions through a single or series of omnibus accounts. ESP is able to handle up to five levels while maintaining confidentiality between the links in the chain.

With this new CSD offering, GlobeTax is meeting the industry's need to have consistent, reliable and robust automated solutions to an increasingly complex but extremely valuable area. If you'd like to know more, please contact your nearest GlobeTax office.

Protecting ERISA Beneficiaries' Best Interests

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or fund member contributions to cover taxes on earnings. Under many double taxation treaties, pension funds - as tax-exempt entities in their home markets - are not liable for taxation on investments by overseas governments. However, given that beneficial owner identity is rarely upstreamed to foreign tax authorities, portfolio earnings are generally subjected to withholding at maximum "statutory" rates. In most applicable cases, treaty-based entitlements are obtained via reclamation processes put in place by the foreign tax authorities. Reclaim applications may generally be filed from the time of a dividend payment up through a Statute of Limitations period, typically two to five years after the income event, depending on the country of investment. Most major jurisdictions permit tax recovery on prior period income, up to the expiry of a Statute of Limitations. Historic recoveries can result in a one-time recovery windfall. Current period recoveries are processed as dividend and interest income are generated. If no reclaim application is filed by the date of expiry of the Statute period, the right to reclaim typically expires.

Committing to a process to obtain refunds of tax withheld on foreign investment income would mitigate that risk. Given that much if not all of the withholding can be recovered for many pensions, the impact on investment performance for the foreign equity allocation can range as high as 50-70 basis points annually. At that level, the activity can provide tremendous long term benefit for the fund and its beneficiaries.

Upcoming Events

SPARK Forum
Palm Beach, FL
November 2-4, 2014



NeMa Asia
Shangri-La, Singapore
November 11-12, 2014



HFC Atlanta Benefit
Atlanta, GA
November 13, 2014



FRA Effective Hedge Fund Tax Practices
New York, NY
November 18 - 19, 2014



For event information please visit
GlobeTax.com/EventsEducation.aspx

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If you have any inquiries or would like to have your name added to our distribution list, please contact us at:

Education@GlobeTax.com

Contributing Writers:

Len A. Lipton, Editor, Managing Director
Ross K. McGill, Editor, Managing Director
Jheramis A.H. Collado, Senior Marketing Associate
Michael Finck, Managing Director
Frank Froio, Managing Director
Sharon Hirschhorn, Director
William Treut, Managing Director
Rob White, Marketing Assistant

www.GlobeTax.com

New York, NY	Tel +1 212 747 9100
London, England	Tel +44 (0)20 7096 2162
Hong Kong	Tel +852 3960 6575
Madrid, Spain	Tel +34 606 377820
Sydney, Australia	Tel +61 (0)2 8667 3133