

Withholding Tax Rates Used in Net-of-Tax Indexes

v3.3



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Section 1

Introduction

1. Introduction

Withholding tax is a tax deducted at source from dividends paid to shareholders that are not resident in the same country as the remitting company. Withholding tax may be reclaimed in part or in full if a double-taxation treaty exists between the country in which the dividend is paid (the tax residence of the company) and the country in which it is received (the tax residence of the investor).

FTSE Russell¹ calculates net-of-tax total return indexes for a number of index series including the FTSE Global Equity Index Series and Russell Global Indexes (Section 2) and the FTSE UK Index Series (Section 3). Net-of-tax total return calculations for these series are made using maximum (no treaty) withholding tax rates and rates that reflect double taxation treaties.

FTSE Russell uses a third party to advise it of pending changes to maximum and treaty-based withholding tax rates. These changes are communicated to clients and implemented on the first working day of the month following review. However, in the event that FTSE Russell receives late notification of changes, these will be implemented on the working day following confirmation of the new tax rate.

In addition, FTSE Russell conducts a consultation each year in which clients are requested to give feedback with respect to the various tax stances. This is to ensure that the rates used reflect actual client experience. Finalised rates for use in the next calendar year are published in December and effective on the first working day of the following January.

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Section 2

FTSE Global Equity Index Series and Russell Global Indexes

2. FTSE Global Equity Index Series and Russell Global Indexes

FTSE Russell calculates a series of net-of-tax total return indexes where withholding tax is deducted at either the maximum rate (the rate that applies if a non-resident investor is unable to take advantage of any double taxation treaties), or the rates that apply in the presence of applicable double taxation treaties. The latter depend on the type of investors as well as on their tax residence. FTSE Russell currently calculates standard net-of-tax indexes for two such investor types: a US Regulated Investment Company (RIC) and a UK pension fund.

2.1 Maximum Withholding Tax Rates

These are the withholding tax rates that are applicable to dividends received by institutional investors who are not resident in the same country of tax residence as the remitting company and who do not benefit from any double-taxation treaties.

Please note:

- Withholding tax rates are applied at the individual security level with tax adjustments to dividends based on the tax residence of the company;
- Withholding tax rates are monitored by a third-party data provider and any rate changes are normally applied by FTSE Russell on the first working day of the month following receipt of new information;
- FTSE Russell Withholding tax rates are available on the FTSE Russell website [Withholding Tax Service](#) or by contacting info@ftserussell.com.

For most countries, a single withholding tax rate applies to all dividends remitted from that country. However, for a few countries, the rate depends on the degree to which individual dividends are considered to be imputed (or franked), and/or on the type of distribution or, in the case of India on the structure of the institutional investor. These country-specific features are described in the following sections.

2.1.1 Australia

In Australia dividends can be declared as:

Fully-franked – The company distributes dividends out of funds on which full company tax has been paid; no WHT is deducted from franked dividends.

Unfranked – The company distributes dividends out of funds on which no company tax has been paid; WHT is deducted from unfranked dividends

Partially-franked – The company distributes dividends out of funds on which the company tax has been partly paid; WHT is deducted from the unfranked portion.

Conduit Foreign Income (CFI) – Dividends paid to a foreign shareholder out of unfranked earnings that have been classified as Conduit Foreign Income are exempt from WHT.

Withholding is deducted from unfranked dividends that have not been classified as Conduit Foreign Income.

The formula below is used:

$$\text{Net Dividend} = \text{Declared Dividend} - (((\text{Declared Dividend} * (100\% - \text{Franking Percentage})) - \text{Conduit Foreign Income}) * \text{WHT Rate})$$

Example illustration only (Partially Franked, and a portion declared as CFI):

Declared Amount	A\$1
Tax Rate	30.00%
Percentage franked	8.67%
Percentage unfranked	91.33%
CFI	A\$0.0256
Subject to WHT	A\$0.8877
Net Dividend Value	A\$0.7337

$$0.7337 = 1.0 - (((1.0 * (100.00\% - 8.67\%)) - 0.0256) * 30.00\%)$$

2.1.2 Brazil

Dividends distributed to shareholders resident in Brazil or abroad (if the investor is registered with the Brazilian Central Bank) are not subject to WHT.

Brazilian companies can also make distributions to shareholders that are designated as “interest on capital”. These distributions are subject to withholding tax.

The formula below is used:

$$\text{Net Distribution} = \text{Interest on Capital} - (\text{Interest on Capital} * \text{WHT})$$

Example illustration only:

$$14.450000 = 17.000000 - (17.000000 * 15.00\%)$$

2.1.3 Chile

The rate reflects the withholding tax imposed on non-resident investors. First category tax credit is not accounted for.

2.1.4 India

The rate differs depending on whether the institutional investor is recognized as being structured as a corporate or a trust/fund. FTSE Russell will therefore use the higher of the two rates.

2.1.5 New Zealand

In New Zealand, dividends may be declared as either fully imputed, partly imputed or non-imputed depending on the fraction of the dividend paid out of taxed profits. For domestic (resident) investors, tax credits are attached to the imputed portion of the dividend equal to the company tax paid. Resident investors pay income tax according to the difference between their marginal income tax rate and the corporate tax rate.

For non-resident investors, the tax credits can instead be attached in the form of supplementary dividends. For fully imputed dividends, the supplementary dividend is usually designed to offset the withholding tax liability. Dividends that are declared fully imputed are therefore in effect not liable to withholding tax.

The formulas below are used:

Where dividend fully imputed

$$\text{Net Dividend} = \text{Declared Dividend}$$

Declared dividend is used with no further tax adjustment based on the observation that the supplementary dividend compensates for the withholding tax liability.

Where dividend not imputed

$$\text{Net Dividend} = \text{Declared Dividend} - (\text{Declared Dividend} * \text{WHT})$$

Example illustration only:

$$7 = 10 - (10 * 30\%)$$

Where dividend partly imputed

$$\text{Net Dividend} = (\text{Declared Dividend} + \text{Supplementary Dividend}) - (\text{Declared Dividend} + \text{Supplementary Dividend}) * \text{WHT}$$

Example illustration only:

$$7.0035 = (10 + 0.005) - (10 + 0.005 * 30\%)$$

2.1.6 Portugal

The withholding tax rate does not include any municipal surcharge levied on profits of the remitting company.

2.1.7 UK

A UK tax resident company with Real Estate Investment Trust (REIT) status is able to distribute Property Income Distributions (PIDs) in addition to ordinary dividends. Property Income Distributions are usually declared gross of basic tax and the majority of shareholders receive the payment net of this tax (currently 20%).

2.2 US RIC Investor – Treaty Withholding Tax Rates

FTSE Russell calculates a series of net-of-tax total return indexes based on dividends received following the deduction of withholding tax at the rates applicable to a US Regulated Investment Company (RIC) that benefits from double-taxation treaties.

Please note:

- Withholding tax rates are applied at individual security level with tax adjustments to dividends based on the tax residence of the company;
- Withholding tax rates are monitored by a third-party data provider and any rate changes are normally applied by FTSE Russell on the first working day of the month following receipt;
- Country treaty-based rates are available by contacting info@ftserussell.com.

2.2.1 Australia, Brazil and New Zealand

Country treatment is as described in Section 2.1 (however all calculations are based on rates applicable to the US RIC investor stance and not maximum rates).

2.2.2 Chile

The treaty rate only applies if business income tax is not creditable. The rate FTSE Russell applies is the effective tax rate paid on distributions to foreigners after taking into account the first category tax credit.

Example calculation (assuming 35% WHT and 21% First Category Tax):

A	Declared Dividend	1,000.00	
B	Withholding Tax 35%	350.00	
C	Dividend grossed up by First Category Tax 21% (Dividend/0.79)	1266.00	
D	Withholding Tax 35%	443.00	C multiplied by 35%
E	Tax Credit 21%	266.00	C multiplied by 21%
F	Actual Withholding Tax liability	177.00	D minus E
G	Difference of tax to be credited	173.00	B minus F
H	Net Dividend	823.00	A minus B plus G
	Effective Tax Rate	17.75%	(A minus H) divided by A

2.2.3 France

Although certain types of foreign investment companies may qualify for withholding tax exemption, FTSE Russell understands that this does not apply to US RICs.

2.2.4 Ireland

The rate reflects the assumption that the investor has made the necessary declarations (V2B form) to reclaim refunds.

2.2.5 Korea

The rate does not reflect the additional surtax which is only levied on local investors.

2.2.6 Norway

The rate does not reflect the US-Norway treaty rate, as FTSE Russell understands that this does not apply to US RICs.

2.2.7 Sweden

The rate reflects the US-Sweden treaty rate. Withholding tax exemption is only applicable to conforming foreign investment funds, and not to investment companies.

2.2.8 UK

Property Income Distributions are adjusted to account for the basic rate tax deduction (currently 20%). It is assumed US RICs are unable to reclaim any of this deduction.

2.3 UK Pension Fund Investor – Treaty Withholding Tax Rates

FTSE Russell calculates a series of net-of-tax total return indexes based on dividends received following deduction of withholding tax at the rates applicable to a UK pension fund that benefits from double-taxation treaties.

Please note:

- Withholding tax rates are applied at individual security level with tax adjustments to dividends based on the tax residence of the company;
- Withholding tax rates are monitored by a third-party data provider and any rate changes are normally applied by FTSE Russell on the first working day of the month following receipt;

- Withholding tax is not deducted from dividends paid to UK resident shareholders through dividend access plans by certain constituent companies of the UK Index Series that are not UK tax resident.
- Country treaty-based rates are available by contacting info@ftserussell.com.

2.3.1 Australia, Brazil and New Zealand

Country treatment is as described in Section 2.1 (however, all calculations are based on rates applicable to the UK pension fund stance and not maximum rates).

2.3.2 Chile

The treaty rate only applies if business income tax is not creditable. The rate FTSE Russell applies is the effective tax rate paid on distributions to foreigners after taking into account the first category tax credit.

Example calculation (assuming 35% WHT and 21% First Category Tax):

A	Declared Dividend	1,000.00	
B	Withholding Tax 35%	350.00	
C	Dividend grossed up by First Category Tax 21% (Dividend/0.79)	1266.00	
D	Withholding Tax 35%	443.00	C multiplied by 35%
E	Tax Credit 21%	266.00	C multiplied by 21%
F	Actual Withholding Tax liability	177.00	D minus E
G	Difference of tax to be credited	173.00	B minus F
H	Net Dividend	823.00	A minus B plus G
	Effective Tax Rate	17.75%	(A minus H) divided by A

2.3.3 France

Exemptions that may be available to investment funds are not applicable to pension funds. Pension funds are therefore subject to withholding tax at the treaty rate of 15%.

2.3.4 Italy

While a rate of 1.375% is available in certain cases, it applies only to companies or to entities subject to corporate income tax, and therefore not to pension funds.

2.3.5 Korea

The rate does not reflect the additional surtax which is only levied on local investors.

2.3.6 Norway

Exemptions that may be available to investment funds are not applicable to pension funds. Pension funds are therefore subject to withholding tax at the treaty rate of 15%.

2.3.7 Sweden

The exemption applies only to investment funds and not to pension funds which are subject to the 5% treaty rate.

2.3.8 UK

No withholding tax is deducted from Property Income Distributions paid to UK pension funds. It is assumed that UK pension funds are able to reclaim the basic rate tax deduction in full.

2.4 Singapore Authorised Unit Trust Investor – Treaty Withholding Tax Rates

FTSE Russell calculates a series of net-of-tax total return indexes based on REIT dividends received following deduction of withholding tax at the rates applicable to a Singapore Authorised Unit Trust that benefits from double-taxation treaties.

Please note:

- Withholding tax rates are applied at country level and not individual security level. Therefore the same withholding tax rates are applied to all securities of all companies resident in a particular country;
- Country treaty-based rates are available by contacting info@ftserussell.com.

2.5 Australian Superannuation Fund – Treaty Withholding Tax Rates (Super Rates)

FTSE Russell calculates a series of net-of-tax total return indexes based on dividends received following deduction of withholding tax at the rates applicable to an Australian superannuation fund that benefits from double-taxation treaties.

Please note:

- Withholding tax rates are applied at country level and not individual security level. Therefore the same withholding tax rates are applied to all securities of all companies resident in a particular country;
- No withholding taxes are deducted from dividends distributed by companies with a tax residency of Australia.

2.6 Custom Indexes – Treaty Withholding Tax Rates

FTSE Russell calculates a number of custom net-of-tax indexes that take account of the withholding tax rates that have been negotiated in double-taxation treaties. Treaty rates vary according to the type and tax residence of the investor and the type of investment vehicle.

FTSE Russell calculates net-of-tax indexes for the following investor stances using rates provided by FTSE Russell's third-party data vendor. For more information, please contact customindices@ftserussell.com:

- Australia Managed Fund
- Hong Kong MPF (Mandatory Provident Fund)
- Irish Pension Fund
- Luxembourg UCITS
- Netherlands UCITS
- UK UCITS

In determining the appropriate treaty rates to use in these calculations, it is occasionally necessary for FTSE Russell to make assumptions regarding the status of the investment vehicle and the filing of required documentation by the client. These assumptions are available on request from info@ftserussell.com.

The Custom team at FTSE are also able to design and create an index to suit a number of specific investor stances based on withholding tax rates supplied by clients that reflect their own investment experience. For more information, please contact customindices@ftserussell.com

Section 3

FTSE UK Index Series

3. FTSE UK Index Series

3.1 Maximum Withholding Tax Rates

FTSE Russell calculates a series of net-of-tax total return (TR) indexes for the FTSE UK Index Series.

Declared dividends are treated as below:

- For **UK tax resident** constituents the declared dividend is used in the net-of-tax TR calculation.
 - Where a company with Real Estate Investment Trust (REIT) status declares a Property Income Distribution (PID), the appropriate withholding tax adjustment (currently 20%) is applied.
- For **non-UK tax resident** constituents the declared dividend is adjusted by the applicable withholding tax rate and this adjusted dividend is used in the net-of-tax TR calculation.
 - Apart from the exception below, any adjustment to the dividend is based on the maximum withholding tax rates applicable to dividends received by investors who are not resident in the same country as the remitting company and who do not benefit from double-taxation treaties. For example, if the remitting company is tax resident in Switzerland, the declared dividend is adjusted by the Swiss withholding tax rate.

The exception is:

- **Qualifying Reserves:** If the dividend is paid out of qualifying reserves then it may be exempt from withholding tax.

Country withholding tax rates are also available on the FTSE Russell website or by contacting info@ftserussell.com

3.2 UK Pension Fund

Declared dividends are treated as below:

- For **UK tax resident** constituents the declared dividend is used in the net-of-tax TR calculation.
 - Where a company with Real Estate Investment Trust (REIT) status declares a Property Income Distribution (PID), **no** withholding tax adjustment is applied on the assumption that a UK pension fund is able to reclaim the tax withheld in full.
- For **non-UK tax resident** constituents the declared dividend is adjusted by the applicable withholding tax rate and this adjusted dividend is used in the net-of-tax TR calculation.
 - Apart from the two exceptions listed below, any adjustment to the dividend is based on the UK Pension Fund tax rates applicable to dividends received by investors who are not resident in the same country as the remitting company and who benefit from double-taxation treaties. For example, if the remitting company is tax resident in Switzerland, the declared dividend is adjusted by the applicable Swiss withholding tax rate.

The two exceptions are:

- **Dividend Access Plan:** A Dividend Access Plan enables UK resident shareholders of a non-UK resident company to be paid dividends from a UK source with consequential UK tax treatment.
- **Qualifying Reserves:** If the dividend is paid out of qualifying reserves then it may be exempt from withholding tax.

Country withholding tax rates are also available on the FTSE Russell website or by contacting info@ftserussell.com.

Reference table for illustration purposes:

Dividend	Max Tax Treatment	UK Pension Treatment
UK tax resident company	Declared dividend is used. No further adjustment.	Declared dividend is used. No further adjustment.
Non-UK tax resident company	Declared dividend is adjusted by withholding tax rate.	Declared dividend is adjusted by withholding tax rate.
Non-UK tax resident company with Dividend Access Plan	Declared dividend is adjusted by withholding tax rate.	Declared dividend is used. No further adjustment.
Non-UK tax resident company where dividend is paid out of qualifying reserves	Declared dividend is used (where exemption is confirmed).	Declared dividend is used (where exemption is confirmed).
Real Estate Investment Trust (REIT)	Declared amount for Ordinary dividend is used. Declared amount of Property Income Distribution (PID) is adjusted for withholding tax (currently 20%).	Declared amount for Ordinary dividend is used. Declared amount of Property Income Distribution (PID) is used (no adjustment for withholding tax).

Section 4

Disclaimer

4. Disclaimer

FTSE Russell uses reasonable efforts to calculate the net-of-tax indexes. However, FTSE Russell is not a tax adviser and FTSE Russell is reliant on the services of a third party to provide it with notification of changes to maximum withholding tax rates and treaty-based rates.

Particularly with respect to treaty-based rates, the correct rate to apply for specific investors is not always clear. In many cases, receipt of the preferential rate will depend on whether the investor has filed the appropriate documentation for the investment vehicle in question. It is also possible for treaty rates to change retrospectively; such changes will not be incorporated in FTSE Russell index calculations but may be captured when back histories for new indexes are created or if old indexes are reconstructed.

For these reasons, and because of the assumptions and approximations set out in this document, net-of-tax TR indexes should only be regarded as an approximation of the performance an investor achieves in practice.

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