



Taxing interest

The EU Savings Tax Directive is like the monster of Loch Ness. It keeps sticking up its head but nobody ever knew what it looked like. But this Nessie has come to stay.

The EU has set up one system for the taxation of savings. In fact, it won't change the basic rules of interest taxation for individuals, but some loopholes are closed. When a EU resident receives interest, he has to pay income tax at home. All the Savings Tax Directive does is put in place a EU-wide system to monitor that we all pay the tax.

The Savings Tax Directive only applies to interest received by an individual. And that is more than just interest on savings and term accounts, on bonds and cash bonds. It also includes investment funds that hold short-term deposits or bonds, but also mixed funds. These also hold stock and a certain percentage of interest bearing assets. The Directive does not apply to dividends, Sicavs investing in stock, Euro bonds issued before 1 March 2001 or insurance products.

Whenever a bank or a financial institution pays interest, it will give the local tax office information about the beneficiary, his account number, and the interest paid on which he might be liable to tax at home. At least once a year the tax office will pass this information around. The Directive is bring about a whirlwind of little chits of paper telling your tax inspector what interest you have received abroad. And when all that information is in your tax file, it will difficult to forget about it.

Belgium, Luxembourg, and Austria stay out of this exchange of information, at least for the time being. Instead they will withhold tax and share it with the state of residence of the taxpayer. The tax is 15 percent until 2007, 20 percent between 2008 and 2010, and for the last three years, it will be 35 percent. Belgium will probably stop withholding after 2010.

The EU has as many tax havens as there are holes in a Swiss cheese, Switzerland being the case in point. The EU has convinced Switzerland, the Channel Islands, Liechtenstein, the Netherlands Antilles and ten other tax havens to join in.

Nothing will change if you have invested you savings in Belgium. The bank withholds 15 percent tax, and that is the final tax; you do not need to declare it in your tax return. But if you receive interest in France or in the UK, your local taxman will know how much that was. If he cannot find this amount in your tax return, he may ask you some questions.

If a Luxembourg bank pays €100 in interest, it will withhold €15. That will be €20 percent in 2008 and €35 in 2011. A big misunderstanding is to think that one is in the clear because Luxembourg has withheld €15. In your tax return, you still have to mention the full € 100. The Belgian tax will be € 15 plus some communal tax, in total about €16.35. However, against that tax you can set off the € 15 you paid in Luxembourg. And when Luxembourg deducts €20 in 2008, Belgium will even pay you back the difference of €3.65.

The Luxembourg bank will not deduct 15 percent tax if you can present a certificate from your local tax office. At your request the taxman will give you certificate for that bank that is valid for three years. He will note down though what your account number is or what bonds you hold.

A taxpayer in another EU Member State or in one of the 15 other countries involved, will see



that his Belgian bank will now withhold 15 percent tax. That is unless he can present a certificate from his tax office at home. But if tax has been withheld, he will be able to credit it against his tax liability at home.

The situation is not very clear for officials of international organisations (and mainly the European Institutions) and for expatriate executives. They are deemed to have maintained their tax residence outside Belgium but most of them have no address outside Belgium. Contrary to Luxembourg, Belgium has taken the safe option even against the text of the Directive. The Belgian bank must withhold 15 percent tax if the beneficiary owner has a permanent address in Belgium but an overseas fiscal residence.

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