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How the new withholding tax agreements will affect the Swiss abroad

Parliament approved Switzerland's withholding tax agreements with Germany, the UK and Austria in June 2012. It was still unclear at the time of going to press whether a referendum would be called against them.

By Barbara Engel

The parliaments of Austria and the UK have already endorsed the agreements. The three agreements will enter into force on 1 January 2013 subject to a possible referendum in Switzerland and, in Germany's case, approval by the upper and lower chambers of the German parliament.

The three withholding tax agreements will govern the taxation of persons who are liable to pay tax in Germany, the UK and Austria and who have a bank or securities deposit account in Switzerland. This therefore also affects Swiss abroad living in one of these three countries who are liable to pay tax there.

Retroactive settlement of tax arrears

Bank clients from Germany, Austria and the UK (excluding the British Crown Dependencies and Overseas Territories) will be able to pay tax retroactively on previously untaxed assets in bank or securities deposit accounts in Switzerland by making a one-off, flat-rate payment. The amount will be based on the length of the banking relationship and the level of assets. It stands at between 21 and 41% of the assets for Germany and the UK and between 15 and 38% for Austria.

This one-off payment will settle all outstanding tax arrears from the past in accordance with the agreements. Anyone who does not wish to make this payment, perhaps because they have already paid tax on the assets, will be able to authorise their banks to disclose their account information to the tax authorities in their country of residence. Persons who do not wish either to make the one-off payment or to disclose their account information must terminate their banking relationship in Switzerland. This must be done before the agreement enters into force for Germany and Austria and before 31 May 2013 for the UK.

Taxation of future income

Swiss banks will in future levy a withholding tax on the capital income of German, UK and Austrian taxpayers in accordance with the agreements. By paying the withholding



tax, they will be settling their tax liability for this income in their country of residence. The level of tax is based on the tax rate in the respective country of residence and stands at 26.375% for Germany, 25% for Austria and between 27 and 48% for the UK depending on the type of capital income. Persons not wishing to pay this withholding tax must authorise their banks to disclose their capital income to the tax authorities in their country of residence. This will then be taxed as income.

Inheritance

In the event of the death of a person who had a bank or securities deposit account in Switzerland and was liable to pay tax in Germany or the UK, the Swiss bank will levy a withholding tax on the assets based on the highest rate of inheritance tax. This stands at 50% in Germany and 40% in the UK. Heirs will settle their tax liability for this inheritance by paying this withholding tax. If they do not wish to pay the withholding tax, they must authorise the Swiss bank to disclose the account information of the deceased person to the tax authorities in the country of residence. Depending on the rate of inheritance tax and degree of kinship, this may be more favourable than paying the withholding tax.

Both the one-off, flat-rate payment for previously untaxed assets and the withhold-

ing tax on future capital income and inheritances will be debited from client accounts directly. The payments will be transferred anonymously to the Federal Tax Administration (FTA). The FTA will then transfer the amounts to the German, UK and Austrian tax authorities in such a way that it is impossible to trace the identity of the bank clients. This will ensure that the foreign authorities receive the taxation due to them and the privacy of the bank clients is maintained.

Written in collaboration with the State Secretariat for International Financial Matters (SIF)

Further information is available at:
www.sif.admin.ch

FURTHER AGREEMENTS

The Federal Council is currently conducting negotiations for similar agreements with two further countries: withholding tax agreements are set to be concluded with Italy and Greece. Other countries, including some outside Europe, are also interested in concluding agreements, but formal negotiations have yet to take place.