

1.4.2 Taxation of Savings Income Agreement with the EU

In 2000, during a meeting of finance ministers in Portugal, the European Union decided to establish an automatic exchange of information between the tax authorities of the member states.⁶⁶ Initially, the system of tax retention on interest revenues on the accounts of EU citizens was only a temporary solution. The initial idea was to enter into force if tertiary countries like Monaco, Andorra, San Marino, Liechtenstein, Switzerland and the US were willing to execute similar provisions. Otherwise, the risk of capital flight would have been too high.⁶⁷

Switzerland, represented by finance minister Kaspar Villiger, was not willing to agree to any kind of information exchange.⁶⁸ Therefore, in January 2003, the council of ministers agreed on the coexistence of the system of information exchange and the system of tax retention on interest revenues on the accounts of (foreign) EU citizens.⁶⁹ In addition, Austria, Belgium, Luxembourg and the Channel Islands decided to implement the system of tax retention on interest revenues.⁷⁰

The tax rate for the savings income agreement was 15% in 2006 and steadily increased to 35% in 2011.⁷¹ The agreement affects the interest on assets of individuals domiciled in the European Union. Letterbox offices, foundations and trusts are not included. Furthermore, it is possible to avoid the tax by switching investment types.⁷²

1.4.3 The American Way of Tax Collection

More effective at detecting and preventing tax evasion was the “American way”. The US started to levy tax deduction at source on dividends and interest of US-securities. From 2000, every foreign bank had to sign an agreement to become a “Qualified Intermediary” (QI) in order to invest in US securities. These QIs have to report US individuals with interests or dividends on US securities to the US financial authority (IRS). US individuals who do not disclose their identity to the IRS are not allowed to buy US securities and the QI has to withhold 31% of the client’s bank deposit.⁷³

⁶⁶ Council of the European Union, 2003, p. 38-48.

⁶⁷ Dalton, 2012, p. n/a.

⁶⁸ Missbach, 2009, p. 112-113.

⁶⁹ Swiss Federal Tax Administration, 2003.

⁷⁰ Council of the European Union, 2003, p. 38-48.

⁷¹ Swiss Federal Tax Administration, 2003.

⁷² Missbach, 2009, p. 113.

⁷³ Nobel, 2002, p. 364-368.