

FATCA GFD—Grandfathered Debt

A critical element of FATCA compliance is assessing if grandfathered debt securities lose their exempt status as a result of material modifications

FATCA GFD automates monitoring and analyzing the grandfathered status of your debt securities for FATCA withholding and reporting

The Situation

The Foreign Accounts Tax Compliance Act (FATCA) was enacted in 2010 to combat tax evasion by U.S. taxpayers through use of offshore accounts. FATCA imposes new withholding obligations on U.S. financial institutions responsible for payments to foreign entities (withholding agents) starting July 1, 2014.

FATCA can result in withholding taxes on a variety of U.S.-source payments such as interest on debt instruments (including original issue discount), as well as gross proceeds from sales of such instruments. Interest and OID (including proceeds) on debt instruments issued before the effective date are generally grandfathered—and not subject to these new withholding requirements. However, debt instruments can lose their grandfathered status if they undergo a material modification for tax purposes. Failure to adjust the exemption status and withhold accordingly can result in significant tax penalties.

There is no requirement under FATCA that issuers provide notice of material modifications and there is significant uncertainty if they will. Moreover, notices may be difficult to understand and may not provide clear guidance on whether a material modification has occurred.

In order to manage your FATCA withholding tax risk relating to grandfathered debt and material modifications, you need efficient and automated tools. A thorny problem for many financial institutions is that they may have only limited expertise that is stretched to capacity regarding tax law that determines if a material modification of a debt instrument has occurred.

Under FATCA, debt instruments can lose their grandfathered status if they undergo a material modification for tax purposes

FATCA GFD Delivers the Attributes You Need

- Security reference data
- Identification of modifications and corporate actions affecting your SOI
- Description of the nature of the modification or corporate action
- Reason code for FATCA GFD status
- Effective date for FATCA withholding (if GFD status is lost)
- Flexibility for user-editable determinations

FATCA GFD Benefits

- Improve operational efficiencies
- Reduce manual activity
- Minimize tax reporting error & penalty risks

The Solution

FATCA GFD—Grandfathered Debt Service

Wolters Kluwer Financial Services FATCA GFD—our FATCA grandfathered debt service, provides the essential details you need to monitor whether debt instruments have lost their FATCA withholding exemption status due to a material modification. This service combines the deep corporate actions expertise of our dedicated Capital Changes team with the efficiency of our proven GainsKeeper® technology.

FATCA GFD—Details At Your Fingertips

FATCA GFD automates targeted coverage of the tax consequences of corporate actions that affect your debt securities of interest (SOI) and assesses if an adverse material modification has occurred.

This service identifies when a debt instrument has either lost its FATCA grandfathered status because of a material modification, or, equally importantly, has been involved in a corporate action, yet retained its grandfathered status (because a material modification has not occurred). Subscribers can access status change updates, an indication of the reason why the debt instrument's grandfathered status has changed, and, if applicable, the date as of which FATCA withholding will be required going forward.

Withholding agents are liable for full amount of the under-withholding, plus interest and penalties

You simply specify and upload your debt SOI into our system.

Leveraging reference data from multiple resources and the recognized tax analysis of our Capital Changes corporate actions tax experts, this service applies a rules-based logic to determine if events result in material modifications affecting the grandfathered status of your debt holdings. On a daily basis, you can automate the uploading of new securities and the downloading of FATCA GFD content to your portfolio accounting and other downstream systems.

FATCA GFD relies on Capital Changes' tax expertise, reducing your resource burdens.

Streamline Processing

FATCA GFD makes it easy for you to cover more debt instruments and is designed for ready automation. XML data feeds eliminate the need for manual input. Moreover, a daily electronic file showing FATCA grandfathered status and the date the status is lost is provided for updating your security master.

Your Tax Reporting Compliance Partner

At Wolters Kluwer Financial Services, tax accuracy is paramount. That's why we continuously embed our solutions with tax-accurate expertise and functionality. Tax, legal and operations professionals at blue chip brokerage firms count on us for unparalleled foreign and domestic corporate actions tax content and sophisticated technology for investment tax reporting including FATCA debt grandfathering and compliance with the cost basis reporting law.

FATCA GFD... At-A-Glance

- Specify & upload your debt Securities of Interest (SOI) into the system
- Generate daily XML data files to upload into your portfolio accounting and other downstream systems
- Export grandfathered status information into custom reports for processing and validating

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When you have to be right

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