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EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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EY is a leader in serving the global financial services marketplace
Nearly 43,000 EY financial services professionals around the world provide integrated assurance, tax, transaction and advisory services to our asset management, banking, capital markets and insurance clients. In the Americas, EY is the only public accounting organization with a separate business unit dedicated to the financial services marketplace. Created in 2000, the Americas Financial Services Office today includes more than 6,900 professionals at member firms in over 50 locations throughout the US, the Caribbean and Latin America.

EY professionals in our financial services practices worldwide align with key global industry groups, including EY’s Global Wealth & Asset Management Center, Global Banking & Capital Markets Center, Global Insurance Center and Global Private Equity Center, which act as hubs for sharing industry-focused knowledge on current and emerging trends and regulations in order to help our clients address key issues. Our practitioners span many disciplines and provide a well-rounded understanding of business issues and challenges, as well as integrated services to our clients.

With a global presence and industry-focused advice, EY’s financial services professionals provide high-quality assurance, tax, transaction and advisory services, including operations, process improvement, risk and technology, to financial services companies worldwide.

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Appendix
1. International tax – Keep in mind

- **Deals:** mitigating risks and reviewing funds’ structures (review of placement memorandums)
- Consider tax efficient structures for investments
- Accessing sovereign exemptions and treaty networks
- Foreign tax withholding reclaims
- **FATCA** – monitoring and managing US reporting requirements and similar reporting requirements in other countries
- **Financial reporting** – evaluating and quantifying tax exposure in foreign countries for financial statement accrual
- **Individual global pension taxation** – Taxation of foreign pension accruals, including under IRC Section 402(b), and international social security policies
2. Investments in hedge and private equity funds

Some US tax treaties give special benefits for US pension trusts, if they are properly and timely claimed

- Investing through a blocker might affect availability of US tax treaty benefits.
- Hedge and private equity funds routinely use blockers which can block treaty benefits.
- Hedge and private equity funds are making alternative investments in aircraft leasing, shipping and real estate presenting tax risks that are different from investments in stock and securities.
- Sophisticated investors may create their own investment vehicle structure.
- Objectives may be tax minimization, access to reciprocal sovereign exemptions, access to treaty networks, administrative convenience, etc.

Each situation is different and needs to be analyzed by review of funds’ documentation and placement memorandum

- What kinds of income will the investment produce, and what are trade-offs of the alternatives?
- If a pension trust’s only concern is having to file returns, is the tradeoff always worthwhile?
2. Investments in hedge and private equity funds (cont’d)

Funds’ documentation review – Keep in mind

### Offering documents
- Consider whether the pension fund could have a permanent establishment in the foreign country or otherwise be subject to net basis taxation.
- Consider that the pension fund could suffer withholdings that could otherwise be eliminated by properly claiming a treaty benefit.
- Consider potential exposure to VAT, transaction or stamp taxes.

### Placement memorandum
- Review of placement memorandum for consistency with tax objectives.
3. Withholding tax - Overview

Pension trusts investing in foreign countries often need access to US or European Union (EU) treaty networks to reduce or eliminate withholding and/or other transaction taxes. Reclaim opportunities may also exist outside of standard treaty reclaims (EU reclaims, domestic exemptions).

1. Use of fiscally transparent structures to reduce withholding and foreign capital gains.

2. Consider elimination of blockers to access domestic and treaty exemptions.

3. Use of EU treaty and/or domestic exemptions to lower withholding in some EU countries.

4. Use of foreign treaty feeder vehicles such as a Dutch vehicle to maximize access to treaties.

Investment structuring affects effective treaty access: direct/indirect, fiscally transparent structures/blockers.
3. Withholding tax - Use of fiscally transparent structures

Direct investment

US pension trust

Global equities

Investment via tax opaque structure

US pension trust

Tax opaque structure

Global equities

Investment via fiscally transparent structure

US pension trust

Fiscally transparent structure

Global equities

Distribution amounting to 85%-70% of gross dividend

15%-30% WHT

Distribution amounting to 100% of gross dividend

0% withholding tax under tax treaty

Under assumption that the US has a tax treaty with the source country providing a 0% withholding tax on dividend payments to qualifying pension funds and that includes a hybrid entity provision.
3. Withholding tax – Use of EU treaty or domestic exemptions: EU reclains

<table>
<thead>
<tr>
<th>Countries</th>
<th>Statutory rate</th>
<th>Treaty rate (US)</th>
<th>Potential EU/domestic reclaim</th>
<th>EU reclaim basis</th>
<th>Additional considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finland</td>
<td>20%-30%</td>
<td>0%</td>
<td>Up to 0%</td>
<td>Domestic rules</td>
<td>Potential tax reclaim opportunity with respect to real estate investments</td>
</tr>
<tr>
<td>France</td>
<td>30%</td>
<td>15%/0%</td>
<td>15% to 0%</td>
<td>EU treaty</td>
<td>Potential tax reclaim opportunity with respect to real estate investments (capital gains)</td>
</tr>
<tr>
<td>Germany</td>
<td>26.375%</td>
<td>0%</td>
<td>Up to 0%</td>
<td>EU treaty</td>
<td>Potential tax reclaim opportunity with respect to real estate investments</td>
</tr>
<tr>
<td>Italy</td>
<td>26%</td>
<td>15%/0%</td>
<td>11% or lower</td>
<td>EU treaty. Recent lower court case law favorable to US pension funds.</td>
<td>Opportunity to reduce tax to 0% on investments through certain Italian real estate vehicles.</td>
</tr>
<tr>
<td>Netherlands</td>
<td>15%</td>
<td>0%/15%</td>
<td>0%</td>
<td>Domestic rules</td>
<td>Potential tax reclaim opportunity with respect to real estate investments</td>
</tr>
<tr>
<td>Spain</td>
<td>19%</td>
<td>15%</td>
<td>0%</td>
<td>EU treaty</td>
<td>Potential tax reclaim opportunity with respect to real estate investments</td>
</tr>
<tr>
<td>Sweden</td>
<td>30%</td>
<td>0%</td>
<td>Up to 0%</td>
<td>EU treaty / Domestic rules</td>
<td>Recent unfavorable case law developments. Consider reclaim opportunities for sovereign pension funds.</td>
</tr>
</tbody>
</table>
3. Withholding tax – Use of a treaty feeder vehicle

**Why use a treaty feeder vehicle**

- Treaty feeder vehicles are often used for international tax planning purposes.
- By investing through a treaty feeder vehicle, a US pension trust can often lower the withholding tax that would have been levied if the US pension trust invested directly.

**An example: Why choose the Netherlands as jurisdiction to establish an investment vehicle**

- The Netherlands has concluded over 90 tax treaties with countries worldwide.
- Comparing the US tax treaty network with the Netherlands tax treaty network, the use of a Dutch feeder vehicle is especially of interest for investments in Latin America (such as Brazil, Argentina, Panama, etc.), Asia (such as Hong Kong, Malaysia, Singapore, Taiwan, Vietnam, etc.) and Africa (such as Ghana, Zambia, Zimbabwe, Nigeria, etc.).
- The Netherlands also has almost 90 bilateral investment treaties (BITs). BITs are especially of interest for investors that plan to invest in, for instance, developing countries as they can generally rely on the BITs if they structure their investments through the Netherlands.

**US pension trust**

Fiscal Investment Institution / FBI *(Netherlands)*

- FBI is de facto subject to 0% Dutch corporate income tax rate and should have access to tax treaty benefits.
- Dividend distributions by the FBI to a US pension trust should be exempt from withholding tax under the US-Netherlands tax treaty.
- FBI should distribute its current income within 8 months after the end of the financial year, however any capital gain can be added to the reinvestment reserve which is not subject to this requirement.
### 4. Information reporting of foreign transactions – keep in mind

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong></td>
<td>Pension trusts may not file “regular” returns but there is an increasing number of filings for plans with alternative investments</td>
</tr>
<tr>
<td><strong>2</strong></td>
<td>There generally is no exemption for pension trusts, etc.</td>
</tr>
<tr>
<td><strong>3</strong></td>
<td>Blockers can make it worse</td>
</tr>
<tr>
<td><strong>4</strong></td>
<td>Often, the investment manager cannot make these filings on behalf of investors</td>
</tr>
<tr>
<td><strong>5</strong></td>
<td>This is an increasing area of foreign governments attention</td>
</tr>
<tr>
<td><strong>6</strong></td>
<td>There are potentially substantial penalties for failures to file</td>
</tr>
</tbody>
</table>
5. Capital gains tax updates / hot topics

- Select 2016 updates in capital gains and other “hot topics”
  - Argentina
  - China
  - Germany
  - Ghana
  - India
  - Italy
  - Kenya
  - Pakistan
I. Global tax compliance and planning issues

**Tax:** Taxing authorities globally continue to introduce new tax provisions and demand increased levels of transparency and reporting with respect to pension funds. There is a long list of potential considerations including: Base Erosion and Profit Shifting (BEPS), local withholding, local transfer and capital gain taxes.

**Financial reporting:** It is important to develop robust internal controls over financial reporting and proactively forecast expenses so that pension operations do not take away focus from execution of overall business strategy. In addition to adverse financial repercussions, failure to comply with relevant tax and financial reporting rules can result in adverse publicity.

**Investments and funding:**
Reviewing asset liability models, determining glide path strategies, planning financing strategies and creating overall retirement risk management strategies to reduce plan sponsor risk, including potential tax implications of use alternative assets such as infrastructure and real estate. Monitoring market conditions to determine when a change in funding practice is appropriate.

**Benefit design and operation:** Maintaining a program that is in sync with overall corporate recruiting and retention objectives, while maintaining compliance with governmental requirements and without straining the operating budget. Supporting employees in making informed decisions regarding their benefits and understanding their value.

Leading companies manage pension risk by defining, executing and monitoring performance in four key areas.
II. Our experience and commitment to the pension fund sector

Global experience

Pension funds are a priority sector for EY. We have industry experience, relationships with the industry’s key stakeholders, strong global and domestic capabilities.

Global and domestic teams are dedicated to offering industry insight and coordinating a network of more than 12,000 professionals who are ready to develop practical approaches to the assurance, advisory, tax, transactions, and finance-related issues you face.

We focus on holistic approach taking into account both US and international tax issues impacting US pensions.

Industry focus

- We make it our business to understand your business and to keep our advice relevant to your needs.
- We work with you as you transform your business, helping you anticipate the pitfalls and lock in the results on which your future depends.
- We work with the leading companies in the investment and pension industry. This broad yet deep exposure allows us to understand the dynamics of the sector and the underlying drivers of the leading actors.
- Our pensions sector is committed to delivering industry insight that creates value for you. It connects our Pensions professionals worldwide, and serves as a hub for sharing industry-focused knowledge to help you succeed in a changing world.