

Is a Complicated Tax Reclaim Process Leaving Pension Funds Out-of-Pocket?

As an investment manager, the importance of optimizing foreign withholding tax (WHT) relief and recoveries cannot be overstated. Reducing tax drag has an appreciable effect on investment performance, especially when refunds are recovered quickly and reinvested over an extended period. However, the increased complexity and volume of documentation required by international tax authorities has imposed serious challenges on investors trying to prove their eligibility for more preferential tax rates. Arguably, there is no single group of investors impacted more by these challenges than pension funds.

The most prevalent challenges in the WHT space are the lack of awareness of available relief & reclaim mechanisms and insufficient resources to handle the administrative burden. In general, pension funds are tax-exempt in their home country and can be eligible in many foreign jurisdictions for more preferential tax treatment of their investment income. Despite the availability of tax exemptions from foreign tax authorities, pension funds do not always maximize their tax relief and reclaim opportunities because, in most cases, the onus is on the pension fund to prove its tax-exempt status.

Where does one begin?



To reduce foreign WHT leakage, pension funds start by applying for Relief at Source through a process that is usually facilitated by the custodian bank. Not all foreign investment markets offer Relief at Source, so if tax relief is not available or was not successfully captured in time, the pension fund must file a WHT reclaim to refund the excess tax.



Where pension funds are entitled to file a tax reclaim, an accrual is usually recorded, and it is the responsibility of the pension fund's finance/operations team to provide the custodian bank with the information and applicable documentation to support the tax claim. Once the information is provided, the tax reclaim is filed by the custodian or the respective sub-custodian. Ultimately, if the tax claim is unsuccessful, the accrual will be written off. Simply submitting a claim does not ensure a successful refund.

Which issues do pension funds typically struggle with?

The process to reclaim foreign WHT seems straightforward, but there are several common issues that can inhibit a pension fund from recovering all eligible tax reclaims:

Identifying all eligible reclaim value	There are specific reclaim methods and certain foreign markets which commonly fall outside the scope of most custodian bank service offerings. Pension funds may not be aware of additional reclaim opportunities unless they engage with a third-party tax reclaim specialist.
Classification challenges	Pension funds must ensure that their investment structure is accurately categorized when filing a tax claim to maximize the recoverable tax values. An inaccurate classification may result in a lesser refund or, worst-case, rejected claims.
Completion of tax authority documentation	The responsibility to provide answers and applicable supporting documentation is often left to the pension fund's finance/operations team. These teams often do not have access to clear guidance on the specific legislation and documentation required by the relevant tax jurisdiction. This often results in lengthy delays and may lead pension funds to focus their efforts on a smaller number of claims while leaving others to expire.
Tax office queries and rejections	As a result of numerous international tax fraud schemes uncovered over the past years, international tax authorities typically err on the side of caution when reviewing claim filings. In complex jurisdictions such as Switzerland or Germany, many pension funds are faced with queried or rejected claims which may require a significant investment of time challenging the claim in order to secure the refund. This process can remain ongoing many years after the tax was incurred.
Lack of oversight	Depending on the reporting provided to the pension fund, it is often difficult for finance/operations teams to know what to look for - which claims are expiring, why claims were queried, and who is responsible for addressing specific tasks. Inadequate reporting often leaves finance/operations teams under pressure from filing deadlines and unable to track the progress of claims previously worked on.

How can the reclaim process be simplified and improved?

WTax helps its clients navigate through this challenging process by offering a wholly-outsourced service on a success-fee basis. Our interests are always aligned with those of our clients, and we continuously enhance our procedures to yield the greatest success and efficiency in the reclaim process.

- A dedicated resource with a sole focus on foreign WHT recovery
- A detailed analysis to determine the appropriate investment structure classification in foreign markets and most preferential tax rates and reclaim methods available
- Access to expert tax and legal knowledge to assess historical reclaim opportunities and optimize future tax relief and reclaim efforts
- A strong understanding of tax authority requirements to address tax authority queries and expedite refunds
- Transparency into claim progress and tracking the success of claims submitted

Get in touch with WTax today

If withholding tax recovery has been an administrative burden or has not reached its full potential to increase investment performance, please reach out to WTax for more information.

KEY COMPANY FEATURES



WTax is part of the VAT IT Group with 40 wholly-owned offices globally



We service over 4,000 clients ranging from \$10M to \$1T AUM



We deal with over 150 custodians globally



Average recovery yield enhancement per client ranges from 40% to 60%

Contact Us

Ian Filion | CIM

Regional Director

E: ianf@wtax.co

T: +1 647 939 4960

WTax Canada

2 St. Clair Avenue West, 18th Floor
Toronto, ON

