

EU SAVINGS TAX DIRECTIVE

HOW IT AFFECTS THE ISLE OF MAN

With effect from 1 July 2005 to 30 June 2011 paying agents in the Isle of Man are responsible for deducting retention tax from interest payments made to individuals resident in an EU Member State.

Who is a Paying Agent?

Apart from the banks and building societies and other interest-paying institutions, Isle of Man trustees of life interest trusts will also be considered to be paying agents where the life tenant is EU resident.

Rate of Retention Tax

01.07.05 – 30.06.08 = 15%

01.07.08 – 30.06.11 = 20%

Who will be liable to the Retention Tax?

An individual beneficial owner or life interest beneficiary resident in an EU Member State who receives a saving income payment (as defined).

Who will not be liable to the Retention Tax?

- Residents outside the EU
- Companies
- Trustees of Discretionary Trusts
- Residents of dependent or associated territories of Member States

How to determine residence

Evidence of permanent residential address needs to be provided to the Paying Agent.

Are there exceptions to the application of the Retention Tax?

Yes:

- (i) The beneficial owner can authorise the paying agent to report information on the interest payments.



- (ii) The beneficial owner can present to the Paying Agent a Certificate issued by the tax authority of his EU Member State of residence for tax purposes authorising gross payment. These certificates can be requested from local tax authorities, but need to refer to each account/source of relevant income.

What savings income is not covered by the requirements?

A payment which

- is not interest or is not derived from interest
- is not related to a debt claim
- does not arise from a transaction for the lending of money
- is a dividend on ordinary or preference shares
- is a distribution of company profits
- is a distribution from a trust (other than an interest in possession trust)

This is a brief summary of the new regulations and cannot be regarded as a comprehensive guide.

What happens after 1 July 2011?

From 1 July 2011 this will all change, and instead the Isle of Man has signed up to automatic exchange information regarding interest paid to EU residents. From this date the Paying Agent must provide the Isle of Man Income Tax Division with full details of all EU resident beneficial owners or life interest beneficiaries and the amounts of interest arising to them, each year. There will be no exceptions to this obligation.

From this date no retention tax will be withheld, but the full details of the beneficiaries and their interest will be provided by the Isle of Man Income Tax Division to each relevant EU jurisdiction.

If you would like to know more then please contact
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