**CA370 Italian Tax Scenario**

1. **The Italian TAXR/WITL tax scenario**

I will provide you an "academic" example for a following case where we have a dividend of 100 USD per shares.

|  |  |  |  |
| --- | --- | --- | --- |
| **Field**  | **%**  | **Amnt**  | **CCY**  |
| Original/Foreign  |  |  | USD  |
| Foreign GRSS  |  | 100 | USD  |
| Foreign TxExempt  |  | 20 | USD  |
| Foreign Taxable  |  | 80 | USD  |
| TAXR  | 15% | 12 | USD  |
| Foreign "Net"  |  | 88 | USD  |
|  |  |  |  |
| Local GROSS  |  | 88 | USD  |
| Local TxExempt  |  | 8 | USD  |
| Local Taxable  |  | 80 | USD  |
| WITL  | 26% | 20,8 | USD  |
| Local "Net"  |  | 67,2 | USD |

The dividend is announced by the issuer on the foreign market.
Then, a foreign tax is applied at source (15%), but a part of the dividend is exempt from the foreign tax (highlighted in green) and the resulting amount (0.88 EUR) is received in Italy.
In addition to that, the local Italian tax (26% or any other tax rate) is applied and withheld by local agent.
My question is how can I reflect that the "TAXR" part is partially tax exempt in the MT564?

1. **How to map the Italian scenario in the Cash Move sequence**

Scenario: Issuer A in country XX issues a dividend of USD100 per share on which a withholding tax of 15% is applied at source and 20% (USD20) of this gross dividend is exempt from tax.

In country YY, the local agent applies the local (“second level”) tax of 26% on the resulting amount (net of the withholding tax) of which 8 USD are exempt from local tax in country YY.

|  |  |
| --- | --- |
| **SWIFT Cash Move rates and amount s for holdings =  1 Share**  | **Comments**  |
| :92F::GRSS//USD100,  | Gross dividend 100 USD per unit in country XX  |
| :92J::GRSS//TXBL/USD80,  | Taxable part of the gross dividend  |
| :92J::GRSS//TXFR/USD20,  | Tax free/exempt part of the gross dividend (i.e. 20 USD)  |
| :92A::TAXR//15,  | Applied foreign tax (Local Jurisdiction tax rate in country XX)  |
| :92A::WITL//26,  | Second Level tax rate i.e. local tax rate in country YY  |
| :92J::NETT//TXBL/USD80,  | The taxable part of the net dividend (after foreign tax) under local tax. |
| :92J::NETT//TXFR/USD8,  | Tax free/exempt part of the net dividend (after foreign tax) – Under local tax |
| :19B::GRSS//USD100,  | Total gross amount  |
| :19B::TAXR//USD12,  | Foreign tax amount = Gross taxable amount 80 \* **15**% \* units  |
| :19B::WITL//USD20,8  | Local tax amount = Net taxable amount 80 \* 26% \* units  |
| :19B::NETT//USD67,2  | Local net amount = Gross amount - Foreign Tax amount – local Tax amount |

Beyond that, for the 92J::NETT//TXBL I guess there's no a clear SPMG market practice on its usage. I'm guessing if it could be clearly stated that this qualifier will identify the tax component free considering the first level of taxation (the "TAXR") but eligible to tax at **second level** of tax (the "local" WITL).
I think it will be clearer for clients, too.
Otherwise could we consider to introduce a qualifier :92J::GRSS// that identifies the component exempt from the foreign tax but - at the same time - eligible to the local jurisdiction tax?

1. **Proposed Add on to the GMP1 section 8.34 on Usage of the TAXR and WITL tax rates**

Add at the end of the section 8.34:

*“The method used to calculate a dividend nett amount when both a withholding tax rate (TAXR) and second level tax rate (WITL) are provided in the event announcement message may be dependent upon local market practices.*

*2 cases identified so far:*

* *the second level tax rate (WITL) applies only on the amount net of the withholding tax rate (TAXR) (i.e. the resulting amount after deduction of the withholding tax on the gross dividend amount).*
* *Both tax rates applied on the gross dividend amount”*