

# Has Your Plan Abandoned Assets in Foreign Countries?

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## The Background:

Since approximately 70% of worldwide dividends come from non-U.S. companies, it is likely that some portion of your plan's investment portfolio is invested in global investments. Did you know that the country of origin for a security is the country that levies and collects taxes on the investment income of that security? Did you know that most pension plans are entitled to file for a reclamation of all, or a portion of, foreign taxes paid?

The ability to reclaim taxes paid to a foreign country is due to tax treaty agreements between the U.S. and most of the nations where pension plans invest. Unfortunately, only a few Florida public pension plans are seeking the recovery of these overpaid taxes. Most (though not all) mutual fund and ETF companies effectively pursue global tax recovery on behalf of their clients. But this is rarely the case with investment managers, brokers, and the pension plan itself. If your plan is earning or has earned income on foreign investments the question is: How much of the hard-earned assets of the plan are you leaving behind?

A fiduciary to a pension plan is obligated to always act in the best interests of the plan. Fiduciaries protect the plan assets and ensure the welfare of the plan. There is no question in my mind that overpaid taxes, subject to reclamation, are an asset of the

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pension plan. Trustees should be aware of this important issue to ensure no plan asset gets left behind. As is the case in many of the responsibilities of a trustee, this duty can also be delegated to one of the plan's service providers. In my opinion, the custodian is best positioned to facilitate the reclamation process, and the investment consultant and the investment manager are best positioned to monitor the process.



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## “The process and paperwork will...differ from country to country.”

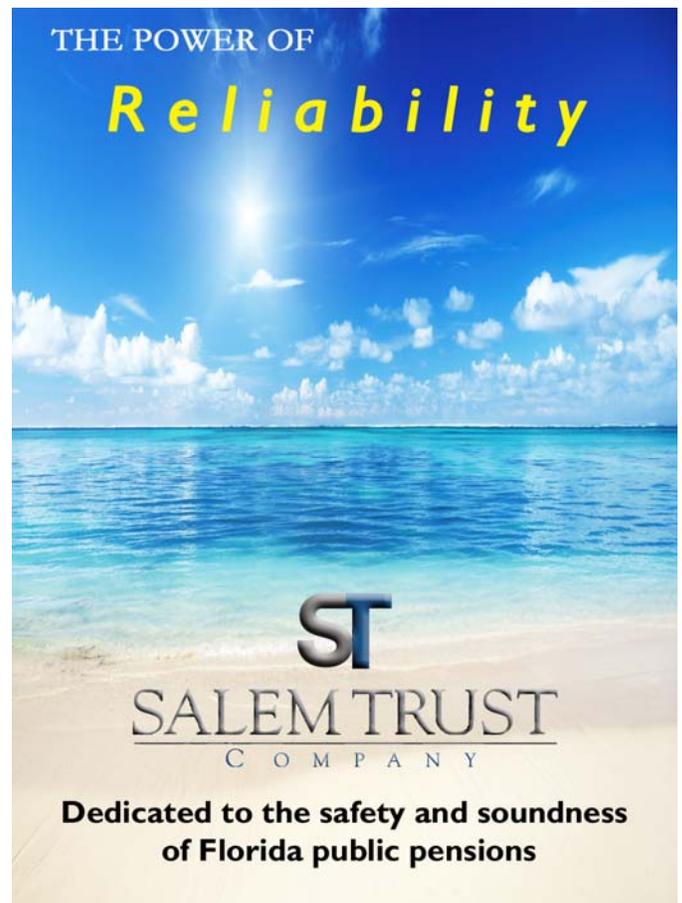
More than a year ago, after recognizing that many of our custodial clients were not aware of this aspect of global investment management, we analyzed our clients’ investment portfolios to discover the overall potential recovery opportunity. At that point in time, we estimated more than \$1.2 million in abandoned plan assets. As the custodian to pension plan clients, we are a fiduciary, and we organized and implemented an awareness campaign for our clients and non-clients and their service providers. We also, out of several reclamation solutions, identified one in particular that was a good fit for our clients, and one with whom we had previous experience.

### The process:

If your plan now holds or has held foreign investments—either directly via a stock or bond, or indirectly through an exchange-traded fund or mutual fund—it is possible that the plan has an unrecognized or unreported asset. The plan has a duty to attempt recovery of these funds, and will need to file reclamations with jurisdictions around the world. The plan could ask the administrator, attorney, CPA or any of the other current plan service provider to perform the reclamation process. In most cases, however, using a current plan provider is clearly not the best solution. There are many technical steps unique to the global asset reclamation process. The process and paperwork will also differ from country to country.

Additionally, the IRS’ annual Certification of Tax Residency Documentation Tax-exempt Status must

be filed annually. The plan’s portfolio needs to be analyzed to identify all aspects of the foreign tax collected, including the amount collected, when it was collected, in which country, if there is a tax treaty and, if so, what are the current terms, as well as which forms were filed. Of course, language barriers abound during this process. Some jurisdictions will reject the claim for a simple error, with no opportunity to amend or refile. Every nation also has a wide range of time frames within which an investor can reclaim taxes.



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## Finding the solution:

Based on all these challenges, very few Florida plans, nor their advisors, have the knowledge and infrastructure necessary to process their own reclamations. I recommend that a pension plan board discuss this matter with their investment consultant and their custodial services provider to discover the best solution. In most instances, the solution will be the hiring of a specialist with the necessary technology and topical knowledge of all global markets.

Most global tax recovery firms will charge fees based on the actual amount recovered. There are four main providers of global tax recovery services currently operating in the U.S. It is important to select a firm that offers beginning-to-end tax recovery service for all eligible markets, and one that does not require the plan's ongoing active participation. Please feel free to contact me if you want to know more about these different global tax recovery providers and the varying levels of service they offer.

## In the end, good news for Florida pension plans:

**“It is important to select a firm that offers beginning-to-end tax recovery service for all eligible markets, and one that does not require the plan's ongoing active participation”**

I believe that Salem Trust is the best custodian in the Florida marketplace. Unlike many larger organizations, custody service at Salem Trust is not an afterthought, or a service thrown in to entice a client to purchase other services. For a public pension plan especially, it is crucial to employ a custodian

that is independent of other service providers and able to protect the assets of the public employees for which it is entrusted. Because institutional custody represents 95% of our business, we are completely dedicated to a careful and thorough review of the many assets and actions required by a modern pension plan account.

Furthermore, by developing our own internal back room, we are going against the trend in the industry where many custody providers outsource their operations and securities movement services. We have found that we can serve our customers best with our own dedicated team.

***Mr. Rinsem is the past President & CEO of Salem Trust Company, the only Florida-based company specializing exclusively in custodial services for institutional clients. Mr. Rinsem frequently speaks at the FPPTA Trustees Schools and serves on the FPPTA Advisory Board. Mr. Rinsem has more than 40 years' experience in the financial services industry. He currently serves the Salem Trust Board of Directors as Vice Chairman.***

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