

## Tax reclaim

### A new dish on private banks' menu



The transparent fiscal environment facing the Luxembourg banking industry requires many stakeholders to reshape their business model and identify innovative services and differentiators for their clients. Offering a withholding tax reclaim service has therefore become essential to the attractiveness of services offered by private banks. The Tax Reclaim service also offers some very sought-after features in the current competitive environment: it enhances the financial performance of clients' portfolios, while generating revenue for the banks offering the service.

#### **What does a tax reclaim service consist of?**

The income derived from investments in shares or bonds is normally subject to withholding tax deducted in accordance with the national legislation in the country of the security's issuer. However, in the case of cross-border investments, investors are quite often in a position to claim the benefit of the tax agreement concluded between their country of residence and the country of investment, and may in this way, be entitled to a reduced withholding tax rate.

#### **Challenges ahead**

"Not long ago, this service was reserved for the upper segment of private bank clients and quite often it was only provided on request for a limited universe of countries and was completely manual. Today, it is essential to offer this service more systematically and to a wider range of clients," says Benjamin Collette, Partner, Advisory & Consulting at Deloitte Luxembourg. As a result of competition between stakeholders in the market and from other financial markets, but also banks located in the country of residence of their clients, Luxembourg private banks will have to expand this service and make it more accessible.

There are considerable challenges involved in offering this service to the largest number of clients possible and they must not be under-estimated.

Firstly, "Before they are able to identify all the opportunities for their clients, private banks must have tax matrices which show all the tax reclaim opportunities available based on the nature of the income received, the nature and country of residence of the investor, the country of investment, the reclaim period, etc. and the procedure to be followed to file a tax reclaim," says Eric Centi, Partner, Tax at Deloitte Luxembourg. "The main challenge faced by private banks is to ensure that these tax matrices are up-to-date given the constant changes in tax matters," adds Eric Centi.

Being in a position to process high volumes of reclaims is also crucial. "A sound tax reclaim offer means automating certain tasks as best possible in order to process high volumes quickly while minimising the risk of error. Completing the reclaim forms manually no longer makes sense in the context of this overall service offer. And "light" office automation solutions are no longer enough given the extremely high volumes of reclaims every year for major international private bank stakeholders," says Benjamin Collette. Monitoring reclaims after they are filed is also very important so that clients are informed, in real time, of the status of each reclaim.

Offering a tax reclaim service is therefore a strategy used by private bank stakeholders to ensure a better hold of their clients. This service, which improves the performance of their clients' securities portfolio, could also be a source of revenue for banks that offer a high value-added service.

With proven experience in this area, Deloitte has been a pioneer in the development of an automated tax reclaim service, which allows private banks to include this offer in their range of existing services, by providing tax experts and consultants with vast experience in this area and know-how in terms of outsourcing and the automation of processes.

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