



State of Rhode Island
Office of the General Treasurer

Foreign Tax Reclaims/Relief - Staff Recommendation

October-2021

RECOMMENDATION

Staff recommends that the SIC hire WTax to serve a three-year term as the tax recovery provider for ERSRI.

PURPOSE

Reclaim foreign taxes withheld or provide relief at source for taxes withheld on certain non-US dividends.

Direct owners of non-US equity securities may be subject to a dividend withholding tax by certain foreign countries. The tax rates vary by country and range from 0% to 35%. ERSRI's portfolio is largely structured in a way to avoid this by holding non-US equity in commingled funds, which shifts the burden of reclaiming those taxes to the manager of the fund. However, QVM is a separate account and does create some foreign tax withholding on our direct non-US equity exposure in that particular account.

Staff has been working to reclaim foreign taxes in collaboration with the custodian. However, it is a time consuming and complicated task. As a result, as of 6/30/2021, it is estimated that there are approximately \$1.7 million in reclaimable taxes withheld. Furthermore, additional withholdings will occur every year and are estimated to be approximately \$1 million annually. Certain countries allow for ERSRI to file for "relief at source" which will remove the withholding burden for that year. Other countries withhold regardless and those taxes must be reclaimed.

Staff evaluated the situation and available resources to maximize our relief/reclaims. Internal resources lack the time and expertise to maximize the effect to the fund. Staff interviewed and evaluated multiple external service providers and is recommending WTax.

WTax will provide a full-service approach to relief and reclaims, interfacing directly with the fund's custodian. WTax will conduct all the administrative tasks including document creation, claim preparation, and dealing with all tax office inquiries. In addition to prospective relief/reclaim work, Wtax will conduct an examination of any open withholdings dating back as far as five years for potential reclaims.

FEES

WTax has proposed the following fee:

- FY 2022 - \$60,000 plus 8% of successful reclaims
- FY 2023 - \$61,000 plus 8% of successful reclaims
- FY 2024 - \$62,000 plus 8% of successful reclaims.