

Taxation of savings income in the form of interest payments. Savings Directive

2001/0164(CNS) - 18/07/2001 - Legislative proposal

PURPOSE: to ensure effective taxation of savings income in the form of interest payments within the Community. **CONTENT:** in 1997 the European Commission was requested to present proposals on ways in which to tackle harmful tax competition within the European Union. Community measures in this field were justified on the grounds that harmful taxation continued to distort the proper functioning of the single market as well as leading to excessive tax revenue loss. Accordingly, the European Commission prepared a number of initiatives including a proposed Directive aiming to establish a minimum of effective taxation of savings income in the form of interest payments within the Community. Initially, the ECOFIN Council agreed that the best approach towards this matter would be to establish a compromise model known as the "coexistence model", whereby each Member State would be able to choose between: - applying a withholding tax on interest payments made to individuals who are resident in other Member States - or providing information to the beneficial owner's Member State of residence. Gathering in Santa Maria da Feira in June 2000 the ECOFIN Council however adopted a new approach. Here, Member States agreed unanimously that the ultimate objective of the EU, in line with international developments, would be exchange of information on as wide a basis as possible. Importantly, it was also agreed that only a limited number of named Member States would be allowed to operate a transitional withholding tax and that these Member States would implement exchange of information as soon as conditions permit. In any case no later than 7 years after the entry into force of the Directive. This approach was strengthened later in November of that year and the following principles governing the proposed Savings Directive were agreed: - All Member States would exchange information with each of the other States seven years after the date on which the Directive enters into force. - Only Austria, Belgium and Luxembourg will exercise their option to operate the withholding tax during the transitional period. - The withholding tax to be applied by these three Member States will be 15% for the first three years of the transitional period and 20% for the remainder of the period. - These three Member States would transfer 75% of the revenue of the withholding tax to the Member State of residence of the investor. - The scope of the Directive will include interest from debt-claims of every kind and in particular income from domestic or international bonds, accrued interest realised at the sale, refund or redemption of such debt-claims, capitalised interest on zero-coupon bonds and similar products, income distributed by investment funds and capitalised interest from capitalisation funds in as far as such income or interest is attached to debt-claims. - To avoid market disruption for the duration of the transitional period, a "grandfathering clause" will apply. - The "paying agent principle" where by the last intermediary in any given chain of intermediaries who pays interest directly to, or secures the payment of interest for the immediate benefit of the beneficial owner should apply. In view of the changes proposed, the Commission is of the view that the 1998 proposal for a Directive no longer reflects the common opinion of Member States. The Commission has therefore decided to withdraw its 1998 proposal and present a new proposal for a Directive. The content and scope of the new proposal mirror, as much as possible, the agreements of the November 2000 ECOFIN Council