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Savings taxation: Council go-ahead to negotiate with Switzerland, Liechtenstein, Monaco, Andorra and San Marino

The Council today[1] gave a mandate to the Commission to negotiate amendments to the EU's agreements with Switzerland, Liechtenstein, Monaco, Andorra and San Marino on the taxation of savings income.

The decision represents an important step in the EU's efforts to clamp down on tax evasion and tax fraud.

The aim is to ensure that the five countries continue to apply measures that are equivalent to the EU's directive on the taxation of savings income, which is being updated. The Commission will negotiate on the basis of a draft directive amending the savings directive (2003/48/EC), aimed at improving its effectiveness and closing certain loopholes so as to prevent its circumvention.

The draft amendments to the directive reflect changes to savings products and developments in investor behaviour since it came into force in 2005. They are aimed at enlarging the directive's scope to include all types of savings income, as well as products that generate interest or equivalent income, and at providing a "look-through" approach for the identification of beneficial owners[2].

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1 The decision was taken at a meeting of the Economic and Financial Affairs Council.
2 i.e. "reasonable steps" shall be taken "to establish the identity of the beneficial owner".

Background

Directive 2003/48/EC requires the member states to exchange information automatically so as to enable interest payments made in one member state to residents of other member states to be taxed in accordance with the laws of the state of tax residence. During a transitional period, Luxembourg and Austria can impose a withholding tax on interest paid to savers resident in other member states, instead of providing information on savers[1].

Under the existing EU agreements, signed in 2004, Switzerland, Liechtenstein, Monaco, Andorra and San Marino apply equivalent measures to those provided for in the directive. As do Guernsey, Jersey, the Isle of Man and seven Caribbean territories[2], under bilateral agreements concluded with each of the member states.

Equivalent measures under the existing agreements involve either automatic exchange of information or a withholding tax on interest paid to savers resident in the EU. A proportion of the revenue accrued from the withholding tax is transferred to the country of the saver's tax residence.

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[1] Luxembourg has recently announced that as from 1 January 2015, it will no longer make use of the transitional arrangements and will exchange information automatically under directive 2003/48/EC.

[2] Dependent and associated territories of the Netherlands and the United Kingdom