

How much are Japanese investors losing?

Withholding tax on European equities, and the value of dividend returns which Japanese investors may be losing through non-reclamation.

TaxTec, 2025

- **Japanese investment in European stocks remains strong.**
- **Yet in ~20% of cases, withheld tax on dividends from those shares is not being reclaimed, according to TaxTec research.**
- **This short research note presents readers with a basis points estimate of just how much of investors' rightful returns is being left on the table.**

Global economic and market disruption

There is little that commentators around the world can agree on, but one thing is certain – we are in for several years of more extreme uncertainty than hitherto. Geopolitical events are making the dial oscillate more wildly than usual and there is little knowing when or where things will settle. The Nikkei's volatility has climbed steeply over the last few years.¹ The same is true of the Dow Jones Industrial Average and Nasdaq. Turbulent times indeed.

And in turbulent times, fund managers are under an even more acute pressure to act as responsible guardians of investor and pensioner money. Quite apart from the need for smart hedging strategies amongst all the topsy-turvy of markets, no stone should be left unturned to maximize investor returns wherever possible. In fact, it could be argued that it is just such volatile markets that allow smart fund managers, administrators and custodians to introduce efficiencies which become powerful marketing tools to attract clients.

One such area is the efficiency with which withholding tax (WHT) on foreign equity dividends and bond coupons are reclaimed. This short research note has modelled one of the major indices and reveals where the delta lies between successful WHT reclamation

by Japanese investors and failure to do so. Just how much do Japanese investors stand to lose if the guardians of their funds do not reclaim WHT?

We start with some context – looking at trends in institutional investment in foreign stocks. This gives an idea of how significant such foreign securities investment has become, and maps the likely direction of travel for such investments.

Next we look at dividend trends. This context having been established, we then turn to an analysis of the typical European share portfolio or fund structure in order to find out just how much damage to Japanese investors' foreign investments (specifically those in Europe) can be inflicted by ignoring the need to reclaim withholding tax (WHT).

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Trends in foreign equity investment

To understand the significance of foreign equity investment, we need to look at current trends and where they are headed.

It is dangerous to take short-term indicators as primary evidence in their own right, because the current state of markets remains volatile – meaning that over the next two or three years that volatility could swing both ways. However, these indicators do add up to a general direction of travel, and it is one that has great importance when we come to our core subject – the investor returns damage from non-reclamation of WHT.

To start with, it remains a fact that Japanese investors held a record £1.3 trillion in foreign equities in 2024 – a doubling over ten years.² Somewhere between 10% and 20% of that is in Europe (depending how ‘Europe’ is defined).

Despite the fact that the strengthening of the domestic market is inevitably drawing capital back to home stocks,³ Europe (more than the US) remains an attractive market for Japanese investors. European stocks have enjoyed significant outperformance in 2025, with the regions indices comfortably outpacing other major markets.⁴

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Trends in dividend payouts

In a world of meteoric share price valuations, it is often easy to forget the long-term contribution of dividends to shareholder returns.

One global report confirms that since 1926, dividends have accounted for approximately 31% of total return, while capital gains accounted for 69%.⁵ Another recent source calculates that a portfolio with dividends reinvested since the 19th century would have grown 500× more than one without reinvestment – demonstrating the power of compounding income.⁶

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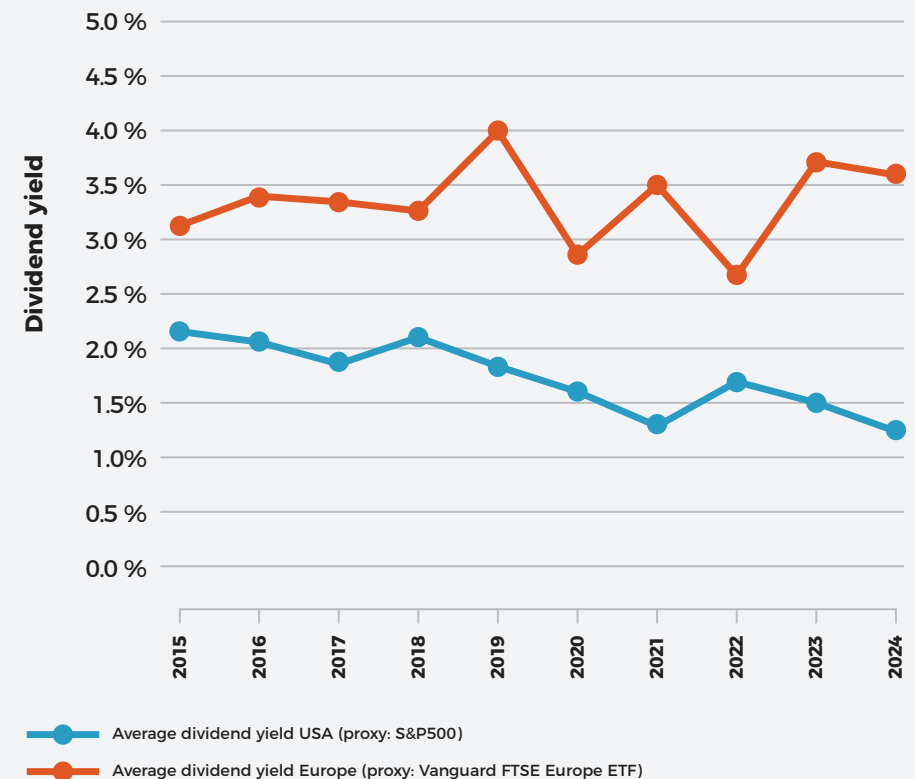
These datapoints sit alongside the need for liquidity inherent in any pension fund structure, balancing the optimization of investment returns for beneficiaries with the cash flow needed to pay out to pensioners every month.

Outside the general point about dividend yields, there is the issue of regional differences in dividend payouts, particularly between Europe and the US.

The significant appetite from foreign investors (including those from Japan) for European stocks is amplified by the fact that the dividend yield is generally higher, as a proportion of total returns. 2025 data from J.P. Morgan shows, for instance, a Euro Stoxx 50 dividend yield of approximately 3.1%, compared with a parallel S&P 500 dividend yield of around 1.4% — a consistent c.200 bps advantage for Europe.⁷

The historical picture is much the same, where the Euro Stoxx 50 dividend yield has generally ranged between 3–4% (peaking when valuations low), where meanwhile S&P 500 yield has stayed between 1–2%. The yield gap has been relatively steady over the past decade, with Europe maintaining a premium somewhere between ~150 and 200 bps over the US.⁸

US:Europe – The difference in dividend yields



The reason for the substantial difference is generally put down to payout philosophy: European firms historically prioritize distributions over buybacks – averaging over 60% of earnings paid out, compared to around 40% in the US. In addition, companies in Europe have traditionally preferred dividends over stock repurchases as a way to hand cash back to shareholders.¹⁰ Other commentators also point to sector composition – in that Europe has more exposure to high yield sectors like utilities, energy, and financials; US indices lean toward lower-yield sectors like technology.

At all events, we can see how dividend income is a significant player in total returns for Japanese investors in foreign stocks, and that portfolios may be becoming proportionately more exposed to European stocks where dividend yields are higher than in the US.

Maximizing returns & WHT reclamation

So to our main theme; maximizing those dividend returns through tax efficiency. Tax on dividends from foreign equities (and fixed income) is withheld at source to prevent outstanding tax leaving the country where the security is domiciled. Double taxation treaties between countries allow a proportion of that withholding tax to be

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reclaimed. There are more than 3,000 double taxation treaties extant globally.¹¹ And in many cases, the proportion of the withheld tax that can be reclaimed is very substantial. For instance, a Japanese investor/fund investing in Swiss stock will have 35% tax withheld, but can reclaim **all of it** – in other words, it is completely recoverable.

Much is made of the fiduciary duty of pension fund trustees, investment funds and custodian banks to ensure their investors' rightful returns are maximized, including the recovery of WHT. However, long-range research from TaxTec has revealed that this is not always the case. In fact, as of 2024-25, just under 20% of reclaimable WHT worldwide is 'left on the table'. In nominal terms, that amounts to something in the order of \$16 billion according to TaxTec estimates. The reasons, historically, for non-reclamation have been that the process is extremely complex and bureaucratic. Yet since the Millennium, the emergence of automated services to reclaim WHT has rendered that argument null and void.

However, for Japanese investors and their professional services providers to broadly assess the impact of non-reclamation on their own investments, a benchmark is needed. That benchmark can

then be applied to an investor's or a fund's portfolio to calculate approximately what the losses from non-reclamation of WHT might be in each instance.

As the second in a series of Index impact models, TaxTec has selected the MSCI Europe Index. This established representative index of European stocks and shares is a recognized starting point for Japanese organizations with a significant proportion of their AUM in the European equities markets. The index "covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets."¹²

TaxTec assessed the structure of a fund based on the MSCI Europe¹³ for reclaimable WHT. The assessment took into account the specific domicile of each component equity, its weighting within the index, and the detailed withholding and reclaim rates in each case.

The result showed that where WHT was not reclaimed, Japanese investors are losing out on some 43 basis points of rightful returns. Considering that the MSCI Europe dividend return in full year 2024 was just over 3%, then the value of effective tax reclamation was equal to more than 10% of dividend returns as a whole.

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Next Steps

While some leading custodians deal with tax reclamation efficiently and effectively, this is by no means universal. With the availability of automated services to manage the complexities of WHT reclaims, then no investment vehicle, nor its service providers, has a good reason to ignore maximizing investors' rightful returns.

According to this short research note, which examines the MSCI Europe Index, Japanese investors may be losing as much as 10% of their reclaimable WHT. Yet as awareness of non-reclamation and its impact grows, investors are becoming more active in demanding that none of their precious yield is left on the table.

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Footnotes

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