

# Taxation of savings income in the form of interest payments

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The Council held an **orientation debate** on:

- a draft directive aimed at strengthening the provisions of directive 2003/48/EC on the taxation of savings interest;
- a [draft anti-fraud and tax information exchange agreement with Liechtenstein](#);
- a draft decision authorising the Commission to negotiate anti-fraud and tax information exchange agreements with Andorra, Monaco and San Marino, as well as a new agreement with Switzerland.

The presidency intends, in the light of comments made by ministers, to take work forward in the Council's high-level working group on taxation so as to enable the Council to make progress as soon as possible.

As regards **taxation of savings interest**, the proposed amendments to directive 2003/48/EC are intended to reflect developments in savings products and in investor behaviour since it was first applied in 2005. They set out to enlarge the directive's scope to include all savings income, as well as products that generate interest or equivalent income, and to avoid circumvention of the directive.

Directive 2003/48/EC requires the member states to exchange information 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. For a transitional period, Luxembourg and Austria impose instead a withholding tax on interest paid to savers resident in other Member States.

Equivalent measures to those provided for in the directive are applied by Andorra, Liechtenstein, Monaco, San Marino and Switzerland, under agreements concluded with the EU, and in ten dependent and associated territories of the Netherlands and the United Kingdom (Guernsey, Jersey, the Isle of Man and seven Caribbean territories), under bilateral agreements concluded with each of the member states.

The **draft agreement with Liechtenstein** covers fraud as relates to both direct and indirect taxation. It uses a definition of fraud that covers both natural and legal persons (e.g. companies) and includes not just false documents and false tax returns, but also the submission of incomplete tax returns. The text provides for cooperation between the parties through the exchange of information that is foreseeably relevant to tax administrations. It allows the parties to trigger administrative assistance that cannot be refused on the sole grounds that the information requested is held by a bank or other financial institution, and legal assistance for acts that are punishable under the laws of the parties. Implementing measures, such as seizure, are foreseen for acts that are punishable by prison sentence by both parties.

The draft agreement with Liechtenstein may later serve as a model for the negotiation of agreements with Andorra, Monaco and San Marino, as well as the negotiation of a new agreement with Switzerland that would extend existing provisions on indirect taxation to also cover direct taxation.