



In your interest

At a time when most banks reduced the interest rate on savings accounts to 1.25 % (plus a fidelity or growth premium of 0.5 %) Deutsche Bank bucked the trend by promising 7 % interest. Dexia tried to outsmart Deutsche Bank with an interest rate of 9 %. What is happening here ?

Belgian savings accounts have always been very popular. Saving accounts may not be very lucrative, they are risk-free and you can always take out your money. Another attraction over other fixed interest investments is that they benefit from a tax exemption. The first € 1,550 in interest you receive on a savings account is tax exempt. There is no withholding tax and you do not need to declare the interest in your tax return. That means that you can invest some € 88,500 tax free. On a high yield account of 2.75 %, you hold some € 56,360 tax free.

Until last year, the exemption of withholding tax was computed over all the savings accounts of a family. Since then, spouses are taxed separately on their earnings and investment income (rent, interest, dividend, etc ...). And the interest their received is added to their own. It is taxed in the hands of their parents until they are 18. Children only file a tax return of their own when they start earning their own money. And then they are entitled to their own tax exemption.

Each taxpayer is now entitled to the exemption of € 1,550. On a joint savings account you have with your partner, you can double the investment, and enjoy an exemption of € 3,100. At least that is the theory, because most banks disregard the joint exemption. They continue to withhold tax when they pay out interest over € 1,550. They claim it is too much work to check whether the account is really a joint account. Finance Minister Reynders does not agree and he has started discussions with the banks. In the meantime, it may well be worthwhile splitting the investments over several bank accounts.

The tax exemption and the flexibility explain why in the last three years, cash on Belgian savings accounts has swelled to some € 150 billion. What we are seeing now is just the beginning of the battle for our savings. Small banks have always offered about a percent more than the going rate. They have to because they cannot offer the same variety of services and investment advice as the big banks. But even 2.75 % is less than today's inflation rate. Since the interest rate over a period of 10 years is only 3 %, no one can afford to pay high interest rates. These offers are really loss leaders to attract new clients.

Deutsche Bank will not accept you on if you do not agree to a sales talk about their investment opportunities. Deutsche Bank wants you to invest at least € 10,000, with a maximum of € 40,000. And there is a catch. The db Invest Plus account pays 7 % for three months only. Afterwards, the interest rate drops to a more commercial rate.

What Dexia proposes is that you invest in their investment fund 'Dexia Funding Netherlands Multiple Capital Repayment 4'. Dexia gives you back half of the investment after three months with 2.25 % interest (that is 9 % per year). The other half stays with Dexia for 12 years. You receive 5 % during the first year. After that, the interest rate will depend on the performance of the shares held by the fund.

And what the banks are not always mentioning either is that they have to withhold 15 % tax on these special offers. 9 % is only 7.65 % and 7 % is 5.95 %.



Banks want your savings, but not on a savings account. Other banks will make an effort to keep their clients with similar investment products. But you should never look at the interest rate. The real return on investment is what you get over the entire period. That is exactly what Test Achats said last week, much to the dismay of the banks.

The competition is hard, especially when insurance companies are offering insurance accounts, but that is another story.

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