

## EU Savings Tax hits expatriates

The European Saving Tax Directive (STD) came into effect on 1 July 2005 and applies to individuals who are resident in an EU country on interest received on deposit accounts, bonds and certain types of collective investment schemes. At this time it does not affect interest paid to companies but there is speculation that this may be extended in the future.

The Directive does not apply to persons (including EU Nationals) who are resident outside the 25 Member States of the EU. However any new countries joining the EU will be obliged to accept the information-sharing variant of the Directive, and their residents will be caught by the STD as and when those countries accede to the EU; currently this affects Bulgaria, Croatia and Romania.

It should be remembered that the STD does not apply to offshore centres or other jurisdictions not connected to the EU and therefore jurisdictions such as Hong Kong and Singapore will become increasingly attractive for those EU investors, who do not wish to evade taxation, but who do wish to control the information passed to increasingly Big Brother like EU governments.

The aim of the STD is a uniform 'information exchange' regime to apply across all EU member states. The new rules only apply to EU member states, but because the BVI, Anguilla, Turks & Caicos Islands, the Caymans, Montserrat, the Isle of Man and the Channel Islands are UK dependent territories, they have also adopted and will implement the European Savings Tax Directive (STD) as have the Netherlands' dependent territories. Poland signed up to share information with the UK and Netherlands dependent territories on 4 July by a Notice of the Minister of Finance on the basis of Article 30b of the Personal Income Tax Law.

There are two systems: 'information exchange' and 'withholding tax'. A table showing which system has been adopted by each country is set out below:

Country/Jurisdiction	EU Status	Option selected	Comments
Andorra	Independent	Withholding Tax	Franco-Spanish control
Anguilla	UK Dependent Territory	Information Exchange	
Aruba	Netherlands Dependent Territory	Information Exchange	
Austria	Member State	Withholding Tax (15%)	Information Exchange by 2009
Belgium	Member State	Withholding Tax (15%)	Information Exchange by 2009
Bermuda	UK Dependent Territory	Outside STD regime	Seems to have been left out by accident
British Virgin Islands	UK Dependent Territory	Withholding Tax (15%)	

Cayman Islands	UK Dependent Territory	Information Exchange	
Cyprus	Member State	Information Exchange	
Czech Republic	Member State	Information Exchange	
Denmark	Member State	Information Exchange	
Estonia	Member State	Information Exchange	
Finland	Member State	Information Exchange	
France	Member State	Information Exchange	
Germany	Member State	Information Exchange	
Gibraltar	UK Crown Colony	Information Exchange	
Greece	Member State	Information Exchange	
Guernsey	UK Crown Dependency	Withholding Tax (15%)	Described as a 'Retention Tax'; investors can choose information exchange as an option.
Hungary	Member State	Information Exchange	
Ireland	Member State	Information Exchange	
Isle of Man	UK Crown Dependency	Withholding Tax (15%)	Described as a 'Retention Tax'; investors can choose information exchange as an option..
Italy	Member State	Information Exchange	
Jersey	UK Crown Dependency	Withholding Tax (15%)	Described as a 'Retention Tax'; investors can choose information exchange as an option.
Latvia	Member State	Information Exchange	
Liechtenstein	Independent but is	Withholding Tax	

Limassol(HQ) • London • Warsaw • Bucharest • Athens • Thessaloniki • Tortola • Johannesburg • Cape Town • Luxembourg • Sofia • Beijing

	obliged to follow Switzerland	(15%)	
Lithuania	Member State	Information Exchange	
Luxembourg	Member State	Withholding Tax (15%)	Information Exchange by 2009
Madeira	Part of Portugal	Information Exchange	
Malta	Member State	Information Exchange	
Monaco	Independent but is obliged to follow France	Information Exchange	
Monsterrat	UK Dependent Territory	Information Exchange	
Netherlands	Member State	Information Exchange	
Netherlands Antilles	Netherlands Dependent Territory	Information Exchange	
Poland	Member State	Information Exchange	
Portugal	Member State	Information Exchange	
San Marino	Independent	Information Exchange	
Slovakia	Member State	Information Exchange	
Slovenia	Member State	Information Exchange	
Spain	Member State	Information Exchange	
Sweden	Member State	Information Exchange	
Switzerland	Affiliated to EU but not Member State	Withholding Tax (15%)	
Turks & Caicos Islands	UK Dependent Territory	Withholding Tax (15%)	
United Kingdom	Member State	Information Exchange	

**1. Information Exchange:** All signatories have agreed to report interest on savings paid to citizens of other signatories to those States' tax authorities. This is intended to remove the possibility for EU citizens to hide the returns on their savings from their home country's tax authorities. Under the 'information exchange' system, the identity of individual recipients will be disclosed to their home tax authorities.

An investor can be asked for his/her Tax Identification Number (TIN). The STD requires banks and other paying agents to obtain customers' TINs where possible. The minimum amount of information that 'paying agents' (banks and other financial institutions) will be required to pass on to the 'competent authorities' of member states will consist of: identity and residence of the beneficial owner; name and address of the paying agent; account number of the beneficial owner; and interest payment data including the amount of interest income earned, plus information regarding any proceeds from sale, redemption or refunds.

If someone claims to be resident in a country different to that on his or her passport or I.D. card, the rules stipulate that "residence shall be established by means of a tax residence certificate issued by the competent authority of the third country.

**2. Withholding Tax:** Since several countries affected by the Decree have a long tradition of banking secrecy and so the European Commission has allowed Austria, Luxembourg, Belgium and Switzerland to apply a 'withholding tax' (at an "initial" rate of 15%). The Channel Islands and Isle of Man have had to join the STD, along with the Netherlands Antilles, Aruba and some European centres (Andorra, Monaco, Liechtenstein and San Marino, and they have opted for the withholding route. When tax is 'withheld', the identity of the recipient is not be reported, thus preserving individual confidentiality.

Under the withholding tax option, banks and other paying agents will automatically deduct tax from interest and other savings income earned and pass it to their local tax authority, indicating how much of the total amount relates to customers in each Member State. The local tax authority will then keep 25% of the total amount collected and remit 75% to the various tax authorities within the Member States. The receiving country gets a bulk payment which is not broken down in terms of the individuals who are covered (thereby ensuring anonymity of the persons affected). The rate of withholding tax will be 15% from July 2005, 20% from 1st July 2008, and 35% from July 2011.

Of the UK Caribbean jurisdictions, Anguilla, the Cayman Islands and Montserrat have opted for an exchange of information regime, while the BVI and Turks & Caicos chose the withholding tax option.

Written by: Peter G. Economides, FCCA  
Chairman  
and  
Richard Wernick, CTA  
Manager, Warsaw Office

**TOTALSERVE MANAGEMENT LTD**

P.O. Box 54425, 3724 Limassol, Cyprus  
Tel. + 357 25866000, Fax. + 357 25866001  
[services@totalservecy.com](mailto:services@totalservecy.com)  
[www.totalservecy.com](http://www.totalservecy.com)