

***European Savings Directive  
Questions & Answers***

**Q. What is the purpose of the European Savings Directive?**

A. To counter cross-border tax evasion by collecting tax from or exchanging information about savings income received by individuals from accounts held outside their country of residence.

**Q. Who will be affected by the Directive?**

A. Anyone resident in an EU member state holding a bank account or other applicable investment in another EU member state where they are not resident. The Directive will also apply to bank accounts etc in certain non-EU states and dependent territories\* notably Jersey, Guernsey, Isle of Man, and Switzerland.

*\*Also, Andorra, Monaco, Liechtenstein, Gibraltar, Cayman Islands, Dutch Antilles and certain Caribbean territories.*

**Q. When will the Directive come into force?**

A. Scheduled to come into force on 1<sup>st</sup> July 2005.

**Q. What type of savings will the Directive apply to?**

A. Mainly to interest on bank and building society deposits; also to debt instruments such as government and corporate bonds as well as unit-linked funds with a high bond or cash content.

The Directive will NOT apply to income from insurance-based investments, shares or equity-based funds either in the EU or in any of the other jurisdictions.

**Q. How will the Directive work in practice?**

A. This will depend upon where the account is located: Austria, Belgium and Luxembourg as well as Jersey, Guernsey, Isle of Man and Switzerland have opted to apply withholding tax to interest income on accounts held by non-residents (at least for a transitional period of 7 years).

The other 22 EU member states have opted to exchange information regarding interest income earned with the tax authorities of the country of residence of the account holder.

**Q. What will happen if I hold an account in one of the jurisdictions applying withholding tax?**

A. Interest earned on accounts held by non-residents will be taxed at source\* at the following rates of tax:

15% in the first 3 years (2005-2008)  
20% in the next 3 years (2008-2011)  
35% thereafter (July 2011 onwards)

75% of the tax withheld will be paid over to the countries of residence of account holders in bulk and without providing any specific information about individual accounts or account holders.

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*\*Account holders will be able to opt for exchange of information and to receive interest income gross.*

**Q. What will happen if I hold an account in any of the other jurisdictions?**

A. The other 22 EU member states will supply details of interest income earned on all individual accounts held in their countries by non-residents to the tax authorities of account holders' countries of residence.

Specific information regarding individual accounts will be passed on to the tax authorities of the account holder's country of residence.

**Q. What will happen to accounts held in the withholding tax jurisdictions at the end of the 7 year transitional period?**

A. The intention is that these jurisdictions will move to an exchange of information at the end of this period (although this will be subject to agreement across all jurisdictions).

**Q. What measures should be taken in preparation for the implementation of the Directive in 2005?**

- A. 1. Reporting issues: it will be vital to ensure that interest income from accounts held outside your country of residence (especially those held in jurisdictions exchanging information) is properly accounted for in tax returns.
2. Alternatives to cash deposits: the Directive will NOT apply to insurance-based investments or most unit trusts in ANY of the member states or dependent territories. Such investments are generally highly tax efficient and are completely legitimate. Now may therefore be an opportune time to consider moving savings into such investments.

**The information above is based upon our understanding of the laws and does not constitute advice. No responsibility can be accepted for any decisions taken on the basis of its content.**

**We stress to any reader that the contents cannot be a substitute for professional advice which allow consideration of all factors surrounding the potential investor. Thorough and professional advice should be sought before making decisions or taking any action.**

**This briefing note was prepared in 2005. Every effort has been made to ensure the accuracy of contents. For more detailed information please feel free to contact one of our offices.**