

Taxation of savings income

Hungarian EU Presidency refines strategy

By Tanguy Verhoosel | Tuesday 08 March 2011

The Hungarian EU Presidency has refined its strategy on the taxation of savings income. Hoping to lift the dossier out of its impasse before the summer, Hungary is now suggesting that the EU27 proceed in stages, the first of which would be to confirm a 2009 compromise on extending the scope of existing legislation and authorising the European Commission to begin negotiations with Switzerland, Liechtenstein, Andorra, San Marino and Monaco without further delay.

Budapest has developed a new working document for the EU's fiscal experts, who will hold a high-level meeting, on 18 March.

"The Presidency believes that a possible way forward," the document states "could be inviting the European Commission, as an intermediate step, to open negotiations with third countries to ensure equivalent measures are applied to the text of the revised Savings Taxation Directive, as member states provisionally approved in 2009."

The EU27 had then agreed on the principle of extending the scope of existing legislation (Directive 2003/48/EC) on certain products (life insurance, etc) and corporations (trusts, etc).

In this context, the Presidency's "priority" is to obtain a "confirmation" of the validity of this compromise, and would then renegotiate the bilateral agreements that the EU concluded in 2004 with Switzerland, Liechtenstein, Andorra, San Marino and Monaco to put everyone on an equal footing in Europe, which has been demanded by Luxembourg and Austria, which fear a loss of capital if these five countries were not in the same boat.

Luxembourg and Vienna are also calling for the inclusion in the directive of a strict 'external conditionality' clause, allowing them to preserve their confidentiality as long as Switzerland does the same.

The directive stipulates that the 'transitional period' during which Luxembourg and Austria may apply the system of withholding tax will not be indefinite - the two countries will switch to the automatic information exchange system between tax authorities when the EU approves agreements as "OECD standards" concerning the on-demand exchange of information with Berne, Vaduz, Andorra, San Marino and Monaco. The Commission has already concluded a draft agreement with Liechtenstein and wishes to enter into negotiations with the four other states without delay. Luxembourg and Vienna remain opposed.

Faced with this deadlock, the Hungarian Presidency is keen to act. "At this stage," it stated, "the question concerning the end of the transitional period will not be a priority in discussions" that EU experts will resume, on 18 March.

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Other questions have arisen, which pose serious challenges to Budapest's success. On the one hand, Switzerland has initiated bilateral negotiations with Germany and Great Britain on its 'Rubik project', which revolves around the important principle of the removal, by Berne, of a deduction at source of all other taxes, which would allow for the bailout of Berlin and London while preserving the anonymity of German and British investors.

On the other hand, Switzerland and the EU are preparing manoeuvres that reach across a far wider area than that of taxation.

On 8 March, the Swiss Confederation and the Commission agreed to begin a third round of bilateral negotiations, which will encompass both sectoral and institutional issues (including taxation).

The exact 'bilateral III' agenda should be available at the end of March, the Commission has said, in the hope of completing the exercise by the end of 2011, but the haggling could last much longer, due to the extreme sensitivity of certain topics. n

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