PRIVATE WEALTH PORTFOLIO

HOW TO MINIMISE FOREIGN TAX ON DIVIDEND INCOME

INTRODUCTION

A tax advantage of acquiring a unit linked insurance policy is the availability of tax deferral or "gross roll up" within the policy. This ensures local taxation does not arise until the policyholder makes a withdrawal from the policy.

However, if the policy invests in equities, foreign taxation will arise in respect of withholding tax on dividend income within the policy.

Acquiring a Private Wealth Portfolio (PWP) policy with Utmost PanEurope ("UPE") can significantly reduce the foreign tax on dividend income from equity investments.

FOREIGN WITHHOLDING TAXES

When dividends are paid on equities, the country in which the company issuing the dividend is resident applies a withholding tax on the dividends. The standard rates of foreign withholding tax in some of the main countries are as follows:

ISSUER COUNTRY	STANDARD TAX RATE
Belgium	30%
Canada	25%
Denmark	27%
Finland	30%
France	25%
Germany	26.375%

ISSUER COUNTRY	STANDARD TAX RATE
Ireland	25%
Italy	26%
Portugal	25%
Spain	19%
Switzerland	35%
United States	30%

REDUCE FOREIGN WITHHOLDING TAXES

If an individual invests in equities directly, they will generally suffer the standard foreign withholding taxes.

If an individual invests in equities through a PWP unit linked life policy, they can substantially reduce the rates of foreign withholding tax as:

› UPE is the corporate owner of the equities;
› UPE is tax resident in Ireland;
› Ireland has an extensive double tax treaty network;
› UPE has a tax relief at source and tax reclaims service.

UPE, an Irish tax resident company, can lower the rate of foreign withholding tax applied under the terms of a Double Tax Treaty between Ireland and the domestic jurisdiction of the company issuing the dividend; or other domestic or EU provisions, which provide for further reductions or exemptions when certain conditions are satisfied by Utmost.

If UPE is entitled to a lower rate of withholding tax, the reduction can be claimed either by way of tax relief at source or by way of a withholding tax reclaim.

TAX RELIEF AT SOURCE

Tax relief at source ensures the additional foreign tax is never suffered by the PWP policyholder, as the company issuing the dividend will apply the reduced rate at the time the dividend is paid into the PWP policy. However, not all jurisdictions allow tax relief at source.

Examples of where UPE is entitled to tax relief at source include France, Ireland, Italy and the United States:

ISSUER COUNTRY	STANDARD RATE	REDUCED UPE RATE	BASIS FOR REDUCTION
France	25%	15%	Treaty
Ireland	25%	0%	Domestic relief
Italy	26%	1.2%	Domestic relief
US	30%	15%	Treaty

TAX RECLAIMS

When the reduced withholding tax rate is available only by way of tax reclaim, a specific reclaim must be submitted to the Tax Authorities of the country for a refund after the withholding tax has been suffered.

The Tax Authorities require detailed returns in the relevant language to be submitted along with extensive backup information (e.g. custodian dividend vouchers, sub custodian vouchers, payment confirmations, banks statements, UPE financial statements) before they will issue any refunds.

Therefore, the submission of the tax reclaims has been outsourced to WTax (a specialist withholding tax reclaims service provider) to complement the internal UPE tax reclaims team that manage the process.

Examples of where UPE has made tax reclaims and received significant reductions in the rates:

ISSUER COUNTRY	STANDARD RATE	REDUCED UPE RATE	BASIS FOR REDUCTION
Switzerland	35%	15%	Treaty
Germany	26.375%	15%	Treaty
Portugal	25%	15%	Treaty
Spain	19%	15%	Treaty
Belgium	30%	15%	Treaty
Finland	30%	0%	Treaty
Canada	25%	15%	Treaty
Denmark	27%	15%	Treaty

TAX RECLAIMS SERVICE

KEY STRENGTHS

Unique - no other insurance company offers the same service at the moment.

People - a core dedicated Tax Reclaims team inside the Technical Services team provides knowledge and expertise. Aidan Golden and Dean Hakaraia are the reference point for custodians, WTax and internal stakeholders.

Efficiency - WTax offers the centralisation of withholding tax recovery with one service provider.

CASE STUDY

In order to illustrate the additional investment returns of investing in equities through a UPE policy, we have considered the following case study.
A policy premium of €5,000,000 is invested in French, German, Italian, Swiss and US equities as follows:

ASSETS' LOCATION	France	Germany	Italy	Switzerland	USA	Total
AMOUNT INVESTED	€ 1,000,000	€ 1,000,000	€ 1,000,000	€ 1,000,000	€ 1,000,000	€ 5,000,000

It is assumed that the investment generates an annual gross dividend of 5% in every jurisdiction where the assets are located. The dividends are then carried over and reinvested in the same assets.

Disclaimer: This case study is fictional and used purely to illustrate the effects of the reduction of the withholding tax UPE is entitled to claim at source and by way of a tax reclaim.

SCENARIOS

We will consider and compare the returns in the following scenarios:

1. No action taken to reduce the withholding tax – this also represents the scenario where the investment is not made through a life policy.
2. Investment through a general life policy, where only relief at source is applied.
3. Investment through a UPE life policy, where relief at source and tax reclaims are in place.

The standard withholding tax rates, the treaty rates and the tax relief at source considered in this case study are those currently in force.

1. NO ACTION / DIRECT INVESTMENT

Withholding tax is deducted at a standard rate:

INITIAL INVESTMENT		STANDARD TAX RATE		NET DIVIDEND INCOME	
ASSETS' LOCATION	AMOUNT INVESTED	ASSETS' LOCATION	STANDARD TAX RATE	YEAR 1	YEAR 10
France	€ 1,000,000	France	25%	€ 37,500.00	€ 52,230.50
Germany	€ 1,000,000	Germany	26.375%	€ 36,812.50	€ 50,967.97
Italy	€ 1,000,000	Italy	26%	€ 37,000.00	€ 51,311.01
Switzerland	€ 1,000,000	Switzerland	35%	€ 32,500.00	€ 43,340.50
USA	€ 1,000,000	USA	30%	€ 35,000.00	€ 47,701.41
Total	€ 5,000,000	Effective rate	28.5%	Total € 178,812.50	€ 245,551.39

Total investment value after 10 years **€ 7,106,128.82**

2. INVESTMENT THROUGH A GENERAL LIFE POLICY

Only withholding tax **relief at source** applies (Italy and USA)

INITIAL INVESTMENT		TAX RELIEF AT SOURCE RATE		NET DIVIDEND INCOME	
ASSETS' LOCATION	AMOUNT INVESTED	TAX RELIEF AT SOURCE RATE	STANDARD TAX RATE	YEAR 1	YEAR 10
France	€ 1,000,000	15%	n/a	€ 42,500.00	€ 61,812.10
Germany	€ 1,000,000	n/a	26.375%	€ 36,812.50	€ 50,967.97
Italy	€ 1,000,000	1.2%	n/a	€ 49,400.00	€ 76,242.39
Switzerland	€ 1,000,000	n/a	35%	€ 32,500.00	€ 43,340.50
USA	€ 1,000,000	15%	n/a	€ 42,500.00	€ 61,812.10
Total	**€ 5,000,000**	Effective rate	**18.5%**	Total **€ 203,712.50**	**€ 294,175.06**

Total policy value after 10 years **€ 7,464,430.65**

3. INVESTMENT THROUGH A UPE LIFE POLICY

Withholding tax **relief at source** and **tax reclaims** are in place:

INITIAL INVESTMENT		WITHHOLDING TAX REDUCED RATE		NET DIVIDEND INCOME	
ASSETS' LOCATION	AMOUNT INVESTED	TAX RELIEF AT SOURCE RATE	TREATY RATE	YEAR 1	YEAR 10
France	€ 1,000,000	15%	n/a	€ 42,500.00	€ 61,812.10
Germany	€ 1,000,000	n/a	15%	€ 41,088.15	€ 59,034.26
Italy	€ 1,000,000	1.2%	n/a	€ 49,400.00	€ 76,242.39
Switzerland	€ 1,000,000	n/a	15%	€ 40,021.15	€ 56,973.00
USA	€ 1,000,000	15%	n/a	€ 42,500.00	€ 61,812.10
Total	**€ 5,000,000**	Effective rate[1]	**13.80%**	**€ 215,509.30**	**€ 315,873.85**

Total policy value after 10 years **€ 7,628,390.03**

[1] Effective rate reflects also fees incurred by Utmost in filing the tax reclaims

SUMMARY

BENEFITS OF TAX RECLAIMS

1. After 1 year, the application of tax relief at source increases the net dividend income by 12% (€ 203,712.50 vs € 178,812.50). The addition of the tax reclaims service increases the net dividend income of the investment by a further 5%. Therefore the policyholder sees their return increased by a total 17% compared to direct investment (€ 215,509.30 vs € 178,812.50).
2. The benefit of the tax reclaims service, in addition to tax relief at source, is evident after 10 years where the policyholder has their return increased by 22% compared to inaction / direct investment (€ 315,873.85 vs € 245,551.39). The application of the tax relief at source alone would increase the return only by 17% (€ 294,175.06 vs € 245,551.39).
3. As a result, after 10 years, a UPE policy value would be 7% higher than holding the portfolio directly (€ 7,628,390.03 vs € 7,106,128.82).

CUSTODIANS

POINTS TO NOTE

1. The success of the tax reclaims will depend on the provision of the appropriate data and backup information from the custodian.
2. Tax reclaims backup information must be supplied in respect of each individual dividend line and there is often a cost for the provision of sub custodian vouchers.
3. No tax reclaims will be pursued by UPE where the refund does not exceed the costs of pursuing the refund. This is particularly relevant for smaller dividend lines.

A WEALTH *of* DIFFERENCE

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