Swiss-German tax treaty undermines prospects for Europe...

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The following comes from the blog of Eurodad, a fellow member with Tax Research UK of the Task Force on Financial Integrity and Economic Development:

An imminent "withholding tax treaty", will allow Germany to claw back some revenue from tax evasion, but it will also protect Swiss bank secrecy and undermine the prospect of *automatic information exchange globally, and more specifically the EU European Savings Tax Directive (EUSTD).*

Switzerland and Germany will conclude the deal on 10th August, according to German and Swiss newspapers. A withholding tax will be charged on income from savings and investments of German citizens with Swiss accounts, i.e those who had previously evaded tax in Germany. There will be both a one-off payment for lost income in the past, paid initially by Swiss banks, and then an ongoing tax on interest and return on capital. ***However, the withholding tax will be returned anonymously, thereby protecting Swiss banking secrecy.***

The one-off compensation for past lost earnings ***could raise between â‚¬***1.8 Billion and ***â‚¬***10 billion according to different estimates, and will be paid for by Swiss banks initially, who will be reimbursed if Germany can make individuals pay up.

Actually obtaining the ongoing revenue is likely to be difficultas in many cases account holders can dodge these rules by moving money between Switzerland and other tax havens. Equally, the German government is probably being naÃ¯ve in trusting the Swiss authorities and banks to collect taxes for them. Tax Research UK point out that Switzerland is a country that "has a proven record of facilitating crime, and being utterly indifferent to it. And that has consciously and deliberately withheld information from other governments for decades.

Britain has been in negotiations with Switzerland for a similar deal, and other countries might well follow suit, with France and Spain currently considering it.

The actual tax rate has still to be finalised but it is likely to amount to around ***25-26%.***

This is less than the EUSTD, and will therefore undermine the initiative. EUSTD requires member states except holdouts to automatically provide other members states with information, but this only applies to wealthy individuals' interest income. For example, Holland would have to automatically provide France with the details of any interest paid by Dutch banks to French citizens. This interest would then be taxed at 35%, from which Holland would keep a quarter and France the rest. The Swiss-German treaty will strengthen the hand of ***holdouts Austria and Luxembourg, who also pay anonymous withholding taxes rather than sharing information. It seems Switzerland has been pursuing the withholding tax deals precisely because they undermine the EUSTD, and damage the prospects of other international automatic information exchange deals.***

Hat tip: Mark Morris