

Compliance: Helping you to tick the boxes

EU taxation of interest income (EUSD)

The financial industry is facing many challenges; one of them is the compliance of complex, international directives and regulations. With its comprehensive, high-quality, global data offering, SIX Telekurs supports financial market players to be compliant.



What do I need to know about EUSD?

The EU “Directive on taxation of savings income in the form of interest payments” (2003/48/EC), which entered into force on 1 July 2005, decrees for all countries of the European Union that interest income earned abroad, must also be declared in the country in which the EU citizen in question is liable for taxation. The institution which pays out the interest income (i.e. the paying agent) is obliged within the EU area to report this tax liability to the tax authorities of the country in which the EU citizen in question is liable for taxation.

Various non-EU countries, including Switzerland, have voluntarily adopted the EU Directive. In Switzerland, in addition to the obligation to exchange information, it is possible to withhold a rising percentage of the interest income (as agreed with the EU) and to transfer this portion via the Federal Tax Administration to the authorities of the bank client resident in the EU.

The taxation of interest income affects in principle all financial instruments which can produce interest income in any form whatever. These include in particular:

- Funds (trust shares and units)
- Debt instruments (bonds, non-voting equity securities, floating rate notes, medium-term notes, money market paper, convertible bonds)
- Hybrid, structured products.

Various instruments are exempted from tax liability,

for instance bonds to which “grandfathering” applies, or investment funds which are exempted from taxation on interest income owing to national product definitions.

Who is affected?

Paying agents have the heaviest workload. Paying agents are all institutions that pay out interest income to a customer and that collect such income on behalf of a customer, e.g. banks, insurers, asset managers, auditors. The paying agents have a huge administrative workload since they are obliged to determine the taxable interest portion of investments, report this to the tax authorities in the bank customer’s country of domicile or – in the case of countries with a treaty agreement – withhold a percentage of the income. They must determine, for each instrument in the portfolio of their customers liable to taxation in Europe, whether the instrument or a portion of the instrument is subject to taxation on interest and how large this portion is in view of national fiscal legislation. This is a complicated, error-prone procedure especially for composite instruments such as funds of funds or hybrid, structured products.

This complexity and proneness to error ultimately disadvantages the paying agent’s customer if the tax deduction is too high owing to confusion surrounding the amount of withholding tax.

How do we help you to be compliant?

SIX Telekurs supplies a data package tailored to the EU Directive on taxation of interest income. The package is based on a transparent system of rules which have been developed in cooperation with legislative offices and national and international tax specialists. The data will help you determine which instruments are liable to taxation and will also ascertain the taxable proportion for funds and structured products.

SIX Telekurs flags all debt instruments which may be subject to taxation in accordance with these rules. In the area of funds and hybrid, structured products, the instruments are flagged on the basis of a declaration – updated annually – made by the issuing companies themselves.

What data do we offer for EUSD?

For front office and investment advisory – a quick overview:

- In scope (the instrument is in principle subject to the EU Directive, but may come under an exceptional ruling)
- Out of scope (the instrument does not come under the Directive)
- Unknown (the situation is not yet clear-cut, e.g. for funds before the issuer has made its declaration).

For asset managers and portfolio analysts – incl. tax information:

- In scope/out of scope with or without tax liability
- Grandfathered (especially for debt instruments: instrument is subject to EU Directive but is excepted by reason of the grandfathering rule)
- Country-specific exceptions.

For back office and fund management – with detailed information for billing:

- Interest portion of NAV/distribution
- Initial figure for the interest portion of the NAV
- TIS/TID
- Country levying the tax
- Tax rate of the country in question
- Time of deduction of withholding tax (“at distribution” or “sale/return”).

For cross-border exchange of information EU/bilateral:

- Exact information about what is taxed in the different countries (sale, redemption or repurchase)
- Information about the structure of an instrument
- All components for each interest payment
- Special classification procedures for non-EU countries
- Tax category (exchange of information or withholding tax).

Especially for structured products:

- Instrument categories from which taxation can be derived (in accordance with the classification in Switzerland, which has been taken over by various EU countries)
- Interest/premium portion

Advantages of central classification of data:

- The classification of the securities does not have to be carried out by each bank individually.
- The classification system is uniform and is also used by the national tax authorities.
- The model is transparent and is based on a simple and flexible set of rules.
- National tax definitions and special features are reported in a straightforward manner.
- Adjustment to the EU Directive can be automated. Manual intervention is only necessary where the issuer’s information is lacking.

For further information about the data we offer in terms of regulatory compliance, please do not hesitate to contact your local SIX Telekurs sales team.

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