

Guide to the EU Savings Tax Directive

The European Union Savings Tax Directive came into effect on 1 July 2005. Under this Directive, financial institutions in countries of the EU are required to exchange information on the interest paid to customers who are resident in other EU countries.

Although the Isle of Man is not part of the EU, financial institutions in the Isle of Man are also affected by the Directive. Initially the Isle of Man also offered a retention tax option as an alternative to automatic exchange of information. However from 1 July 2011, the Isle of Man Government has agreed that retention tax will no longer be an option for people who hold their savings in the Isle of Man. In addition people who are tax exempt (such as non-domiciled residents) will also be subject to exchange of information.

This means that from 1 July 2011, Britannia International will be obliged to exchange information on interest payments paid to all EU residents. To do this we will forward details on your identity, residence and interest paid to the Isle of Man tax authority who will forward this information to your home tax authority. Your interest will be paid gross with no retention tax deducted.

1. Information on the Directive

1.1 What is the EU Savings Tax Directive?

The Directive is an agreement between EU member states to automatically exchange information about customers who earn interest in one EU Member state but live in another.

Although the Isle of Man is not a member of the EU, it is one of the UK Crown Dependencies, UK Overseas Territories and other Third Countries who have voluntarily agreed to apply the same or equivalent measures as the Directive.

The Isle of Man initially opted to apply a withholding tax (known in the Isle of Man as a retention tax). This meant that customers who have bank accounts in the Isle of Man and who are affected by the Directive had a choice of paying the retention tax or requesting their bank to exchange details of their interest income to

their home tax authorities. More recently in 2009 the Isle of Man Government announced that retention tax would no longer be an option for customers with savings in the Isle of Man. Legislation regarding this has now been passed and from 1 July 2011 all EU residents will move to automatic exchange of information.

1.2 Will I have to pay more tax?

No. The Directive does not involve you paying any more tax than you should currently be paying. Under the exchange of information option, and from 1 July 2011, your home tax authorities will simply be provided with details of the interest you have earned.

1.3 When did the Directive come into force?

1 July 2005.

2. The effects of the Directive

2.1 Who does the Directive affect?

Individuals who are resident in an EU Member State. You are considered an EU Resident if you reside in the following EU Member States or Territories: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal (including Azores, Madeira), Romania, Slovakia, Slovenia, Spain (including Balearics, Canary Islands), Sweden, United Kingdom.

2.2 Who is not affected?

Individuals who are resident for tax-purposes outside the EU (but see 2.6 for non-domicile status). Accounts held in company names and by discretionary trusts are also exempt whether they are resident in the EU or not, however certain trusts such as interest in possession and bare trusts may be affected.

2.3 What about residents of the Isle of Man?

If you are resident in the Isle of Man (or Jersey and Guernsey) for tax purposes you will not be affected.

2.4 I am resident outside the EU but have an EU Member State passport. Am I affected?

You should fall outside of the scope of the

Directive but you may be required to provide proof that you are resident outside of the EU for tax purposes.

2.5 I hold a joint account – my wife is resident in the UK but I am resident outside the EU. Are we affected?

Interest paid to joint account holders will be apportioned equally. Therefore the interest paid to your wife will be subject to exchange of information. You will not be affected.

2.6 What happens in relation to the Directive if I live in the EU but am non-domicile?

From 1 July 2011 all residents whether domiciled or not will be subject to exchange of information.

2.7 What happens in relation to the Directive if I'm an expatriate?

The Directive is based on residency. If you are not tax resident in the EU, you will not be affected.

3 The Directive and Britannia International Accounts

3.1 Are accounts with Britannia International affected by the Directive as it states 'customers of banks'?

Yes, Britannia International is registered as a bank on the Isle of Man.

3.2 I will be affected by the Directive - what will happen to my Britannia International account?

From 1 July 2011 details of your identity, residency and the interest you have received over certain periods of time will be provided to the Isle of Man tax authorities who will then provide this to the EU Member State in which you are resident.

3.3 I paid retention tax previously - what do I need to do now?

If you previously paid retention tax, you will automatically be switched to exchange of information from 1 July 2011. Details regarding your identity, residency and interest earned will be exchanged annually starting with the tax year 6 April 2011 to 5 April 2012.

3.4 Are there any accounts that are not affected by the EU Savings Tax Directive?

Accounts such as capital protected structured products (commonly referred to as capital protected bonds) are currently out of scope of the Directive. Any account which is set up in corporate names is also out of scope. (Certain trusts such as interest in possession and bare trusts may be affected).

3.5 Where will my information in relation to interest paid be sent to under exchange of information?

In the first instance it will be sent to the Isle of Man tax authorities who will then forward it to the tax authorities in your home country.

3.6 I have a Deferred Interest Account – how will the Directive affect interest accumulation?

Any interest paid at the time of closure will be affected under the Directive if you are EU resident at the time.

4 The change from retention tax to exchange of information

4.1 Why did the Isle of Man Government withdraw the retention tax option?

The retention tax was an option chosen by a small number of countries as a transitional arrangement when the EUSTD first came into place. The Isle of Man Government decided to withdraw this option as it believes the Isle of Man should adopt the internationally recognised standard of exchange of information.

5 Other questions

5.1 What is the specific number of the directive?

2003/48/EC (Dated 3 June 2003).

5.2 What advice can you give me as to the best option for me?

We are unable to advise the best course of action for individuals, and therefore suggest you seek independent tax advice.

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