PRICEWATERHOUSECOOPERS

Qualified Foreign Corporation (QFC) Confirmation Program

New Opportunity to Deliver Immediate Value to Your Shareholders

The American public has been buying corporate shares at a rate unprecedented in US history. US ownership of non-US companies has increased dramatically from $198 billion in 1990 to $1.8 trillion in 2000. Earlier this year, the United States enacted legislation enhancing the value of share ownership by providing a beneficial reduced maximum 15 percent rate of tax on certain dividends received by US individuals and other US non-corporate taxpayers. US mutual funds are entitled to pass through dividends that qualify for the reduced rate of tax to their US individual and other US noncorporate investors.

Under prior law, dividends were taxed as ordinary income at marginal rates as high as 38.6 percent. The new law provides eligible shareholders the ability to significantly lower their tax burden to 15%, or in some cases even lower. ***The benefit is effective retroactively to January 1, 2003.***

In light of these new changes, foreign companies have a significant opportunity to enhance the value of their shares held by US investors (including shares held by US mutual funds), and attract new US investors, by increasing the US shareholder's after-tax return on their investment.

Eligible Dividends Paid by Foreign Companies

The new tax benefit applies to dividends from domestic corporations as well as dividends from certain foreign corporations, referred to as "Qualified Foreign Corporations" (QFCs). In order to be eligible for the benefit of the new dividend tax rate, a corporation must be able to determine that it meets detailed statutory criteria and comply with procedural requirements now being developed by the IRS. With this in mind, PricewaterhouseCoopers has assembled a **QFC Team** to assist clients in qualifying to pay dividends that are eligible for this new US tax benefit. Our newly created **QFC Confirmation Program** will enable companies to determine their eligibility for the maximum 15 percent dividend tax rate and guide them through the procedural rules for their shareholders to obtain the benefit of the reduced rate.

Is Your Company a QFC?

In order to qualify for the maximum 15 percent dividend rate, dividends paid by a QFC must meet one of the following three statutory tests:

1. Dividends paid on stock of a foreign corporation that is *readily tradable on an established securities market in the United States* (the "readily tradable test");
2. Dividends paid by a foreign corporation that is *eligible for the benefits of a comprehensive US income tax treaty that has an exchange of information program and that is satisfactory to the US Treasury Department* (the "treaty test"); or
3. Dividends paid by a corporation incorporated in a possession of the United States.

Even if the dividends meet one of the above criteria, dividends will not be eligible for the maximum 15 percent rate if the corporation paying the dividends is in one of the following US tax categories:

- Foreign personal holding company;
- Foreign investment company; or
- Passive foreign investment company.

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Each of the words and phrases italicized above are subject to uncertain interpretation that has already been the subject of considerable discussion and debate. The US Treasury Department and the IRS have assigned a high priority to publication of guidance. They already have issued two notices addressing some initial interpretive issues relating to the treaty test and the readily tradable test but substantial uncertainties remain. In addition, the IRS is working to promulgate procedural rules for implementing the new law, including the possibility of a certification procedure to evidence what dividends are eligible for the 15 percent rate.

Due to the uncertain interpretation of the legislation and the recent notices, US non-corporate shareholders and foreign corporations may benefit from the help of PwC's **QFC Team** in navigating through this new legislation and the uncertainty surrounding it.

PricewaterhouseCoopers QFC Confirmation Program

PricewaterhouseCoopers professionals in our Washington National Tax Services office have been actively involved in discussions regarding the development of government guidance. In response to immediate client needs, we have developed a four-step methodology for testing a company's US tax characteristics for compliance with the QFC rules and delivering the new tax benefit to the company's US non-corporate shareholders.

Our **QFC Team** can review your company's tax characteristics to:

1. Determine the eligibility of the company and its shares for QFC status based on the objective criteria known to date;
2. Identify areas of uncertainty and provide practical guidance regarding how to address these areas;
3. Guide your company through the forthcoming compliance rules to assist you in delivering this extra value to the company's US non-corporate shareholders promptly upon the issuance of procedural guidance by the IRS; and
4. Help you communicate to shareholders and brokers to provide necessary information as to the US tax status of dividends pending the issuance of the compliance rules by the IRS.

Our four-step **QFC Confirmation Program** begins with a questionnaire that will allow us to determine the additional actions necessary to do a complete assessment. Based on your responses to the questionnaire, our **QFC Team** will then provide the required due diligence to complete the assessment. We will then issue a report summarizing our findings and recommendations. Finally, if your shares qualify for the 15 percent maximum rate, we will guide you through the procedural steps to deliver this important benefit to your shareholders.

Contacts

We invite you to contact your PricewaterhouseCoopers professional to discuss participation in our **QFC Confirmation Program**, or to contact one of the Washington National Tax Services **QFC Team** members:

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