Taxation of savings

Natural persons based in an EU country who earn interest on investments in Switzerland should be obliged to pay tax on this. The Agreement on the taxation of savings income with the EU is intended to prevent Switzerland being abused for tax evasion purposes. This also protects banking secrecy.

Since the middle of 2005, EU customers of Swiss banks have been required to provide the banks with written instructions concerning the treatment of their savings income. They either authorise their bank to report the interest paid to the tax authorities in their country or tax is withheld directly by the bank.

Report: The bank customer from the EU gives his consent to the bank to report the interest to the Swiss tax authorities. These then forward the data to the corresponding EU country which taxes the savings income under national law. A total of around 64,000 such reports were forwarded to EU countries in 2007. As a rule, they are sent electronically, coded and protected by several passwords. In 2007, these 64,000 reports covered savings income of around 820 million francs.

Withholding tax: If the EU customer does not wish to make any such report, the bank is obliged to withhold an amount from his savings income automatically. The withholding rate is currently 20% of the savings income and will be increased to 35% as from the middle of 2011. The bank forwards the amount withheld to the Swiss tax authorities without stating the name. The authorities transfer 75% of the tax withheld to the corresponding EU country. The balance remains in Switzerland and is distributed between the Confederation (15%) and the Cantons (10%). In 2008, some 738 million francs were withheld as tax and distributed.

This system ensures that EU citizens pay appropriate tax on their savings income in all cases. At the same time, client confidentiality is preserved because the customers choosing the withholding option are not required to disclose their bank details.

Which products are covered by the Agreement?
The Agreement covers interest on various forms of investment. This concerns not only interest payments from banks but also those by, for example, asset managers. For instance, it covers interest on savings deposits, bonds or loans for business activities.

AGREEMENTS

Key data
Date of signing: 26 October 2004 (in the framework of Bilaterals II)
Date effective: 1 July 2005

“The Agreement on the taxation of savings income creates major advantages for both the EU and Switzerland. The EU states receive annual tax revenue from Switzerland of around 500 million francs (2007). In return, the Agreement makes it possible to preserve full client confidentiality for customers, even for EU citizens.”

Urs Ph. Roth, Chief Executive Officer and Delegate of the Board of Directors of the Swiss Bankers Association