



Investment Compliance

Capital Changes 302 Alert

Proven Tax and
Withholding Solutions
You Can Trust

The Challenge

Internal Revenue Code Section 302 applies when a corporation redeems its stock. A redemption occurs when a company acquires some or all of its stock from shareholders in exchange for property. However, Section 302 can apply to corporate action events beyond redemptions. It may apply to corporate actions such as mergers, reverse splits, or spin-offs. Section 302 can result in dividends subject to withholding tax and information reporting.

Section 302 affects taxability and can result in different tax compliance challenges for different shareholders. Many firms struggle with the complexity of determining how and when Section 302 applies to redemptions and other corporate actions. It is vital to correctly identify corporate actions that can potentially result in taxable dividends to shareholders.

Noncompliance creates costly risks and financial liabilities for firms that must withhold U.S. tax on payments to non-resident aliens, and firms that send out Forms 1099 to U.S. taxpayers.

The Solution

Wolters Kluwer® corporate action solutions start with the deep tax expertise of Capital Changes— the industry's standard for corporate actions tax analysis and details. Capital Changes 302 Alert provides advance

notifications of corporate actions that may have a Section 302 or other dividend component and enables your firm to focus and minimize risk.

Capital Changes 302 Alert At-A-Glance

- Self-service web application
- Users may access our entire database of events and/or limit alerts to their specific securities of interest (SOI).
- Provides:
 - Vital data points related to Section 301 dividend payments reported in U.S. Capital Changes Corporate Actions Daily, as well as payments to which Sections 302 and 304 may apply for individual shareholders
 - Data viewable in a simple, sortable dashboard
 - Key information such as relevant dates, fair market values, and shares outstanding before and after a Section 302 event
 - FIRPTA and USRPHC status of companies
 - Exportable search results

Rich in Information, Detail, and Accuracy - Focused on Efficiency

Capital Changes 302 Alert provides important data points related to Sec. 301 dividend payments reported in U.S. Capital Changes Corporate Actions Daily, as well as payments to which Sections 302 and 304 may apply for individual shareholders.

The tool:

- Provides early notice, prior to effective date, to facilitate tax planning
- Provides data viewable in a simple dashboard that features key information such as relevant dates, fair market values, and shares outstanding before and after a Section 302 event
- Includes company FIRPTA and USRPHC status
- Allows for easy searching and sorting with the dashboard, and search results may be exported to Excel and XML
- Covers all listed and publicly traded companies on U.S. stock exchanges, including the New York Stock Exchange, the American Stock Exchange, NASDAQ, and Over-the-Counter (OTC)

Section 302 – Why It Matters

- Section 302 sometimes requires cash received in a corporate action to be treated as a dividend (taxable as ordinary income) rather than as a sale or exchange (taxable as capital gain/loss).
- Dividends paid by U.S. firms to nonresident aliens can be subject to U.S. withholding tax, meaning the paying agent must withhold up to 30% of the dividend as federal tax, unless a treaty applies lower rate.
- Firms that have foreign clients are liable for all withholding taxes they are required to collect.
- Forms 1099-DIV are required for certain payees receiving dividends and other distributions on stock.
- If Form 1099-DIV reporting is required, reported dividends could be subject to backup withholding in certain cases.

To find out more about our Capital Changes 302 Alert, or any of our other corporate action solutions, please visit WoltersKluwerFS.com/CapitalChanges or contact us at 800.261.3111.

About Wolters Kluwer Governance, Risk & Compliance

Governance, Risk & Compliance (GRC) is a division of Wolters Kluwer, which provides legal and banking professionals with solutions to ensure compliance with ever-changing regulatory and legal obligations, manage risk, increase efficiency, and produce better business outcomes. GRC offers a portfolio of technology-enabled expert services and solutions focused on legal entity compliance, legal operations management, banking product compliance, and banking regulatory compliance.

Wolters Kluwer (AEX: WKL) is a global leader in information services and solutions for professionals in the health, tax and accounting, risk and compliance, finance and legal sectors. Wolters Kluwer reported 2019 annual revenues of €4.6 billion. The company, headquartered in Alphen aan den Rijn, the Netherlands, serves customers in over 180 countries, maintains operations in over 40 countries and employs 19,000 people worldwide.

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Capital Changes 302 Alert Product Sheet