



Facts about the European Union's Savings Tax Directive

The European Commission is seeking to expand the size and scope of the so-called savings tax directive. The Savings Tax Directive is an anti-competitive scheme that aims to thwart tax competition by making it easier for high tax nations to double-tax income that is saved and invested. The bureaucrats in Brussels are upset that the current version of the directive, which was implemented in 2005, is riddled with loopholes, enabling most taxpayers to protect their assets from an additional discriminatory layer of tax. The European Commission wants to broaden the types of savings and investment that would be subject to double-taxation and also increase the number of countries asked to be in the cartel. Here are the key facts:

FACT: Even though good tax policy does not double-tax income that is saved and invested and does not tax activity outside of national borders, the Savings Tax Directive requires participating countries to either provide information on interest paid into the bank accounts of EU citizens to the tax collectors in their country of origin, or to apply a withholding tax on the interest payments that is then remitted to the revenue departments of the relevant EU countries.

FACT: The Savings Tax Directive is an effort by the European Commission to stifle tax competition. High tax nations hope to gain the ability to track – and tax – flight capital so that over-burdened taxpayers will have less incentive to shift capital to jurisdictions with better tax law. The anti-competitive scheme is an affront to economic liberty and free markets.

FACT: Major financial centers such as Switzerland, Luxembourg and Austria opposed the Directive on principle, but eventually agreed to a watered-down version that is known in Europe as the “dummy tax” because it is easy for taxpayers to protect themselves.

FACT: The European Commission wants the revised Savings Tax Directive's reach to extend beyond individuals so that interest paid to entities such as corporations also is subject to double-taxation.

FACT: The Commission proposes imposing a new obligation on EU banks to report interest payments made through non-EU branches. This provision is strikingly similar to the proposed IRS regulation that would force American banks to report the interest paid to all nonresident aliens.

FACT: The European Commission wants more nations to join the cartel, especially the United States and Asian financial centers.

FACT: The Savings Directive will undermine foreign investment in the United States by forcing American financial institutions to act as tax collectors for Europe's welfare states. The United States refused to join the cartel earlier this decade and the arguments against participation in the directive still apply today.

FACT: Hong Kong and Singapore have made it clear to the Europeans that they have no desire to sabotage their economic interests by helping Europe's welfare states track and tax flight capital. The sentiments expressed by these two countries should rightfully be viewed as a major victory for tax competition and fiscal sovereignty.

For More Information:

The Market Center Blog, April 12, 2007, European Bureaucrats Want Massive Expansion of Savings Tax Cartel.

<http://www.freedomandprosperity.org/blog/2007-04/2007-04.shtml#124>

The Market Center Blog, November 13, 2006, Singapore benefits from Europe's anti-taxpayer policies.

<http://www.freedomandprosperity.org/blog/2006-11/2006-11.shtml#133>

The Market Center Blog, October 13, 2006, In major decisions that also damage OECD tax harmonization hopes, Hong Kong and Singapore reject expanded EU savings tax directive

<http://www.freedomandprosperity.org/blog/2006-10/2006-10.shtml#133>

The Market Center Blog, September 20, 2006, Caribbean leader warns against new European tax-grab

<http://www.freedomandprosperity.org/blog/2006-09/2006-09.shtml#204>

The Market Center Blog, September 4, 2006, European bureaucrats and politicians want to expand savings tax cartel

<http://www.freedomandprosperity.org/blog/2006-09/2006-09.shtml#042>

CF&P Strategic Memo Hails Defeat of EU Savings Tax Cartel

<http://www.freedomandprosperity.org/memos/m08-26-02/m08-26-02.shtml>

European Union's Savings Tax Directive information from 2001 to 2004

<http://www.freedomandprosperity.org/eu/eu.shtml>

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