

Tax Solutions: Section 871(m)

Streamlining the compliance process under Section 871(m)

Market Intelligence solution assists financial institutions to address their compliance obligations for Section 871(m) regulations.

Section 871(m) regulations provide updated rules for determining whether certain payments under swaps or equity-linked instruments might be treated as US Dividend Equivalent Amount (DEA) payments and, if paid to a non-US beneficial owner, would be subject to US withholding tax generally applicable to US source dividends. The regulations are effective on Delta One products from January 1, 2017. Beginning 2023, non-Delta One contracts will also be in scope for Section 871(m) eligibility. Financial institutions currently need to determine whether an Index or ETF meets the exemption. Where it does not meet the exemption, a DEA is required to be calculated based on the in-scope constituents of the security. Our solution determines Qualified and Non-Qualified status and utilizes the applicable compositions of the Index and the Corporate Action events in order to calculate the appropriate Dividend Equivalent Amount (DEA).

Prior to the introduction of Section 871(m), payments under many of these products were not subject to withholding. As a result, financial institutions will need to create systems and processes in order to screen contracts that may be subject to the regulations and implement withholding and reporting where required.

Additionally, we have expanded our Section 871(m) offering by directly integrating with our Portfolio Valuations (PV) business. PV clients can directly access our Section 871(m) outputs through the PV solution creating streamlined functionality. Clients won't need to build any additional API feeds, as Tax Solutions will receive transaction data and pull 871(m) results directly from PV.

Minimize risk

The pre-screening of derivative products provides potential withholding rates and amounts. The validation of data points helps to mitigate the risk of non-compliance.

Increase efficiency

A centralized solution for pre-screening, payment processing, withholding and creation of data needed for reporting to meet the Section 871(m) regulations.

Decrease costs

Streamlined workflows on a single platform reduce resource allocations, help to lower overall costs and reduce the risk of costly regulatory fines.

Address compliance obligations

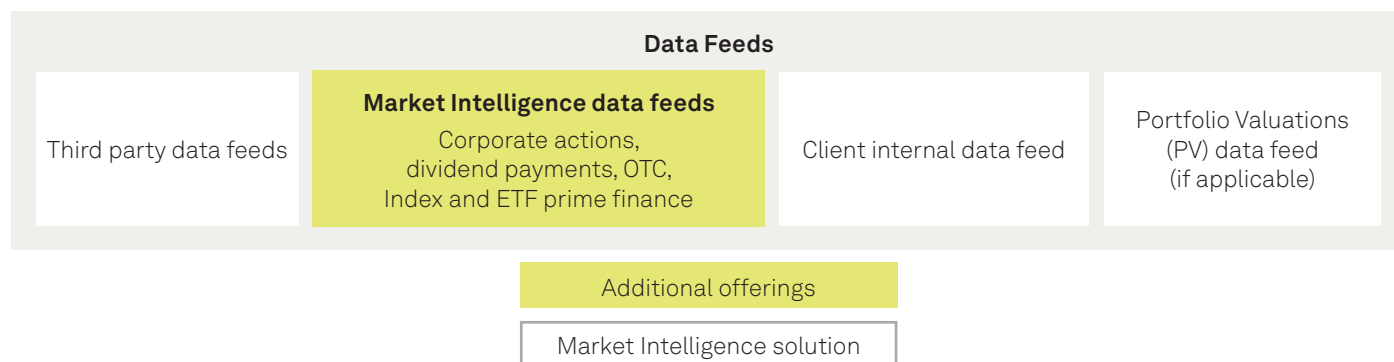
Validated data lineage and reporting helps with satisfying Section 871(m) regulations obligations.

Index Component Calculations

Our solution utilizes the applicable weights of the Index and the Corporate Action events in order to calculate the Dividend Equivalent Amount (DEA).

Market Intelligence solution to Section 871(m)

Pre-trade screening	Screening	Payment processing	Withholding and reporting
<p>Indicative Section 871(m) impact analysis on a pre-trade basis</p> <p>Provides:</p> <ul style="list-style-type: none"> – 871(m) status for derivative contracts – Potential 871(m) dividend amount – Indicative withholding tax rate – Pre-trade screening via UI – Flags available 	<p>Determines if equity derivative product is subject to Section 871(m)</p> <p>Provides:</p> <ul style="list-style-type: none"> – 871(m) status for derivative contracts – Combined transaction support – Store pre-trade vs. actual transactions separately – Position tracking – Screening results along with reason(s) for exemptions or non-exemption 	<p>Calculates withholding amount and withholding tax rate</p> <p>Provides:</p> <ul style="list-style-type: none"> – Calculation of actual Section 871(m) dividend amount – Withholding rate based on counterparty tax profile – Calculation of Dividend Equivalent Amount (DEA) – Screening results report 	<p>Data points for reporting to counterparties and IRS for Form 1042-S</p> <p>Provides:</p> <ul style="list-style-type: none"> – Extract for Determining Party Section 871(m) report-base set of data points to deliver to other parties for the transaction – Extract for Annual Form 1042-S Reporting - for withholding agents for the 871(m) transaction



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