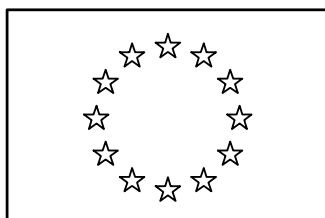


2010



**SIMPLIFIED
WITHHOLDING TAX
RELIEF PROCEDURES**

DG Internal Market and Services

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Brussels, January 2010

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All related reports and other documents are available on the following websites:

http://ec.europa.eu/internal_market/financial-markets/clearing/compliance_en.htm

http://ec.europa.eu/taxation_customs/index_en.htm

PREFACE

On 19 October 2009, the European Commission adopted the Recommendation on Withholding Tax Relief Procedures, COM (2009) 7924 final.

The aim of the Recommendation is to make it easier for an investor that is resident in one EU Member State to claim withholding tax relief on dividends received from another Member State. The Recommendation also encourages greater acceptance by Member States of electronic, rather than paper, information and suggests measures to eliminate the tax barriers that financial institutions face in their securities investment activities while, at the same time, protecting tax revenues against errors or fraud.

The Giovannini Group of financial market experts¹, advising the European Commission on financial market issues, identified, in reports published in 2001 and 2003, 15 barriers to the integration of EU securities post-trading systems. The second Giovannini Report² recommended that all financial intermediaries established within the EU should be allowed to offer withholding agent services in all of the Member States to ensure a level playing-field between local and foreign intermediaries (Barrier 11).

In addition to continuing discussions with Member States' experts on further ways to improve withholding tax relief procedures, the Commission services also intend to continue the dialogue with industry and to liaise closely with the OECD.



Emil PAULIS
Director "Financial Services Policy and Financial Markets"

¹ http://ec.europa.eu/economy_finance/eu_economic_situation/integrating_markets300_en.htm

² Giovannini Group, Second report on EU clearing and settlement arrangements, Brussels, April 2003 page 11. The findings regarding obstacles resulting from tax procedures of this Giovannini report are reflected within the Commission communication on "Clearing and settlement in the EU – The way forward", COM(2004) 312 final, under heading "3.2. Taxation issues".



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 19.10.2009
COM(2009)7924 final

COMMISSION RECOMMENDATION

of 19.10.2009

on withholding tax relief procedures

(Text with EEA relevance)

THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Community, and in particular to the second indent of Article 211 thereof,

Whereas:

- (1) Many Member States apply withholding tax on securities income. The withholding tax is deducted either by the issuer of the securities or by a financial intermediary that is involved in the payment of the income.
- (2) In many cases taxing rights are shared between the source state and the state of residence and therefore non-resident investors may be entitled to a lower withholding tax rate or exemption in the source state pursuant to conventions for the avoidance of double taxation or to domestic law, but the procedures to reduce the withholding tax rates at source or to claim refunds of tax withheld are often complicated, and vary considerably among Member States.
- (3) Many Member States restrict withholding agent services to financial intermediaries that are established within their own jurisdictions.
- (4) The complexity resulting from this situation hinders the functioning of the capital markets and raises the costs of cross-border settlement. The Giovannini reports "*Cross-border clearing and settlement arrangements in the European Union*"³ of 2001 and "*Second Report on EU Clearing and Settlement*"⁴ of 2003 identified this as a barrier to efficient cross-border investments in securities.
- (5) Two reports of the Fiscal Compliance Experts' Group (FISCO)⁵ - a "*Fact-Finding Study on Fiscal Compliance Procedures Related to Clearing and Settlement within the EU*" of 2006 and a second report of 2007 on "*Solutions to Fiscal Compliance Barriers Related to Post-Trading within the EU*" - have investigated the existing withholding tax relief procedures and suggested ways to make them work more efficiently.
- (6) As indicated in those reports, the granting of withholding tax relief at source rather than through a refund procedure would be a major step towards simplification of withholding tax procedures.
- (7) Securities income which falls within the scope of other Community legislation, namely Council Directive 90/435/EEC of 23 July 1990 on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States⁶ and Council Directive 2003/49/EC of 3 June 2003 on a common system of taxation applicable to interest and royalty payments made between associated companies of different Member States⁷, should not be covered by those

³ http://ec.europa.eu/internal_market/financial-markets/docs/clearing/first_giovannini_report_en.pdf

⁴ http://ec.europa.eu/internal_market/financial-markets/docs/clearing/second_giovannini_report_en.pdf

⁵ http://ec.europa.eu/internal_market/financial-markets/clearing/compliance_fr.htm#reports

⁶ OJ L 225, 20.8.1990, p. 6.

⁷ OJ L 157, 26.6.2003, p. 49.

simplification procedures. Nor is any simplification required for the withholding tax which is levied by some Member States in lieu of information exchange during the transitional period under Article 11 of Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments⁸.

- (8) Where in exceptional cases tax relief at source is not feasible, source Member States could also improve the current situation by establishing a quick refund procedure.
- (9) In order to ensure neutral conditions of competition between Community financial intermediaries, it is appropriate to allow financial intermediaries located in Member States other than the source Member States that are interposed between the issuer of the securities and the beneficial owner to participate in withholding tax procedures as information agents or as withholding agents.
- (10) Financial intermediaries that are established in EFTA countries should be treated in the same way as financial intermediaries established in the Member States to the extent that these countries provide for a level of administrative assistance equivalent to that provided under Council Directive 77/799/EEC of 19 December 1977 concerning mutual assistance by the competent authorities of the Member States in the field of direct taxation,⁹ and Council Directive 2008/55/EC of 26 May 2008 on mutual assistance for the recovery of claims relating to certain levies, duties, taxes and other measures¹⁰.
- (11) Member States have a legitimate right to protect their tax revenues and should, therefore, be allowed to require financial intermediaries to obtain prior authorisation or approval to act as an information agent or a withholding agent.
- (12) Allowing financial intermediaries to pass on only pooled withholding tax rate information to the next financial intermediary in a custody chain would lead to important savings for all parties concerned and would eliminate data protection and competition concerns about the transmission of client information between financial intermediaries.
- (13) Simplification could be furthered by allowing alternative proofs of the entitlement of investors to tax relief, besides certificates of residence, such as self-certification and the identification information held by financial intermediaries under the duties set by Council Directive 2004/39/EC of 21 April 2004 on markets in financial instruments¹¹.
- (14) In order to reduce the administrative burden, financial intermediaries should be allowed to archive documentation in electronic form.
- (15) Member States should avail of the possibilities of information exchange under Community legislation and bilateral tax arrangements and engage in joint or individual controls in order to verify financial intermediaries' compliance with their obligations. They should also make use of Directive 2008/55/EC and any future equivalent

⁸ OJ L 157, 26.6.2003, p. 38.

⁹ OJ L 336, 27.12.1977, p. 15-20.

¹⁰ OJ L 150, 10.06.2008, p.28.

¹¹ OJ L 145, 30.04.2004, p.1

instruments for the recovery of tax receipts from another Member State or from an EFTA country.

- (16) Member States' representatives in the Commission's Working Party IV on Direct Taxation and in the European Securities Committee have discussed this matter in detail. Parallel work on withholding tax relief procedures is also taking place at the Organisation for Economic Co-operation and Development (OECD).

HEREBY RECOMMENDS:

1. Subject matter and scope
 - 1.1. This Recommendation concerns improvements to the procedures of the Member States for granting withholding tax relief on cross-border securities income earned by investors who are resident in the Community, pursuant to conventions for the avoidance of double taxation or to provisions of domestic law.
 - 1.2. This Recommendation applies to securities income sourced in a Member State and paid via one or more financial intermediaries established in the Community, or in EFTA countries that provide for a level of administrative assistance equivalent to that provided under Directive 77/799/EEC and Directive 2008/55/EC.
 - 1.3. This Recommendation does not apply to securities income which falls within the scope of Directive 90/435/EEC or Directive 2003/49/EC or to the withholding tax levied by some Member States during the transitional period in accordance with Article 11 of Directive 2003/48/EC.

2. Definitions

For the purpose of this Recommendation the following definitions apply:

- (a) "securities income" means the dividend, interest or other income that securities may generate and that is subject to withholding tax in the source Member State;
- (b) "source Member State" means the Member State where the issuer of the securities generating income is resident for tax purposes;
- (c) "residence Member State" means the Member State where the beneficial owner of the securities income is resident for tax purposes;
- (d) "financial intermediary" means a Central Securities Depository, credit institution or any other authorised or supervised economic entity in the custody chain between the issuer of the securities and the beneficial owner;
- (e) "beneficial owner" means the investor who receives the securities income for his own benefit;
- (f) "information agent" means a financial intermediary that has been authorised by the source Member State to assume responsibility for the verification of the investor's entitlement to tax relief and communication of this information to the next financial intermediary in the custody chain so as ultimately to reach the withholding agent;

- (g) "withholding agent" means an information agent that has also been authorised by the source Member State to assume responsibility for the deduction of tax at source at the appropriate rate and the payment of the tax deducted to the relevant tax authority of the source Member State
- (h) "pooled withholding tax rate information" means information provided in a format which groups securities income according to the withholding tax rate applicable without identifying the owners of the securities.

3. Tax relief at source

Source Member States are invited to grant withholding tax relief at source at the time of payment of the securities income provided that all necessary information is available.

4. Standardised and quick refund procedures

Where in exceptional cases tax relief at source is not feasible, source Member States are invited to set up standardised and quick refund procedures. Such procedures should comprise the following:

- permission for information agents or withholding agents to submit refund applications to the tax authorities of the source Member State on behalf of the investors;
- (i) use of a single contact point for the introduction and handling of all the refund applications and publication of the relevant information on refund procedures on a website, in at least one language customary in the sphere of international finance;
- (j) use of common formats for refund applications which would be able to be filed electronically;
- (k) refunding in a reasonable period of time and normally, at least, within 6 months of receipt of the refund application by the relevant tax authority, provided that all necessary information is available.

5. Role of information and withholding agents

5.1. The information agent closest to the investor should normally be best placed to act also as withholding agent.

5.2. Where that is not the case, and there is a custody chain involving several information agents:

- the information agent closest to the investor should verify whether the investor is entitled to tax relief and should store the documentation received;
- (l) the information agent closest to the investor should report investor-specific information to the source Member State either on an annual basis or upon request;

- (m) each information agent in the custody chain should pass pooled withholding tax rate information to the next information agent in the chain so as to reach the withholding agent; and
- (n) the withholding agent should apply withholding tax relief at source on the basis of the pooled withholding tax rate information received.

6. Conditions for financial intermediaries

- 6.1. Source Member States are invited to lay down proportionate and non-discriminatory conditions and obligations in order for a financial intermediary to be authorised to act as an information agent or withholding agent.
- 6.2. Source Member States are invited to withdraw the authorisation granted in a case where an information agent or a withholding agent does not comply with its conditions and obligations.

7. Documentation proving entitlement to tax relief

- 7.1. Source Member States are invited to allow alternative proofs of the investor's entitlement to tax relief to certificates of residence issued by the residence Member State. Those alternative proofs could include self-certification by the beneficial owner and documentation gathered by information agents under the duties set by Directive 2004/39/EC on markets in financial instruments.
- 7.2. When establishing alternative proofs as referred to in point 7.1., source Member States may take into account the level of risk involved by, for example, setting less onerous rules in the case of claims below 1000 EUR.

8. Information and documentation in electronic format

Source Member States are invited to allow information agents and withholding agents to transmit and archive information and documentation by electronic means.

9. Supervision

Member States are invited to set up procedures to investigate the compliance of information agents and withholding agents with obligations created in accordance with this recommendation. This could include single or joint audits by the tax authority of the source Member State, the tax authority of the Member State where the information or withholding agent is established or by external auditors.

10. Follow-up

- 10.1. Member States are encouraged to adopt more flexible rules than those provided by this Recommendation concerning the simplification of procedures for granting withholding tax relief on cross-border securities income.
- 10.2. Member States are invited to explore the scope offered by this recommendation for implementing new, non-burdensome, channels of information exchange aimed at providing both the source Member States and the residence Member States with investor-specific information. This could be modelled on procedures drawn up under Community legislation, particularly Directive 2003/48/EC.

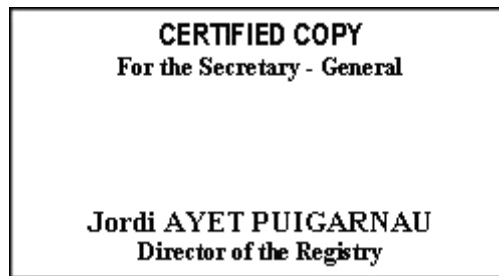
- 10.3. Member States are invited to explore the possibility and the conditions for allowing withholding agents to set off tax amounts to be refunded against taxes to be remitted to the tax authorities of the source Member State.
- 10.4. Member States are invited to develop common conditions and obligations governing the approval of financial intermediaries for the purposes of this recommendation.
- 10.5. Member States are invited to continue working on possible ways to improve withholding tax relief procedures in the appropriate Commission Working Groups and to adopt a coordinated position in the corresponding discussions at the OECD.

11. Addressees

This recommendation is addressed to the Member States.

Done at Brussels, 19.10.2009

For the Commission
Charlie McCREEVY
Member of the Commission



PRESS RELEASE

Securities income: Commission recommends simplified procedures for claiming cross-border withholding tax relief

The European Commission has adopted a recommendation that outlines how EU Member States could make it easier for investors resident in one EU Member State to claim entitlements to relief from withholding tax on securities income (mainly dividends and interest) received from another Member State. The recommendation also suggests measures to eliminate tax barriers to the securities investment activities of financial institutions while at the same time protecting tax revenues against errors or fraud. The recommendation aims to provide guidance to Member States in how to ensure that procedures to verify entitlement to tax relief do not hinder the functioning of the Single Market.

Internal Market and Services Commissioner McCreevy said: "If we are serious about promoting cross-border investments in securities in the Internal Market, EU Member States will have to simplify their withholding tax relief procedures, so that foreign investors receive any tax refunds to which they are entitled more quickly and so that tax rules do not hinder financial institutions from getting involved in managing such cross-border investments."

Taxation and Customs Commissioner Kovács said: "While it is true that the complicated refund procedures may discourage cross-border investment, Member States must be allowed to have sufficient safeguards in place to protect their tax systems against errors and fraud. The recommendation contains solutions that are designed to balance these opposing concerns."

The recommendation:

- encourages Member States to apply at source rather than by refund any withholding tax relief applicable to securities income under double taxation treaties or domestic law;
- encourages Member States to apply quick and standardised refund procedures, where the refund approach is unavoidable, and lists possible elements of such procedures;
- encourages Member States to accept alternative proofs of investors' entitlement to tax relief besides certificates of residence of tax authorities which can take time to process;
- suggests how Member States can involve financial intermediaries in making claims on behalf of investors and how the procedures could operate where there is a chain of financial intermediaries, in different Member States, between the issuer of the securities and a beneficiary;
- encourages greater acceptance by Member States of electronic rather than paper information;
- suggests that Member States could apply a risk-based approach to setting requirements of proof of entitlement to tax reliefs;

- suggests how Member States could set up single or joint audits or even external audits to investigate the compliance of financial intermediaries with obligations created in line with the recommendation;
- suggests follow-up discussions with Member States on the implementation of the Recommendation.

The tax laws of Member States usually provide for withholding taxes on dividend and interest income paid to non-resident investors. These withholding taxes are often reduced under Member States' bilateral double taxation conventions, when the two treaty partner countries involved agree on sharing taxing rights. In certain circumstances, some Member States even unilaterally reduce withholding taxes or apply exemptions on securities income paid to foreign investors.

However, Member States' procedures to verify claims for withholding tax reliefs are often so complicated and time consuming that investors may forego the reliefs to which they are entitled or even be discouraged from investing across borders. Furthermore, these procedures often do not take into account the present-day multi-tiered financial environment where there may be a chain of financial intermediaries, based in several countries, between the issuer of the securities and the investor. In fact, a study by the Commission services shows that the costs related to these present reclaim procedures are estimated to a value of € 1.09 billion annually whereas the amount of foregone tax relief is estimated at € 5.47 billion annually.

The amount of cross-border holdings within the European Union was 16.7 trillion dollars in 2006, composed of 6.4 trillion in equity securities and 10.3 trillion in debt securities. The European Union accounts for more than 50 % of the worldwide amount, both with respect to the origin and the destination of the investments.

The recommendation is based on the (2006-2007) reports of the EU Clearing and Settlement Fiscal Compliance Experts' Group (FISCO) ([IP/07/1569](#)), follows upon an extensive stakeholders' consultation and has been discussed on several occasions with the financial services industry and tax administrations in Member States. The Commission's recommendation, the underlying study on "The Economic Impact of the Commission Recommendation on Withholding Tax Relief Procedures and the FISCO Proposals" and other background documents are available at:

http://ec.europa.eu/internal_market/financial-markets

http://ec.europa.eu/taxation_customs/index_en.htm

FREQUENTLY ASKED QUESTIONS

MEMO/09/

Brussels, October 2009

Simplified procedures for claiming cross-border withholding tax relief –

Frequently Asked Questions

What is the recommendation designed to do?

The Recommendation aims to show EU Member States how they could simplify the procedures that they currently apply to verify investors' entitlement to relief from withholding tax on cross-border securities income. The objective is both to facilitate investors who wish to invest across borders and to ensure that EU-based financial intermediaries can provide services freely across borders, as they are entitled to do under Article 49 of the EC Treaty. The Recommendation also suggests ways in which Member States could ensure that the proposed simplifications would not open their tax bases to errors or fraud.

What is the scope of the Recommendation?

The Recommendation applies to withholding taxes levied on securities income (mainly dividends and interest) that is sourced in an EU Member State, and that is paid to EU resident investors, via one or more financial intermediaries established in the EU or in an EFTA country that provides for a level of administrative assistance to other countries equivalent to that applicable by EU Member States under EU legislation.

Why is the Recommendation necessary?

Under the bilateral double taxation treaties that EU Member States have with each other, Member States generally agree to reduce source country withholding taxes on securities income, in order to share taxing rights between the two treaty partner countries. Some Member States even apply a reduced withholding tax or exemption on securities income paid to foreign investors under their domestic law where certain conditions are met. However, the procedures to reduce the withholding tax rates at the payment stage or to claim refunds of tax withheld are often so complicated and varied that investors do not bother claiming relief or refunds and may even be discouraged from investing abroad.

How would the Recommendation benefit investors?

The recommendation would benefit investors in the first place because it suggests that Member States should apply at source (i.e. at the time of payment of the securities income), rather than by refund, any withholding tax relief to which an investor is entitled.

Second, in cases where investors are not able to obtain withholding tax relief at source, the recommendation encourages Member States to apply quicker and simpler tax refund procedures, including the following elements:

- permission for any authorised financial intermediary in a custody chain to submit refund applications on behalf of the investors;
- use of a single contact point for the introduction and handling of all the refund applications and publication of the relevant information on refund procedures on a website;
- use of common formats for refund applications, and permission to file them electronically;
- refunding in a reasonable period of time, i.e. normally within 6 months;
- allowing investors and financial intermediaries to provide alternative proofs to certificates of residence in connection with their claims.

Explain in more detail what the Recommendation suggests with regard to certificates of residence

It can take tax authorities some time to issue formal certificates of residence to taxpayers and even then the certificates are usually time-limited in validity. This can make it difficult for taxpayers who wish to use these certificates to claim withholding tax relief from a tax authority of another Member State. The Recommendation therefore suggests that, for the purposes of claims for withholding tax relief, tax authorities should consider whether alternative proofs that the taxpayer is resident where he says he is resident would be acceptable and sufficiently risk-proof. Such alternative proofs could include self-certification by the investor and/or residence documentation gathered by financial intermediaries (sometimes referred to as "Know Your Customer" rules). For instance, when an investment firm provides investment advice and discretionary portfolio management to its clients, it is required under Article 19 (4) of the Market in Financial Instruments Directive 2004/39/EC of 21 April 2004 ([IP/07/1625](#)) to obtain information about its clients/investors. The Recommendation suggests that tax authorities might, in particular, find these alternative proofs sufficient in the case of small claims, for example claims of less than €1,000.

How would the Recommendation benefit financial intermediaries?

The Recommendation proposes that Member States should allow foreign financial intermediaries to become involved in providing withholding tax relief services in the Single Market. Currently many Member States only allow resident financial intermediaries to provide such services. The Recommendation suggests that foreign financial intermediaries in a custody chain should, subject to authorisation by the source Member State, be allowed to take part in the relief procedures by acting as "withholding agents" or as "information agents". "Withholding agents" would be able to grant withholding tax relief at source by deducting the amount to be withheld. "Information agents" would provide information on the correct rate of withholding tax applicable to given investments up the custody chain so as to reach the withholding agent.

The Recommendation also suggests that financial intermediaries should only have to pass on "pooled" withholding tax rate information (i.e. information in a format which groups securities income according to the withholding tax rate applicable without identifying the owners of the securities) to the next financial intermediary in a custody chain. Providing information in a pooled format would lead to important savings for all parties concerned and would eliminate the competition and data protection concerns that financial intermediaries would have about passing client information to other financial intermediaries.

Would the Recommendation if implemented create administrative problems and tax revenue risks for Member States?

No, it should not do so.

First, the Recommendation should, if applied by Member States, lead to savings for tax administrations by reducing the administrative costs involved in processing refund applications and issuing certificates of residence.

Second, the Recommendation envisages that only authorised financial intermediaries should be able to take part in the simplified procedures. Member States could lay down conditions and obligations for the authorisation of financial intermediaries, such as, for example, making them liable for under-withholding of taxes. These conditions and obligations would, of course, have to be proportionate and non-discriminatory in order to allow foreign financial intermediaries to benefit fully from the freedom to provide services guaranteed under Article 49 of the EC Treaty. Member States may also withdraw authorisation from non-compliant financial intermediaries.

Third, the Recommendation suggests procedures that Member States could set up in order to monitor authorised financial intermediaries' compliance with their obligations (e.g. single or joint audits by the tax authorities of the source Member States, that of the Member States where the financial intermediary is established or by external auditors).

Fourth, while proposing the pooled information system described above so as to protect the commercial interests of financial intermediaries, the Recommendation also suggests a system to ensure that Member States have the information they need to know that the right rate of withholding tax was applied to all payments made from that country to investors in other EU Member States. The Recommendation proposes that, where there is a chain of financial intermediaries, the financial intermediary closest to the beneficial owner would be made responsible for reporting payments to that beneficial owner, annually or on request, to the source Member State.

How does the Commission intend to follow up on this recommendation?

The Commission suggests follow-up discussions with Member States in a Working Party, in order to examine in detail the ideas set out in the Recommendation and to consider other possible ways to improve withholding tax relief procedures.

The Commission may also launch further related initiatives at a later stage, notably in order to develop new channels of information exchange between Member States as well as to suggest common conditions and obligations, for example regarding liability for under-withholding of tax, to be met by authorised intermediaries. In addition, the Commission's proposals for improving mutual assistance in the tax area and mutual assistance in the recovery of taxes (COM/2009/28 and COM/2009/29) ([IP/09/201](#)), which are currently under discussion in the Council, should, if adopted by Member States, help to ensure that the simplifications suggested under the Recommendation do not lead to losses of tax revenues through evasion or error.

What is the origin of this initiative?

The problems with withholding tax relief procedures were first highlighted in 2001 by the Giovannini Group that advised the European Commission on financial market issues. The Group identified 15 barriers to the integration of EU securities post-trading systems, including the fact that financial intermediaries established within the EU were not allowed to offer withholding agent services in all of the Member States, which it listed as "Giovannini barrier 11". The EU Clearing and Settlement Fiscal Compliance Experts' Group (FISCO), that was created in March 2005 and met until 2006, had as one of its key issues the resolution of Giovannini Barrier 11. FISCO examined the withholding tax relief procedures in the various Member States and came up with suggestions on how to

improve these procedures in a report in 2007 ([IP/07/1569](#)). These suggestions are reflected in the present recommendation that has been drawn up following lengthy consultations with Member States.

Over the past years there has been a growing interest in this topic, stimulated also by ongoing discussions at the Organisation for Economic Cooperation and Development (OECD) on improving procedures for tax relief for cross-border investors.

Are Member States likely to agree to follow the Recommendation?

We believe so. Some have, in fact, already have procedures in place that are along the lines being proposed in the Recommendation. This is the case, in particular, for the Czech Republic, Finland, France, Ireland, Germany, the Netherlands, the Slovak Republic and Sweden. The results in these countries from the steps taken to simplify withholding tax relief procedures appear to have been positive, not just for non-resident investors but also for the tax administrations and financial intermediaries.

Is any estimate available of the costs or savings that would result from the implementation of the Recommendation?

Some rough estimates carried out within the Commission are that improved tax procedures would increase EU GDP by € 3.4 billion or 0.028% per year compared to a situation where no tax relief at source or quick refund procedures are available (or more than € 37billion over a 10 year period with an assumed 2 % growth rate of real GDP).

Why a Recommendation rather than a proposal for a Directive?

The Commission believes that a non-legally-binding Recommendation is more appropriate because Member States are already in agreement on the need to simplify withholding tax relief procedures and many Member States have already moved in this direction. There are also international moves in this direction. The Commission welcomes this trend and aims with this Recommendation simply to stimulate the debate further, share information on best practices and provide a forum for further discussion. A proposal for a Directive in the field of taxation has to be agreed unanimously by all Member States and could take several years to negotiate. In view of the international trend in this area negotiations for such a Directive may prove to be unnecessary.



EUROPEAN COMMISSION

Internal Market and Services DG

FINANCIAL SERVICES POLICY AND FINANCIAL MARKETS

Financial markets infrastructure

Commission staff working document

The Economic Impact of the Commission Recommendation on Withholding Tax Relief Procedures and the FISCO Proposals

24 June 2009

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1. INTRODUCTION AND BACKGROUND

1.1. General Background

The Giovannini Group of financial market experts¹², that advises the European Commission on financial market issues, identified 15 barriers to the integration of EU securities post-trading systems in reports of 2001 and 2003. The second Giovannini Report¹³ recommended, inter alia, that all financial intermediaries established within the EU should be allowed to offer withholding agent services in all of the Member States to ensure a level playing field between local and foreign intermediaries (Barrier 11).

The EU Clearing and Settlement Fiscal Compliance Experts' Group ('FISCO') that was created in March 2005 following the Communication "Clearing and Settlement in the European Union – The way forward"¹⁴ had as one of its key objectives the resolution of Giovannini Barrier 11.

The FISCO Group published two reports –The FISCO Fact Finding Study 2006¹⁵ and the FISCO Second Report on Solutions to fiscal compliance barriers related to post-trading within the EU 2007¹⁶. The two reports described as a serious problem the fact that withholding tax collection and relief procedures vary considerably between Member States and that different procedures often apply even to different classes of securities within the same Member State. Many Member States restrict withholding responsibilities to entities established within their own jurisdiction. As a consequence, foreign intermediaries are often disadvantaged in their capacity to offer relief at source from withholding tax due to the significant extra cost of using a local agent or local representative in the discharge of their withholding obligations. The reports also pointed out that Member States' current relief procedures do not take sufficient account of the multi-tiered holding environment and often put tax collection responsibilities on an entity that is not connected to the beneficial owner/final investor. These procedures therefore assume that the market will organise itself to transfer information and (paper form) documentation on the beneficial owner up through the chain of intermediaries. In reality, however, this is costly and inefficient and may also create confidentiality and data-privacy issues. The FISCO Group concluded that the present fiscal compliance procedures hinder the functioning of capital markets and increase the cost of cross-border settlement. It

¹² http://ec.europa.eu/economy_finance/eu_economic_situation/integrating_markets300_en.htm

¹³ Giovannini Group, Second report on EU clearing and settlement arrangements, Brussels, April 2003 page 11. The findings regarding obstacles resulting from tax procedures of this Giovannini report are reflected within the Commission communication on "Clearing and settlement in the EU – The way forward", COM(2004) 312 final, under heading "3.2. Taxation issues".

¹⁴ COM(2004) 312 final

¹⁵ http://ec.europa.eu/internal_market/financial-markets/docs/compliance/ff_study_en.pdf

¹⁶ http://ec.europa.eu/internal_market/financial-markets/docs/compliance/report_en.pdf

said that the complexity and administrative costs resulting from the present procedures may lead investors to forego the relief to which they are entitled and may, for the same reason, discourage cross-border investment.

The FISCO Group proposed solutions aimed at improved, standardised, simplified and modernised withholding tax relief procedures that would be adapted to the way financial markets operate today. The key recommendation made by the FISCO Group was that Member State should grant withholding tax relief at source, because of the optimized cash flow offered by this procedure to investors. Moreover, according to the FISCO Group, it is necessary that a harmonised and simplified withholding tax relief procedure be introduced within the EU. In order to solve the existing administrative and efficiency problems, the FISCO group suggested shifting withholding tax responsibilities to intermediaries and allowing any intermediary in the chain to either assume full withholding responsibilities or to take responsibility for granting withholding tax relief by sending (pooled only) withholding rate information to the upstream intermediary. This possibility would be enhanced by the abolishing of the requirement of paper-form certification, the permission to allow intermediaries to make use of modern technology to pass on information in respect of the rates of tax that apply to the beneficial owner to the local withholding agent in electronic format and to allow the use of pooling of assets into tax-rate pools. Finally, according to the FISCO Group, efficient and standardised refund procedures should be put in place, for cases where tax relief at source is not feasible.

Member States were regularly updated on the FISCO work by presentations and discussions at meetings of Working Party No IV on direct taxation of the European Commission's Taxation and Customs Union Directorate General ("WP IV") and of the Commission's European Securities Committee (ESC). The post FISCO work was also discussed with the Joint EU/OECD Group on improving Procedures for tax relief for Cross-border investors. The joint EU/OECD Working Group met three times, on 12th-13th February, on 26-27th May and on 25-26th September 2008.

On 12th January 2009, the Informal Consultative OECD Group on the Taxation of Collective Investment Vehicles and Procedures for Tax Relief for Cross-Border Investors (ICG) released for the consideration of the OECD's Committee on Fiscal Affairs (CFA) the report, "Possible Improvements to Procedures for Tax Relief for Cross-Border Investors"¹⁷. The report discusses the procedural problems in claiming treaty benefits faced by portfolio investors more generally and makes a number of recommendations on "best practices" regarding procedures for making and granting claims for treaty benefits for intermediated structures.

1.2. The FISCO proposals on Withholding Tax Procedures in brief

The FISCO Group concluded that the withholding tax relief procedures which vary considerably between Member States and do not, at present, take sufficient account of the multi-tiered holding environment. The present procedures are both costly and inefficient. The FISCO Group was of the opinion that:

¹⁷ <http://www.oecd.org/dataoecd/34/19/41974569.pdf>

- *at-source relief procedures* are the best method to improve the present situation because of the optimized cash flow they offer to investors;
- in order to make relief procedures simpler, paper-form certificate of residence should be replaced by alternative means to prove the investors' entitlement to tax relief, such as self-certification and know-your-customer (KYC) rules. Furthermore intermediaries should be allowed to make use of modern technology to pass on investors' information to the withholding agents in electronic format.
- the efficiency of at-source relief procedures could be improved and many of the existing problem could be solved by *shifting withholding responsibilities* to intermediaries i.e. by allowing all intermediaries in the custody chain either to assume full withholding responsibilities or to take responsibility for granting withholding tax relief by passing on pooled withholding tax rate information to the upstream intermediary. Avoiding the need for intermediaries to pass detailed information on beneficiaries up the chain would overcome data protection and client confidentiality concerns.
- even though relief at source is the preferred relief method, there is a clear need also for *efficient refund procedures*. A supplementary standard and quick refund procedure should be implemented within the Member States by using similar formats for applications, by centralising refund procedures in each Member State to one tax authority or tax office only and by introducing a time-limit for making the refunds. The reclaim process should also be capable of electronic adaptation in order to optimise efficiency.

1.3. Removal of the fiscal compliance barriers urgently needed.

The urgent need for removal of fiscal compliance barriers in the post-trading area has been highlighted on many occasions in recent years.

The Economic and Finance Ministers of Member States meeting in Council (ECOFIN):

- in November 2006 stressed that post-trading of securities transactions is a key area for financial integration in the EU and that the removal of fiscal compliance barriers is urgently needed;
- in October 2007 restated that concrete actions should be proposed promptly by the Commission on the basis of the work of the advisory groups; and
- in June 2008 noted the Commission's intention to adopt a Recommendation on withholding tax procedures by the first part of 2009 and to take into account the need to both simplify and improve tax efficiency.

The European Commission's general Impact Assessment study on Clearing and Settlement of 2006 concluded that Cross-border post-trading in the EU is still much more costly and complex than within a single Member State or in the United States, to the detriment of the financial markets within the EU. The study concluded that in

the EU, an investor pays on average between twice and six times more for a cross-border equity transaction compared to a domestic one¹⁸.

The FISCO Conference in October 2007 highlighted the many concrete problems related to the current fiscal compliance barriers and the urgency to solve them. At the Conference many of the speakers underlined that a substantial part of the transaction costs related to post trading are caused by the present fiscal compliance barriers related to post-trading and that the present fiscal compliance procedures are burdened by huge costs for both the industry, the investors as well as for the tax administrations and Governments.

The current financial crisis illustrates the importance of efficient, safe and sound post-trade within the EU. In this difficult situation it is important for the Member States to be competitive as issuers of different debt instruments in order to obtain sufficient resources to manage the crisis. Consequently, under the present circumstances of lack of liquidity and financing need, both for Member States and industry, the case for simplification in capital markets is stronger than ever.

However, until these present Commission paper (which has been jointly drafted by DG MARKT and JRC with input also from DG TAXUD, Member States and external experts), no estimation of the costs and benefits of the FISCO proposals has been available. The aim of this Economic Case Study is, therefore, to describe and analyse the benefits and costs of the FISCO proposals, compared to the benefits and costs of a situation where no tax relief at source or quick refund procedures would be available, in order to enhance the political acceptability of the FISCO proposals. Chapter 3 describes examples of Member States that have already implemented part of the FISCO recommendations.

1.4. Commission Recommendation on Withholding Tax Procedures

The FISCO proposals touch upon many aspects of national withholding tax procedures. It is an area which is political sensitive. For this reason the Commission services (DG MARKT and DG TAXUD) conducted four extra meetings with Member States representatives in order to explore what could be the possible elements of any future Commission legislative proposal on withholding tax relief procedures. These meetings took place in the context of Working Party IV on Direct Taxation (13th November and 11th December 2008, and 11th February and 21st April 2009) and twice in conjunction with the European Securities Committee.

The discussion has focussed on the content of the FISCO proposals, and in particular on the potential role of a foreign withholding agent which falls outside the jurisdiction and the direct control of the source Member State. In general, Member States felt that more assurances were necessary to possibly accept foreign withholding agents and some Member States indicated that this would necessitate changing their domestic law, which would only be possible in response to legally binding European instrument, either a Directive or a Regulation.

In fact, the traditional way forward for the Commission to ensure the establishment and functioning of the internal market in the tax field would be to propose a

¹⁸ http://ec.europa.eu/internal_market/financial-markets/docs/clearing/draft/draft_en.pdf

directive, either on the basis of Article 93 (indirect taxes) or 94 (other taxes including direct taxes) of the EC Treaty, both of which require unanimity. Article 95 which allows for decision making for the same purpose on the basis of qualified majority voting does not apply to tax provisions. Thus, as withholding tax relief procedures would not fall under the matters covered by Article 93, the most appropriate legal basis would appear to be Article 94 EC Treaty. Obviously, the requirement of unanimity inevitably makes it difficult for any conclusions to be reached on a directive, and, in particular, within a reasonable timeframe, as all 27 Member States would have to agree with the proposal.

A proposal for a directive (even if this would be adopted by the Council and the European Parliament within first reading) would, however, not offer any solution in the short term. Yet, the discussions with Member States revealed that Member States are conscious of the need to address withholding tax relief procedures and that there are converging views of many elements mentioned in the FISCO reports. The Commission services want to use this momentum and are of the opinion that the elements on which there is a large agreement and which do not necessarily require legislative changes in the Member States can best be captured now in a Commission Recommendation without prejudice to any possible further initiative.

The legal basis for such a recommendation would be Article 211 EC Treaty. This article empowers the Commission to formulate recommendations for the proper functioning and development of the common market, if the Commission considers this necessary. There is no restriction to fiscal matters or to tax procedures. From a procedural point of view a Commission Recommendation merely requires a decision by the College and no approval by the Council or the Parliament. The last time that the Commission issued a Recommendation in the tax field was in 1993¹⁹, but it is not uncommon in other fields.

It is clear that a Commission Recommendation will not eliminate the Giovannini barrier 11 totally, but the present costs caused by this barrier will be substantially reduced.

Once the recommendation is adopted, the Commission services intend to continue discussions with Member States' experts on further ways to improve withholding tax relief procedures. The Commission services also intend to continue the dialogue with industry and to liaise closely with the OECD. The ongoing discussions on the Commission's proposals for improving mutual assistance in the tax area and mutual assistance in the recovery of taxes (COM/2009/28 and 29) would also be relevant to follow-up work on the Commission recommendation. These proposals might, if adopted, help to reduce Member States' concerns about fraud.

1.5. Note with advice from the European Commission Impact Assessment Board

A Preliminary Draft of these staff working paper on "The Economic Impact of the FISCO Proposals" was delivered to the European Commission Impact Assessment Board (IAB) for examination in February 2009. The Impact Assessment Board replied, in March 2009, welcoming the opportunity to examine its quality and

¹⁹ 94/79/EC: Commission Recommendation of 21 December 1993 on the taxation of certain items of income received by non-residents in a Member State other than that in which they are resident

making some recommendations. The advice and comments given by the IAB were considered as reasonable, good and valuable for the improvement of this document. Consequently, they have led to the following substantial changes compared to the earlier draft.

- (1) The working paper now analyses more extensively the potential risks of a non-mandatory solution to a problem caused in large part by existing differences in relief procedures across Member States and classes of securities.
- (2) The working paper now brings together the various strands of the analysis in a more efficient way so as to facilitate a comparison of the expected benefits and costs.
- (3) The results of the study are rendered more accurate by the indication now included of the limitations of the methodologies used and by consistent justifications of the underlying data and hypotheses.
- (4) The document discusses in more detail the impact in terms of administrative burden reduction. The sensitivity analysis has been significantly extended and a distinction between static and dynamic effects has been added.
- (5) The document has been further revised to be more pedagogical and clear with a consequent improvement in readability for the non-specialist. The three elements of the potential savings for investors are explained more clearly. In addition, the description of the impact on intermediaries and Member States has been further explored.
- (6) A concluding section of each chapter has been introduced.
- (7) The final chapter has been further expanded to effectively draw together the results of the different analytical approaches described in previous chapters.

1.6. Summary and Conclusions of this Chapter

The Giovannini reports of 2001 and 2003 recommended that all financial intermediaries established within the EU should be allowed to offer withholding agent services in all of the Member States to ensure a level playing field between local and foreign intermediaries (Barrier 11).

The FISCO Group concluded that the withholding tax relief procedures which exist in Member States do not, at present, take sufficient account of the multi-tiered holding environment. The present procedures are therefore costly and inefficient.

The ECOFIN has many times stressed that post-trading of securities transactions is a key area for financial integration in the EU and that the removal of the fiscal compliance barriers is urgently needed.

The actual financial crisis illustrates the importance of efficient, safe and sound post-trade within the EU. In this difficult situation it is important for the Member States to be competitive as issuers of different debt instruments in order to get sufficient

resources to manage the crisis. Consequently, under the present circumstances of lack of liquidity and financing need, both for Member States and industry, the case for simplification in capital markets is stronger than ever.

The following chapters will present the relevant basic statistics and evaluate implemented solutions in some Member States followed by a chapter giving some examples of implemented measures in the context of efficiency in preventing fraud. The emphasis of Chapter 5 is to describe the costs and benefits in form of breakdown by type of actor while Chapter 6 aims to assess the macroeconomic impact of a reduction and removal of fiscal barriers and chapter 8 provides a summary and conclusion of this Study.

2. PRESENTATION OF RELEVANT BASIC STATISTICS

2.1. Cross-border holdings of equity and debt securities

The “Coordinated Portfolio Investment Survey (CPIS)” of the International Monetary Fund (IMF) provides detailed information on the cross-border holdings of equity and debt securities for investors from 75 countries holding securities in 240 markets. Table 2.1 presents an overview of the relevant data in 2006 by aggregating the different economies into five groups, respectively.

Table 2.1: Cross-border holdings of securities in 2006 (in millions of dollar)

All securities	Investor					Total
	1 (eu27)	2 (efta)	3 (usa)	4 (japan)	5 (rest)	
Invested in						
1 (eu27)	10.497.927	770.834	2.699.604	861.102	1.877.318	16.706.785
2 (efta)	397.890	16.490	322.887	38.924	52.575	828.766
3 (usa)	2.792.953	217.272	0	797.608	2.446.393	6.254.227
4 (japan)	598.630	41.256	585.567	0	209.470	1.434.924
5 (rest)	2.470.946	287.570	2.364.298	645.848	1.401.035	7.169.697
Total	16.758.347	1.333.422	5.972.356	2.343.482	5.986.792	32.394.398
Equity			Investor			
	1 (eu27)	2 (eea+ch)	3 (usa)	4 (japan)	5 (rest)	Total
Invested in						
1 (eu27)	3.555.794	325.707	1.828.019	152.611	501.785	6.363.916
2 (efta)	276.713	9.097	294.986	16.742	26.508	624.047
3 (usa)	1.257.143	111.391	0	224.136	503.482	2.096.152
4 (japan)	430.982	27.668	543.506	0	89.462	1.091.617
5 (rest)	1.031.769	130.096	1.662.451	116.930	657.077	3.598.322
Total	6.552.401	603.959	4.328.962	510.418	1.778.314	13.774.054
Debt			Investor			
	1 (eu27)	2 (eea+ch)	3 (usa)	4 (japan)	5 (rest)	Total
Invested in						
1 (eu27)	6.928.198	445.097	871.585	708.491	1.352.847	10.306.218
2 (efta)	120.344	7.392	27.901	22.182	22.154	199.974
3 (usa)	1.535.810	105.881	0	573.472	1.942.288	4.157.452
4 (japan)	167.643	13.588	42.061	0	119.928	343.220
5 (rest)	1.453.947	170.858	701.847	528.918	766.713	3.622.282
Total	10.205.942	742.817	1.643.394	1.833.064	4.203.930	18.629.146

Source: <http://www.imf.org/external/np/sta/pi/geo.htm> (plus own calculations)

According to these figures, the amount of cross-border holdings of EU27 investors within the European Union was 10.5 trillion dollars in 2006, composed of 3.6 trillion in equity securities and 6.9 trillion in debt securities. The total amount of cross-border holdings in the European Union was 16.7 trillion dollars, composed of 6.4 trillion in equity securities and 10.3 trillion in debt securities. This amount can be compared to the total global amount of cross-border holdings of 32.4 trillion dollars, composed of 13.8 trillion in equity securities and 18.6 trillion in debt securities. The

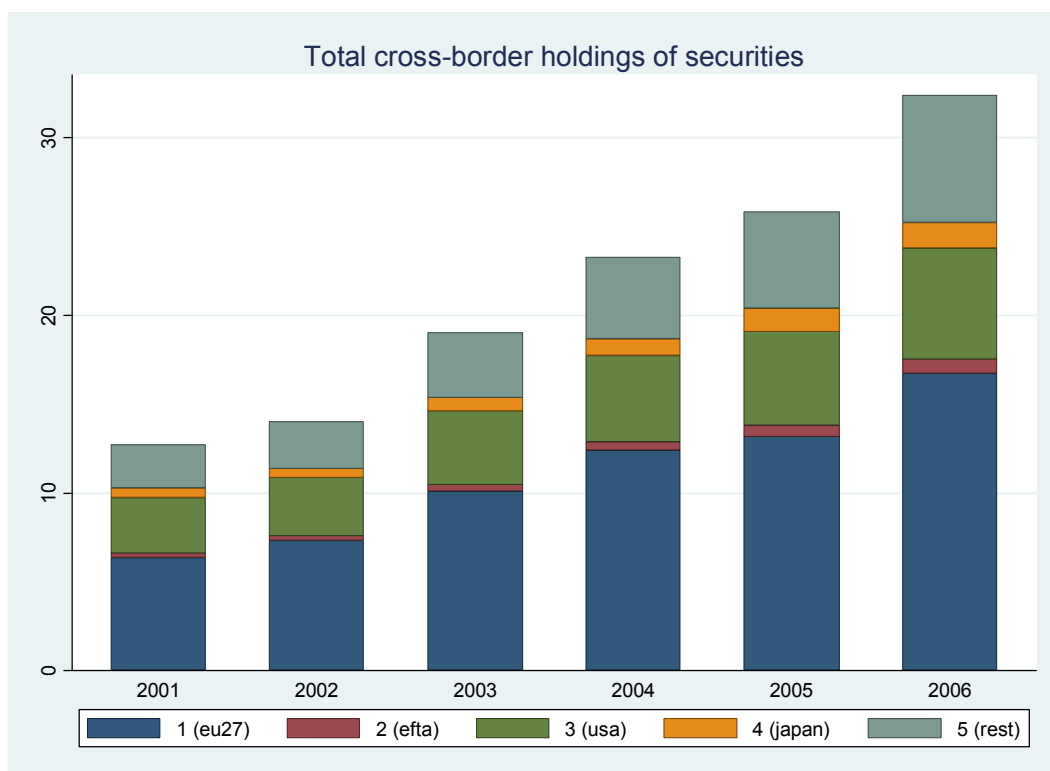
European Union thus accounts for more than 50% of the worldwide amount, both with respect to the origin and the destination of all cross-border investments.

Table 2.2 and figure 2.1 show the development of the cross-border holdings over the period 2001-2006. It can be seen that there has been a significant increase in the amount of cross-border holdings within the European Union, from 6.4 trillion dollars in 2001 to 16.7 trillion in 2006. The aggregated cross-border holdings have increased from 12.7 trillion dollars in 2001 to 32.4 trillion in 2006.

Table 2.2: Cross-border holdings of securities (in millions of dollar)

All securities	Year					
	2001	2002	2003	2004	2005	2006
Invested in						
1 (eu27)	6.353.778	7.313.360	10.082.766	12.399.538	13.187.872	16.706.785
2 (efta)	273.318	289.051	406.727	486.664	613.459	828.766
3 (usa)	3.101.189	3.284.387	4.158.788	4.843.567	5.312.917	6.254.227
4 (japan)	542.309	509.922	731.080	948.589	1.279.756	1.434.924
5 (rest)	2.439.916	2.616.380	3.666.249	4.587.618	5.453.340	7.169.697
Total	12.710.510	14.013.101	19.045.611	23.265.977	25.847.344	32.394.398

Figure 2.1: Cross-border holdings of securities (in trillions of dollar)



Tables 2.3 and 2.4 take a closer look at the 27 EU Member States. For each country, the amount of equities (table 2.3) and debt securities (table 2.4) held by foreign investors is presented.

Figures 2.2 and 2.3 depict the information from tables 2.3 and 2.4 in graphical form. They show the relative contribution of investors from the five regions to the total

amount of foreign holdings of equities (figure 2.2) and debt securities (figure 2.3) in each of the 27 countries.

Table 2.3: Foreign equity holdings in 27 EU-countries (2006, millions of dollar)

Equity securities	1 (eu27)	2 (efta)	Investor 3 (usa)	4 (japan)	5 (rest)	Total
Invested in						
Austria	38.063	3.508	18.144	1.423	2.323	63.461
Belgium	87.064	3.578	28.805	2.576	3.824	125.846
Bulgaria	551	1	95	0	45	691
Cyprus	1.766	235	726	7	745	3.479
Czech Republic	5.131	174	3.045	117	389	8.856
Denmark	24.689	4.390	21.236	1.498	4.263	56.075
Estonia	1.442	45	63	0	15	1.565
Finland	67.993	5.967	55.852	2.635	5.353	137.800
France	429.067	33.250	306.861	24.065	34.663	827.906
Germany	386.389	37.792	220.397	15.897	28.951	689.427
Greece	24.872	1.534	14.448	1.369	1.281	43.504
Hungary	12.227	408	7.619	186	346	20.786
Ireland	235.027	15.424	47.943	7.149	40.222	345.765
Italy	211.326	8.961	92.733	8.213	13.944	335.177
Latvia	241	1	13	0	0	256
Lithuania	829	10	9	0	6	854
Luxembourg	1.035.625	123.146	15.590	11.594	77.355	1.263.311
Malta	466	47	82	2	49	647
Netherlands	233.943	14.346	161.493	10.456	26.906	447.144
Poland	12.029	188	7.384	261	285	20.146
Portugal	17.336	496	5.982	474	1.417	25.706
Romania	972	16	372	7	29	1.395
Slovak Republic	242	0	0	0	10	252
Slovenia	278	5	116	1	2	403
Spain	135.785	7.706	85.600	7.503	9.878	246.472
Sweden	89.612	11.621	59.433	5.071	14.851	180.587
United Kingdom	502.828	52.858	673.978	52.107	234.635	1.516.407
Total	3.555.794	325.707	1.828.019	152.611	501.785	6.363.916

Table 2.4: Foreign debt holdings in 27 EU-countries (2006, millions of dollar)

Debt securities	1 (eu27)	2 (efta)	Investor 3 (usa)	4 (japan)	5 (rest)	Total
Invested in						
Austria	209.358	29.441	8.425	12.659	25.649	285.532
Belgium	180.246	4.957	7.163	17.484	30.327	240.177
Bulgaria	2.419	27	217	24	62	2.750
Cyprus	10.393	62	397	3	1.171	12.025
Czech Republic	9.718	148	26	439	12	10.344
Denmark	99.405	14.599	12.742	10.023	13.050	149.819
Estonia	1.942	49	35	0	17	2.043
Finland	79.250	4.945	4.082	5.224	13.460	106.962
France	772.868	58.942	90.434	118.300	215.999	1.256.543
Germany	1.085.053	129.482	67.927	157.605	411.595	1.851.662
Greece	181.278	5.580	1.565	5.796	4.983	199.201
Hungary	40.146	432	791	849	988	43.206
Ireland	439.537	16.820	72.570	32.694	57.513	619.133
Italy	961.664	22.798	13.160	58.499	49.748	1.105.869
Latvia	1.157	27	0	5	6	1.195
Lithuania	3.287	81	32	0	25	3.425
Luxembourg	218.400	21.230	44.512	77.605	27.338	389.084
Malta	555	0	73	0	67	696
Netherlands	755.905	53.553	72.572	66.524	112.712	1.061.266
Poland	43.920	872	4.432	3.825	1.544	54.593
Portugal	115.550	3.681	503	1.686	6.081	127.502
Romania	4.698	23	9	0	105	4.835
Slovak Republic	5.718	0	299	14	12	6.043
Slovenia	2.824	84	28	0	2	2.938
Spain	760.093	20.690	25.356	25.926	37.838	869.902
Sweden	140.342	13.017	42.634	20.143	24.919	241.055
United Kingdom	802.471	43.558	401.601	93.165	317.623	1.658.418
Total	6.928.198	445.097	871.585	708.491	1.352.847	10.306.218

Figure 2.2: Cross-border holdings of equity securities in 2006

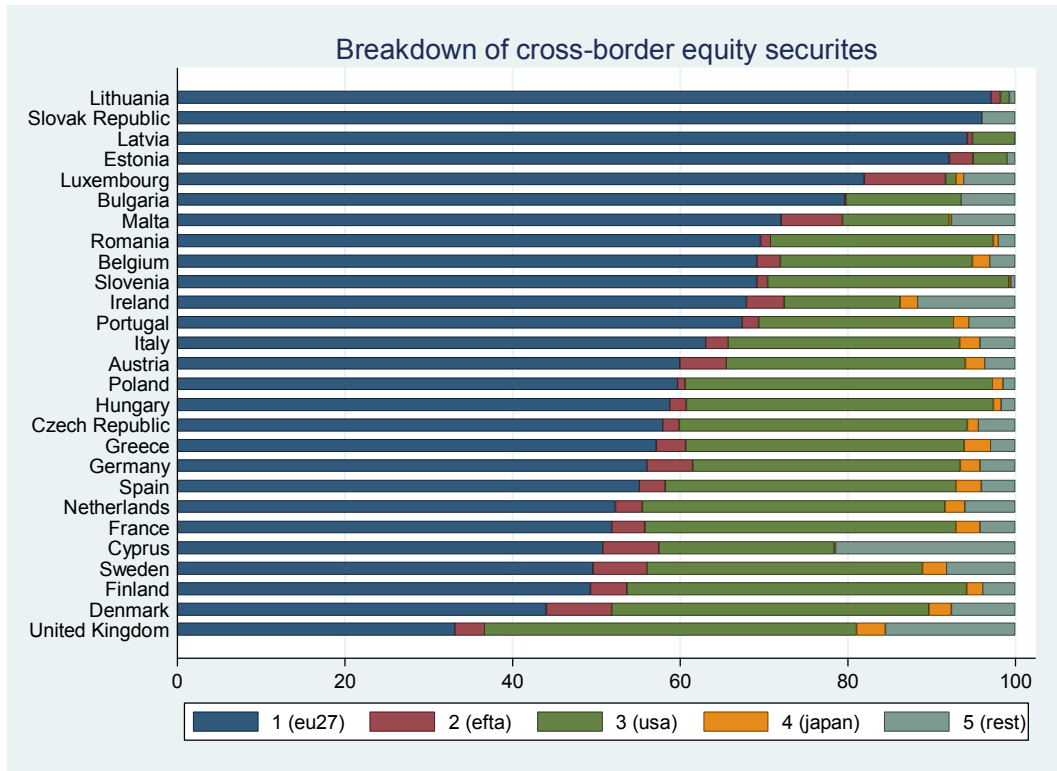
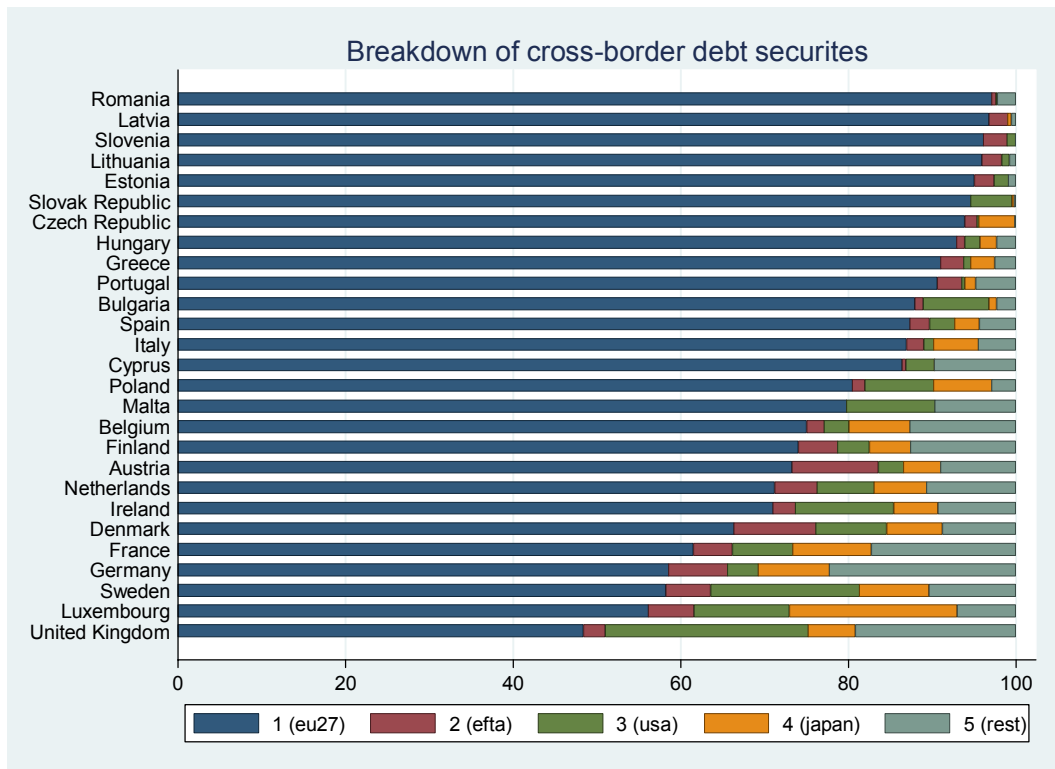


Figure 2.3: Cross-border holdings of debt securities in 2006



2.2. Withholding taxes and double taxation agreements (DTA)

Many countries apply some sort of withholding taxes, most commonly on dividends and interest payments. However, for cross-country investors in many cases bilateral double taxation agreements (DTAs) are in place in order to provide them with a (partial) relief of the tax to be paid.

Tables 2.5 and 2.6 show the respective rates for investments made in the 27 countries of the European Union.

If no DTA is available or the tax rate applied within the MS (domestic rate) is lower than that in the DTA, the domestic rate is relevant for the foreign investor. The relevant rates are referred to as “actual statutory” withholding tax rates and shown in tables 2.7 and 2.8. Taking into account the amount of cross-border security holdings within the EU, the domestic weighted average rate is 14.8% for dividends and 19.7% for interest payments. The weighted average for the “actual statutory” rate is 11% and 3% respectively.

Table 2.5: Withholding tax rates for dividend payments based on bilateral treaties

Dividends Received in	Aus	Bel	Bul	Cyp	Cze	Den	Est	Fin	Fra	Ger	Gre	Hun	Ire	Ita	Lat	Lit	Lux	Mal	Net	Pol	Por	Rom	Slo	Slo	Spa	Swe	Uni
Austria	25	15	0	10	10	10	15	10	15	15	25	10	10	15	10	15	15	15	15	15	5	10	15	15	10	15	25
Belgium	15	25	10	15	15	15	15	15	15	15	15	10	15	15	15	15	15	15	15	15	15	15	15	15	15	10	15
Bulgaria	0	10	5	10	10	15	5	10	15	15	10	10	10	10	10	10	15	15	10	15	15	10	10	15	10	10	0
Cyprus	10	15	10	0	10	15	0	0	15	15	25	0	0	0	0	0	0	0	10	0	10	10	0	0	15	0	10
Czech Republic	10	15	10	10	15	15	15	15	10	15	15	15	15	15	15	15	15	10	10	15	10	15	15	15	10	15	10
Denmark	15	15	15	15	15	28	15	15	28	15	18	15	15	15	15	15	15	15	15	10	15	15	15	15	15	15	15
Estonia	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Finland	10	15	10	28	15	15	15	28	0	15	13	15	0	15	15	15	15	15	15	15	5	15	15	15	15	0	10
France	15	15	15	15	10	25	15	15	25	15	25	15	15	15	15	15	15	15	15	15	10	10	15	15	15	15	15
Germany	15	15	15	15	15	15	15	15	15	25	25	15	10	15	15	15	15	15	15	15	15	15	15	15	15	15	15
Greece	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Hungary	10	10	10	15	15	15	15	15	15	15	10	25	15	10	10	15	15	15	10	15	15	15	15	15	15	15	10
Ireland	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Italy	15	15	10	15	15	15	15	15	15	15	15	10	15	1,375	15	15	15	15	10	15	10	15	10	15	15	27	15
Latvia	10	15	10	10	15	15	15	15	15	15	10	10	15	15	10	15	10	15	15	10	10	10	15	15	15	15	10
Lithuania	15	15	10	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	10	10	10	15	15	15	15	15
Luxembourg	15	15	15	15	15	15	10	15	15	15	7,5	15	15	15	10	15	15	15	15	15	15	15	15	15	15	15	15
Malta	15	15	15	19	10	15	15	15	15	15	15	15	15	15	15	15	15	15	15	10	15	10	15	15	15	15	15
Netherlands	15	15	10	10	10	15	15	15	15	15	19	10	15	10	15	15	15	15	19	15	15	10	15	15	15	10	15
Poland	15	15	15	20	15	10	10	15	15	15	15	15	15	15	10	10	15	10	15	20	15	15	15	15	10	15	15
Portugal	5	10	15	10	10	15	10	5	10	15	20	15	3	10	10	10	15	15	15	15	16	10	5	15	10	15	5
Romania	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Slovakia	15	15	10	10	15	15	15	15	15	15	10	15	15	10	15	15	15	15	15	15	5	15	20	15	15	15	15
Slovenia	15	15	15	18	15	18	15	15	15	15	10	15	15	15	10	15	15	15	15	15	15	15	15	18	15	15	15
Spain	10	15	10	15	10	15	15	15	15	15	0	15	15	15	15	15	15	15	15	10	10	10	15	15	30	5	10
Sweden	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
United Kingdom	25	15	0	10	10	10	15	10	15	15	25	10	10	15	10	15	15	15	15	15	5	10	15	15	10	15	25

Based on tax rates applicable to individuals (small differences between the rate for individuals and corporations exist only in Estonia, Latvia, Hungary and Slovenia)

Source: www.ibfd.org, Ernst & Young, Expert assessments

Table 2.6: Withholding tax rates for interest payments based on bilateral treaties

Interest Received in	Aus	Bel	Bul	Cyp	Cze	Den	Est	Fin	Fra	Ger	Gre	Hun	Ire	Ita	Lat	Lit	Lux	Mal	Net	Pol	Por	Rom	Slo	Slo	Spa	Swe	Uni
Austria	15	15	0	0	0	0	10	0	0	0	15	0	0	10	10	10	0	5	0	5	10	3	0	5	5	0	0
Belgium	15	15	10	10	10	10	10	10	15	15	10	15	15	15	10	10	15	10	10	5	15	10	10	10	10	10	15
Bulgaria	0	10	10	7	10	0	5	0	0	0	10	10	5	0	5	10	10	0	0	10	10	15	10	5	0	0	0
Cyprus	0	10	7	0	10	10	0	0	10	10	10	10	0	10	0	0	0	10	0	10	0	10	10	10	0	10	10
Czech Republic	0	10	10	10	15	0	10	0	0	0	10	0	0	0	10	10	0	0	0	10	10	7	0	5	0	0	0
Denmark	0	10	0	10	0	0	10	0	0	0	8	0	0	10	10	10	0	0	0	5	10	10	0	5	10	0	0
Estonia	10	10	5	0	10	10	0	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
Finland	0	10	0	28	0	0	10	28	10	0	10	0	0	15	10	10	0	0	0	0	15	5	0	5	10	0	0
France	0	15	0	10	0	18	10	10	18	0	0	0	0	10	10	10	0	10	10	0	12	10	0	5	10	0	0
Germany	0	15	7	10	0	25	10	0	0	25	10	0	0	10	10	10	0	7	15	5	15	3	0	5	10	7	0
Greece	0	10	10	10	10	8	10	10	10	10	20	10	5	10	10	10	8	8	10	10	15	10	10	10	8	10	0
Hungary	0	15	10	10	0	0	10	0	0	0	10	20	0	0	10	10	0	10	0	10	10	15	0	5	0	0	0
Ireland	0	15	5	0	0	0	10	0	0	0	5	0	20	10	10	10	0	20	0	10	15	3	0	5	0	0	0
Italy	10	15	0	10	0	10	10	15	10	10	10	0	10	27	10	10	10	10	10	10	15	10	0	10	12	15	10
Latvia	10	10	5	25	10	10	10	10	10	10	10	10	10	10	25	0	10	10	10	10	10	10	10	10	10	10	10
Lithuania	10	10	10	15	10	10	10	10	10	10	10	10	10	10	0	15	10	10	10	10	10	10	10	10	10	10	10
Luxembourg	0	15	10	15	0	0	10	0	10	0	8	0	0	10	10	10	15	0	15	10	15	10	0	5	10	0	0
Malta	5	10	0	10	0	0	10	0	10	0	8	10	0	10	10	10	0	0	10	10	10	5	0	5	0	0	10
Netherlands	0	10	0	15	0	0	10	0	10	0	10	0	0	10	10	10	15	10	15	5	10	0	0	5	10	0	0
Poland	5	5	10	10	10	5	10	0	0	5	10	10	10	10	10	10	10	10	5	20	10	10	10	10	0	0	5
Portugal	10	15	10	20	10	10	10	15	12	15	15	10	15	15	10	10	15	10	10	10	20	10	10	10	15	10	10
Romania	3	10	15	10	7	10	10	5	10	3	10	15	3	10	10	10	10	5	3	10	10	16	10	5	10	10	10
Slovakia	0	10	10	10	0	0	10	0	0	0	10	0	0	0	10	10	0	0	0	10	10	10	19	10	0	0	0
Slovenia	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	20	0	0	0
Spain	5	10	0	18	0	18	10	10	10	10	8	0	0	12	10	10	10	0	10	0	15	10	0	5	18	15	12
Sweden	0	0	5	0	5	0	10	0	0	0	5	0	0	5	10	10	0	0	0	5	10	10	5	0	10	0	0
United Kingdom	0	15	0	10	0	0	10	0	0	0	0	0	0	10	10	10	0	10	0	5	10	10	0	5	12	0	20

Based on tax rates applicable to individuals (small differences between the rate for individuals and corporations exist only in Estonia, Latvia, Hungary and Slovenia)

Source: www.ibfd.org, Ernst & Young, Expert assessments

Table 2.7: Actual statutory withholding tax rates for dividend payments based on a comparison of treaty and domestic rates

Dividends Received in	Aus	Bel	Bul	Cyp	Cze	Den	Est	Fin	Fra	Ger	Gre	Hun	Ire	Ita	Lat	Lit	Lux	Mal	Net	Pol	Por	Rom	Slo	Slo	Spa	Swe	Uni	
Austria	25	15	0	10	10	10	15	10	15	15	25	10	10	15	10	15	15	15	15	15	15	5	10	15	15	10	15	25
Belgium	15	25	10	15	15	15	15	15	15	15	15	10	15	15	15	15	15	15	15	15	15	15	15	15	15	15	10	15
Bulgaria	0	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	0
Cyprus	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Czech Republic	10	15	10	10	15	15	15	15	10	15	15	15	15	15	15	15	15	10	10	15	10	15	15	15	10	15	10	
Denmark	15	15	15	15	15	28	15	15	28	15	18	15	15	15	15	15	15	15	15	10	15	15	15	15	15	15	15	15
Estonia	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Finland	10	15	10	28	15	15	15	28	0	15	13	15	0	15	15	15	15	15	15	15	5	15	15	15	15	0	10	
France	15	15	15	15	10	25	15	15	25	15	25	15	15	15	15	15	15	15	15	15	10	10	15	15	15	15	15	15
Germany	15	15	15	15	15	15	15	15	15	25	25	15	10	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15
Greece	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Hungary	10	10	10	15	15	15	15	15	15	15	10	25	15	10	10	15	15	15	10	15	15	15	15	15	15	15	15	10
Ireland	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Italy	1,375	1,375	1,375	1,375	1,375	1,375	1,375	1,375	1,375	1,375	1,375	1,375	1,375	1,375	1,375	1,375	1,375	1,375	1,375	1,375	1,375	1,375	1,375	1,375	1,375	1,375	1,375	1,375
Latvia	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
Lithuania	15	15	10	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	10	10	10	15	15	15	15	15	15
Luxembourg	15	15	15	15	15	15	10	15	15	15	7,5	15	15	15	10	15	15	15	15	15	15	15	15	15	15	15	15	15
Malta	15	15	15	15	10	15	15	15	15	15	15	15	15	15	15	15	15	15	15	10	15	10	15	15	15	15	15	15
Netherlands	15	15	10	10	10	15	15	15	15	15	19	10	15	10	15	15	15	15	19	15	15	10	15	15	15	10	15	15
Poland	15	15	15	20	15	10	10	15	15	15	15	15	15	15	10	10	15	10	15	20	15	15	15	15	10	15	15	
Portugal	5	10	15	10	10	15	10	5	10	15	16	15	3	10	10	10	15	15	15	15	16	10	5	15	10	15	5	
Romania	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Slovakia	15	15	10	10	15	15	15	15	15	15	10	15	15	10	15	15	15	15	15	15	5	15	20	15	15	15	15	15
Slovenia	15	15	15	18	15	18	15	15	15	15	10	15	15	15	10	15	15	15	15	15	15	15	15	18	15	15	15	
Spain	10	15	10	15	10	15	15	15	15	15	0	15	15	15	15	15	15	15	15	10	10	10	15	15	30	5	10	
Sweden	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
United Kingdom	25	15	0	10	10	10	15	10	15	15	25	10	10	15	10	15	15	15	15	15	5	10	15	15	10	15	25	

Based on tax rates applicable to individuals (small differences between the rate for individuals and corporations exist only in Estonia, Latvia, Hungary and Slovenia)

Source: www.ibfd.org, Ernst & Young, Expert assessments

Table 2.8: Actual statutory withholding tax rates for interest payments based on a comparison of treaty and domestic rates

Interest Received in	Aus	Bel	Bul	Cyp	Cze	Den	Est	Fin	Fra	Ger	Gre	Hun	Ire	Ita	Lat	Lit	Lux	Mal	Net	Pol	Por	Rom	Slo	Slo	Spa	Swe	Uni
Austria	15	15	0	0	0	0	10	0	0	0	15	0	0	10	10	10	0	5	0	5	10	3	0	5	5	0	0
Belgium	15	15	10	10	10	10	10	10	15	15	10	15	15	15	10	10	15	10	10	5	15	10	10	10	10	10	15
Bulgaria	0	10	10	7	10	0	5	0	0	0	10	10	5	0	5	10	10	0	0	10	10	10	10	5	0	0	0
Cyprus	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Czech Republic	0	10	10	10	15	0	10	0	0	0	10	0	0	0	10	10	0	0	0	10	10	7	0	5	0	0	0
Denmark	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Estonia	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Finland	0	10	0	28	0	0	10	28	10	0	10	0	0	15	10	10	0	0	0	0	15	5	0	5	10	0	0
France	0	15	0	10	0	18	10	10	18	0	0	0	0	10	10	10	0	10	10	0	12	10	0	5	10	0	0
Germany	0	15	7	10	0	25	10	0	0	25	10	0	0	10	10	10	0	7	15	5	15	3	0	5	10	7	0
Greece	0	10	10	10	10	8	10	10	10	10	20	10	5	10	10	10	8	8	10	10	15	10	10	10	8	10	0
Hungary	0	15	10	10	0	0	10	0	0	0	10	20	0	0	10	10	0	10	0	10	10	15	0	5	0	0	0
Ireland	0	15	5	0	0	0	10	0	0	0	5	0	20	10	10	10	0	20	0	10	15	3	0	5	0	0	0
Italy	10	15	0	10	0	10	10	15	10	10	10	0	10	27	10	10	10	10	10	10	15	10	0	10	12	15	10
Latvia	10	10	5	25	10	10	10	10	10	10	10	10	10	10	25	0	10	10	10	10	10	10	10	10	10	10	10
Lithuania	10	10	10	15	10	10	10	10	10	10	10	10	10	10	0	15	10	10	10	10	10	10	10	10	10	10	10
Luxembourg	0	15	10	15	0	0	10	0	10	0	8	0	0	10	10	10	15	0	15	10	15	10	0	5	10	0	0
Malta	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Netherlands	0	10	0	15	0	0	10	0	10	0	10	0	0	10	10	10	15	10	15	5	10	0	0	5	10	0	0
Poland	5	5	10	10	10	5	10	0	0	5	10	10	10	10	10	10	10	10	5	20	10	10	10	10	0	0	5
Portugal	10	15	10	20	10	10	10	15	12	15	15	10	15	15	10	10	15	10	10	10	20	10	10	10	15	10	10
Romania	3	10	15	10	7	10	10	5	10	3	10	15	3	10	10	10	10	5	3	10	10	16	10	5	10	10	10
Slovakia	0	10	10	10	0	0	10	0	0	0	10	0	0	0	10	10	0	0	0	10	10	10	19	10	0	0	0
Slovenia	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	20	0	0	0
Spain	5	10	0	18	0	18	10	10	10	10	8	0	0	12	10	10	10	0	10	0	15	10	0	5	18	15	12
Sweden	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
United Kingdom	0	15	0	10	0	0	10	0	0	0	0	0	0	10	10	10	0	10	0	5	10	10	0	5	12	0	20

Based on tax rates applicable to individuals (small differences between the rate for individuals and corporations exist only in Estonia, Latvia, Hungary and Slovenia)

Source: www.ibfd.org, Ernst & Young, Expert assessments

2.3. Summary and Conclusions of this Chapter

This chapter presented some background data on securities markets and withholding taxes which is designed to provide a background for the analysis in later chapters.

It has been shown that the European Union accounts for more than 50% of the worldwide amount of cross-border holdings of equity and debt securities, both with respect to the origin and the destination of the investments. Moreover, there has been a significant increase of the total amount of cross-border holdings within the EU, from 6.4 trillion dollars in 2001 to 16.7 trillion in 2006.

Since the amounts of equity and debt securities held by non-domestic investors in the European Union have been identified, we can already at this stage provide some preliminary calculations. Assuming an average dividend rate of 3.45%, foreign investors (holding 6.4 trillion dollars of equity securities in the EU) received around 221 billion dollars of dividend payments in 2006. Taking 14.8% as an average domestic rate of the withholding tax, they would face a total of almost 33 billion dollars of withholding taxes if no tax relief procedures were in place in the EU Member States. Using the lower “actual statutory” weighted average rate of 11%, this translates into a theoretical tax relief of around 9 billion dollars per year.

The same calculations can be made for debt securities. Taking the total amount of 10.3 trillion held by foreigners and assuming an average interest rate of 4.53%, one obtains a total of 467 billion dollars of interest payments received by non-domestic investors in 2006. With a weighted average domestic withholding tax rate of 19.7% and a reduced rate of 3%, this leads to an estimated theoretical tax relief of 78 billion dollars per year.

In summary, it can be seen that non-domestic investors in the European Union were theoretically entitled to an estimated tax relief of around 87 billion dollars in 2006. The next chapters will analyse in greater detail the real situation of the according relief payments and procedures.

3. EVALUATION OF IMPLEMENTED SOLUTIONS IN SOME MEMBER STATES

3.1. Introduction

The Commission asked about examples of Member States that already have implemented some of the FISCO proposals, in order to investigate the economic impact of these measures. The Czech Republic, Finland, France, Ireland, the Slovak Republic, Sweden, Germany and the Netherlands have provided information.

- (a) The FISCO Group was of the opinion that at-source relief procedures are the best method to improve the present situation because of the optimized cash flow they offer to investors.

No less than 14 Member States now have relief at source procedures in place: The Czech Republic, Estonia, Finland, France, Ireland, Italy, Lithuania, the Netherlands, Portugal, Poland, the Slovak Republic, Slovenia, Spain and Sweden.

- (b) Even though relief at source is the preferred relief method, the FISCO Group recommended the implementation of efficient refund procedures.

The examples provided by some Member States describe both the present relief at source procedures and the present refund procedures. The actual examples give a clear indication of a positive impact of the FISCO proposed solutions. However, these examples do not imply that the Member States involved have implemented perfect procedures in all senses. Nevertheless, the examples do illustrate that the steps that have been taken by the relevant Member States, along the lines suggested by the FISCO proposals, in general had a positive impact. (See paragraph 3.2)

- (c) The FISCO Group proposed to abolish requirements of paper form certification and instead permit intermediaries to pass on information in electronic format.

Some Member states have already implemented procedures for exchange of information in electronic form. Germany and the Netherlands have for instance successfully introduced special refund procedures for securities held with intermediaries, with the aim of eliminating part of the administrative burden. Both procedures have in common that they allow (foreign and domestic) custodians to file refund claims on behalf of their clients in a standardised electronic format. The main advantages of these procedures are that no separate refund claim for each single claimant is required and that the refund process is possible electronically, which is a more efficient and quicker system than the previous ones that were based on paper forms. Consequently, also these examples do illustrate that the steps that have been taken by the relevant Member States, along the lines suggested by the FISCO proposals, in general had a positive impact. (See paragraph 3.3)

3.2. Withholding Tax Procedures

3.2.1. FISCO Proposals and Draft Commission Recommendation

<p style="text-align: center;"><i>FISCO Proposal</i> <i>Withholding Tax Procedures</i></p> <p>The FISCO Group was of the opinion that at-source relief procedures are the best method to improve the present situation because of the optimized cash flow they offer to investors. Even though relief at source is the preferred relief method, there is a clear need also for efficient refund procedures.</p> <p style="text-align: center;"><i>Draft Commission Recommendation</i> <i>Tax relief at source</i></p> <p>Source Member States are invited to grant withholding tax relief at source, i.e. at the time of payment of the securities income.</p> <p style="text-align: center;"><i>Standardised and quick refund procedures</i></p> <p>Where in exceptional cases tax relief at source is not feasible, source Member states are invited to set up standardised and quick refund procedures.</p>
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3.2.2. The Czech Republic

The rate of withholding tax or exemption granted by the double tax treaties is applied automatically. The issuer of the securities, i.e. the "payer", is responsible for correct application of double tax treaties and withholding of the tax at a correct rate and remittance of the withheld tax to the competent Czech Tax Authority within the prescribed deadlines. The payer is also responsible for filing the declarations for the withholding tax with the Czech Tax Authority.

- If an intermediary is interposed between payers and beneficial owners this intermediary is not responsible for withholding the tax.
- If the rate of withholding tax was applied according to the national legislation although the taxpayer was entitled to the double tax treaties relief the difference is refunded to the taxpayer.

Entitlement to the tax refund may not be recognized after the lapse of six years from the end of taxable period during which the tax duty (obligation) arose.

The above described system has been applied in the Czech Republic for many years and has been functioning very well. There have not been any signals of major difficulties neither from the side of tax administration nor business operators.

3.2.3. Finland

3.2.3.1. Relief at Source

The withholding taxation of dividends paid abroad from Finland is based on the relief at source model. The Finnish withholding tax system was reformed in the beginning of 2006. The refunding

procedure was also partly reformed in connection with the reforming of the withholding tax procedure.

According to this new system, an issuer may apply a reduced withholding tax rate of 15 per cent (normal 28) without being required to obtain any detailed identification concerning the final beneficial owner prior paying out the dividend. To benefit from such procedure an account operator has to have *sufficient evidence* that the beneficial owner of the shares registered to a nominee account lives in a country with which Finland has a tax treaty which provides that tax is withheld at a maximum of 15 per cent.

In this context, "sufficient evidence" means an agreement between an account operator and the last foreign custodian in the chain according to which the custodian commits to:

- I. Disclose for the purposes of the payment of dividend the state where the domicile of the final recipient of dividend is and to affirm that the provisions of the tax treaty between Finland and said state are applied to the recipient of dividend.
- II. Disclose immediately to the account operator or its agent any changes in relation to the facts referred to in point 1.
- III. Provide complete information, upon request of the tax authorities of Finland, on the recipients name, date of birth, official identification number (if any) and address in the home state, and to submit a Certificate of residency, issued by the tax authority of the recipient's State of residence.

The foreign custodian must also be entered on the date of distribution of dividend in the register on non-resident custodians maintained by the Tax Administration.

For the entering in the register on non-resident custodians a custodian has to provide some basic information for the identification of the applicant as well as its contact information. That information includes i.a: applicant's name, address, state of residence, tax identification number in the state of residence (if any) and tax identification number in Finland. The foreign custodian may also authorize e.g. a Finnish account operator to act on behalf of itself in matters relating to the registration in the Foreign Custodian Register. There is a special form introduced by the Finnish Tax Authority for this purpose. If a foreign custodian fails in a material respect to comply with terms of the agreement mentioned above or provisions concerning its duty to disclose information, the foreign custodian may be removed from the register.

The tax control of withholding taxes is based on the tax audits. According to the established practice the tax inspection is based in the

case of the withholding taxes of dividends, on a sample. Detailed information is not required on all beneficial owners.

The fact that the new procedures only address the relationship between account operators and their direct customers has caused some degree of legal uncertainty among intermediaries which are not direct customers of the account operators.

However, the experience so far, is that the new system has functioned reasonably well.

3.2.3.2. Refund

If the beneficial owner has paid more taxes than stipulated in the tax treaty, he may reclaim the difference between the tax withheld and that due under the respective treaty by making an application to the tax office where the company distributing dividends has its domicile. A certificate of fiscal residence given by the residence state in question should be attached to the application.

In connection with the reform of the withholding tax procedure, also the refunding procedure was partly reformed. According to the new simplified procedure, during the year of dividend payment any refunds may be handled by the account operator acting on behalf of the Finnish company. The account operator has to have the identification information concerning the recipient of a dividend: name, address, date of birth and tax identification number in the state of residence, if any. These are the same pieces of information which are required for the non-resident custodian register. In order to start this process, the beneficial owner shall contact his own custodian. There is a special form introduced by the Finnish Tax Authority for this purpose.

There are in total approximately about one thousand refund applications a year according to the simplified procedure. The total number of other refund applications is approximately six thousand annually. According to the normal procedure, the refunding time can be 1-2 years depending on how correct the information connected to the application is.

However, the limited number of the refund applications indicates that the Finnish relief at source systems has functioned quite efficiently. In 2007 the worth of the dividends paid on shares registered in the omnibus accounts was all together four billion euros. There are no official statistics of the number of final beneficial owners, but it is clear that there are several hundred thousand recipients of dividends. The market value of the foreign holdings represents nearly 60 percent of the total market value (252 billion at the end of 2007).

As a conclusion, the new system is functioning very well. It has clearly simplified the refund system and shortened the refunding

times. In average the withholding taxes have been paid back in a couple of weeks.

3.2.4. France

France introduced a relief at source procedure in 1994. This procedure allows tax treaty eligible investors to obtain a reduced tax treaty rate at the time of the payment upon submission of a yearly certificate of residency (i.e. Form 5000). This procedure applies to dividends and interest income.

Additionally, France has modified its tax legislation in order to allow the first financial intermediary of the payment chain situated outside France and within the EEA to act as withholding tax agent with respect to income on French dividends. Article 63 of the Financial law for 2007 published on December 27, 2006, has modified the article 1672 of the French General Tax Code in order to allow non-resident legal entities to collect and pay to the French Ministry of Finance the withholding tax that is due to be levied on French income distributed to non-resident investors.

For remaining cases, a refund procedure is available. Withholding tax agents may refund any eligible investors using the amount of tax they have collected during the month. This off-set procedure allows withholding tax agents to refund the investors without having to claim the funds from the French Tax Authorities. A positive effect of the off-set procedures is that the refund time has been reduced to a couple of months (instead of approximately 6 months when funds are claimed from the French tax authorities).

3.2.5. Ireland: The Dividend Withholding Tax Exemption at Source

3.2.5.1. General Description

The Dividend Withholding Tax (DWT) was introduced with effect from 6 April 1999 on dividends paid and other distributions made by Irish-resident companies to the following:

- Irish resident person (non-corporate) and
- Individuals, companies and other entities resident or controlled outside the EU or countries with which Ireland has double taxation treaty.

The Irish resident company making the distribution to shareholders is required to withhold the tax on liable accounts and pay it over to Revenue at the standard rate of income tax for the year of assessment in which the distribution was made. Two other main participants in the scheme are the Qualifying Intermediary (QI) and Authorised Withholding Agent (AWA). When the paying company pays an AWA the entire distribution can be paid gross by the paying company to the AWA, who then will take charge of applying DWT rules which includes obtaining documentary evidence of entitlement to exemption

from DWT, withholding distribution and making payments and returns to Revenue.

A major portion of investment in Irish companies is made through intermediaries e.g. Banks or stockholding firms and legislation allows for exemption at source in such cases providing the intermediary is authorised by Revenue to act as a QI. QI's are allowed to create and maintain 2 separate and distinct categories of funds known as exempt and liable. Before the distribution is made, the QI can accept declarations of exemption from non-liable persons and notifications from other downstream QI's and, on the basis of these declarations and notifications, notify the paying company or AWA in writing whether the distribution is for liable or non-liable persons. The distributions for non-liable persons can then be paid gross by the paying company or AWA and will go into the QI's exempt fund while the distribution for liable persons will go into liable fund.

3.2.5.2. Persons Exempt from Payment of DWT

The following dividends are exempt from DWT:

1. dividends paid to Ministers of the Government in their capacity as such Ministers,
2. distributions made by an Irish Resident subsidiary to its parent in another member state where withholding tax is prohibited under EU legislation,
3. distributions made by an Irish –resident company to another Irish-resident company of which it is a 51 per cent subsidiary within the meaning of Section 9 of the Taxes Consolidation Act, 1997,
4. dividends paid to other individuals and companies not falling under 3.2.5.1 and points 1-3 above.

There are currently 42 Qualified Intermediaries and 1 Authorised Withholding agent authorised in Ireland.

3.2.5.3. Current Staffing Resources

As Ireland introduced this system from the outset it is difficult to quantify savings made as a result of the use of the exemption at source provisions. The current staffing of the DWT Unit is 12 with approximate costs and overheads at circa €700,000 per annum. These staff look after updating DWT Returns including beneficiary details, processing DWT Refunds, transaction testing of QI claims, compliance audits on QI Procedures, general DWT queries, pursuit of outstanding DWT payments and imposition of interest where appropriate.

3.2.5.4. Value of Dividend Withholding Tax and Exemption at Source 2007

	Total No of Returns	No of beneficiaries	Value of Distributions	Max Potential DWT Liability @ 20%	Exempted at Source
Total Returns	5,946	1,001,504	€33,464,591,947	€6,692,918,389	€6,371,261,300
Nil Returns	2574	7993	€29,663,582,078	€5,932,716,415	€5,932,716,415
Total Mixed Returns	3372	993,511	€3,801,009,868	€760,201,973	
 Liable portion			€1,608,285,439	€321,657,087	N/A
 Non Liable			€2,192,724,429	€438,544,885	€438,544,885

Note from the data above that 95% of the potential DWT collectable during 2007 was granted exemption from Dividend Withholding Tax at source. The amounts above would include inter group or close company dividends. Some €321m DWT was collected in 2007 of which it is estimated that approximately 20% will result in DWT refund claims within four years.

DWT Payments are accompanied by a return which is normally in electronic format approved by Revenue. Most of the returns and payments are made through Revenue On Line (ROS) and this has automatic interfacing with DWT Beneficiaries Database and also Revenue Payments System (ITS). Although claims can be received on line they are processed manually.

The table below shows how returns were received by Revenue in 2007:

Media	No. & % of Returns	No. & % of Beneficiaries
Paper:	3932 - 66%	8740 - 1%
Diskette	44 - 1%	92601 - 9%
ROS	1970 - 33%	900163 - 90%

3.2.5.5. Refunds

Ireland moved to a refund system for Qualified Intermediaries in October 2006 that has resulted in an increase of refunds issued within 20 days from 23% in 2006 under old system to 100% in 2007 under the new system. Qualified Intermediaries can now pool together claims and submit claims on a quarterly basis on line. This has also allowed the Irish tax authorities to concentrate more resources on non QI refunds and turnaround times have indeed been improved from 29% processed within 20 working days in 2006 to 75% processed within 20 working days in 2007.

3.2.6. The Slovak Republic

The Slovak Republic has withholding tax relief at source procedures in place. In general, the withholding tax is applied by the withholding agent at the time of payment in compliance with the Income Tax Act (ITA).

In the case of income from bonds and treasury bills paid out to non-residents (Art. 43 (15) of ITA), the withholding agent is the securities dealer who holds the client's financial assets generating the securities income. Holding the financial assets means the performance of safekeeping and management of the client's financial assets in the name of the trader on behalf of the client.

Slovak banks and subsidiaries of foreign banks in the Slovak Republic provide custody services for their clients and have an open "custodian account of the securities" in their names in the Slovak Central Securities Depository. The accounts of the individual clients are recorded only in the information system (internal database) of the banks. At the time of payment of the securities income banks are fully responsible for the accurate withholding of tax.

In practice, there are also situations when the client of the securities dealer is a taxpayer with limited tax liability. The client may be a foreign securities dealer (possibly a so-called "nominee") who holds securities other than his own in his securities account e.g. securities of clients, in compliance with the law of the country where this dealer is established. Data on beneficial (real) owners of the securities and the number of the securities owned are recorded in the internal documentation of this foreign securities dealer – the bank has no direct access to this information.

At the time of payment of the securities income the foreign dealer will disclose to the bank the beneficial owner of the securities income held in his securities account in order to obtain the advantage of relevant double tax conventions, depending on the residence of the beneficial owner. For this purpose he will disclose to the bank an overview of his clients – owners of the securities, number of the securities they own, certificates of residence and declaration of the fact that they are beneficial owners of the interest income from securities.

Finally, it is necessary to take into account that dividends are not subject to tax in the Slovak Republic.

3.2.7. Sweden: Coupon Tax

3.2.7.1. Relief at source

Sweden has ever since the introduction of coupon tax on dividends in 1943 enabled withholding tax relief at source. Dividends to non-Swedish investors are taxable in Sweden with a 30% withholding tax. This rate is however generally reduced if Sweden and the country of fiscal domicile of the person entitled to dividend payment have signed a double taxation agreement.

When a financial intermediary is involved it is generally the Central Securities Depository (CSD) (in Sweden called Euroclear Sweden) that has the role of withholding agent. If there is another financial intermediary that is in custody of the securities Euroclear Sweden can under certain conditions register the financial intermediary as a nominee shareholder (nominee-registered). In the case of nominee shareholding the financial intermediary acts as withholding agent and the tax liability is transferred to that intermediary. Legal persons that can be authorized as nominee shareholders are among others Swedish and foreign clearing organisations, Swedish securities institutions and foreign companies that are authorized to conduct securities business in their home country.

The beneficial owner is by law obliged to give the withholding agent sufficient information so that the withholding agent is able to assess whether the beneficial owner is liable to coupon tax or not. The withholding agent has the responsibility to report all beneficiary details together with the payment of tax which must be made to The Swedish Tax Agency, within four months after the time of the dividend payment. If the payment is made to a nominee the name of the nominee is reported to the Swedish Tax Agency. If the nominee is foreign, pooled information is included in the reporting on a no named basis.

This procedure allows tax relief at source as well as quick refund until payment and reporting is due for the withholding agent. However the CSD and Swedish nominees are legally responsible for the withholding of tax on registered shares with a right to recourse the tax from the beneficial owners.

Already the net payment to foreign nominees or intermediaries based on pooled information received, entails a risk for the CSD and/or the Swedish nominees, since the legal liability for the tax and reporting obligations may not be transferred to the foreign nominee or intermediary. Any future possibility to make gross payments also to foreign intermediaries should, in view of the Swedish authorities, therefore be combined with a transferred tax and reporting liability to such foreign intermediaries.

The reporting liability to foreign nominees is today on a no name basis, but the withholding agent must be prepared to present all beneficiary details upon request by the Swedish Tax Agency.

3.2.7.2. Refund

In case of over withheld tax the beneficial owner, the nominee shareholder or the CSD can demand a refund from the Tax Agency. A refund has to be applied for before the end the fifth calendar year after the payment. In a refund situation tax residency has generally to be proved by certificates etc.

Sweden uses a single contact point for the handling of applications for refunding.

3.2.7.3. Proof of Tax Residency

Euroclear Sweden, through its account operators, or Swedish nominees do not require any additional information on the tax residency of the beneficial shareholders such as tax certificates etc when allowing a tax relief at source. Instead, according to general practise and procedures in Sweden, Euroclear Sweden and its nominees withhold tax based on information received when opening a securities account. A shareholder, when opening such an account in a Bank (account operator for Euroclear Sweden (CSD-account)) or lodging a deposit with a nominee, must provide information on a special application form and include information with respect to personal identity number (same as tax identification number) address and similar including tax residency. For legal persons a certificate of registration or similar is requested. The shareholder indemnifies the correctness of the information provided and undertakes to provide additional and updated information should any circumstances change. The system therefore relies on “self certification” of tax residence.

3.2.7.4. Audit procedures

If the Swedish Tax Authorities finds a reason for audit, the CSD or the nominee is obligated to present a so called “breakdown” with name, address and the beneficiary of the dividend and sufficient inquiry of the tax residency of the recipient.

3.3. Exchange of information in electronic form

3.3.1. FISCO Proposals and Draft Principles

FISCO Proposal

Simplification and harmonisation

The FISCO Group proposed to abolish requirements of paper form certification and instead permit intermediaries to pass on information in electronic format.

Draft Commission Recommendation

Information and documentation in electronic form

Source Member States are invited to allow information and withholding agents to transmit and archive information and documentation by electronic means.

3.3.2. The "Large Authorised Representative Regulation" introduced in the Netherlands

Since the introduction of the Large Authorised Representative Regulation (GGC) on September 1st 2005, the Dutch tax authorities no longer receive physical documents from the banks that participate in the regulation. The member banks now instead send an excel file by e-mail, concerning which the tax authorities have set certain requirements. This e-mail must contain the data of the beneficial owner and the data of the amounts to be refunded. The tax authorities read this file in the GGC system, that is especially designed for this purpose. The GGC system subsequently checks a number of technical and fiscal items. If the system approves the file it immediately produces one notification for the whole of the excel file and one payment order is produced for the bank. The tax authorities will guarantee that the bank has received the total amount of the file within 3 weeks after receipt of the e-mail.

After the calendar year a check on the refund requests takes place at all banks by means of a mathematically determined random check.

During the first year that a bank gets a check the tax authorities carry out an EDP (electronic data processing) investigation on site. During this investigation the Administrative Organisation/Internal Audit (AO/IC) of the bank is assessed and a risk analysis is made regarding the activities that are done with respect to the refunds of dividend withholding tax. Following the results of the findings and the risk analysis the materiality of the random check is determined. Banks where the risk is assessed as low, will get a reduction on the materiality, and banks where the risk is high will get no reduction. The following years the banks will send the selected refund requests to the tax authorities for assessment. A fiscal check will again take place as well as a check on double submitted requests.

In the old situation +/- 160,000 physical requests for dividend withholding tax were submitted at the Tax Authorities/International Office te Heerlen. These requests were entered manually in a computer system that was developed for this, subsequently a notification was drawn up and the amount of the refund was transferred to the interested party. This was a very labour-intensive and costly procedure. The throughput times were around 2 to 3 months on average.

The Large Authorised Representative Regulation (GGC) is included in Annex 1.

3.3.3. The “Automated Refund Procedure” introduced in Germany

Banks holding shares in custody and other institutions distributing dividends (e.g. clearing organisations) can since 2002 apply at the German Federal Tax Office for the EDP-based "Data Medium Procedure – DMP", (Datentraegerverfahren), regulated by The German Income Tax Law Einkommensteuer-gesetz, EStG (§ 50 d para 1 sentence 6). When the DMP is applied, the refund is claimed by the bank on behalf of their customers on a data carrier. This is only possible for tax reduction on dividends under a tax treaty. Both resident and non-resident banks can participate in this procedure. The Federal Tax Office has issued detailed guidelines.

The advantages of this procedure are as follows:

- No separate refund claim for each single claimant is required.
- No certificate of residence issued by a tax office is required except upon request in case of an audit.
- No original documents showing gross amount of dividends and amount of tax withheld for each beneficial owner are required.
- The refund procedure is accelerated.

The banks participating in this procedure must provide special documentation and certifications to the Federal Tax Office. Not every type of recipient is entitled to take part, e.g. partnerships and investment funds are often excluded. The major other conditions are:

- German language correspondence.
- One single refund claim per shareholders' residence country.
- The bank must request and keep special documentation, power of attorney and self-certification, from the shareholder, in particular so as to ensure no separate claims for refunds; the Federal Tax Office is entitled to carry out spot checks.
- Deadline is – generally – 6 months after the dividend payment date.
- The Federal Tax Office can on a spot check basis retroactively request certificates of residence to be issued by a tax office in respect of the shareholder; exchange of information is possible.

- The participating bank is liable for reimbursement of refund that has been paid without justification.
- The Federal Tax Office is entitled to spot checks in particular cases

The German Income Tax Law – Refund Applications on Machine-Readable Data Media pursuant to section 50 d, subsection 1, sentence 6 of the Income Tax Act (EStG) 2002 – (the “Data Medium Procedure”) is included in Annex 2 to this Report.

3.4. Summary and Conclusions of this Chapter

The Commission sought examples of Member States that already have implemented some of the FISCO proposals, in order to investigate the economic impact of these measures. Information on some Member States, such as the Czech Republic, Finland, France, Ireland, the Slovak Republic, Sweden, Germany and the Netherlands has been provided. These examples give a clear indication of a positive impact of the FISCO proposals. However, they do not imply that the Member States concerned have implemented perfect procedures in all senses. Nevertheless, the examples illustrate that the steps that have been taken by Member States in the same direction as suggested by the FISCO proposals have had a positive impact.

The FISCO Group was of the opinion that at-source relief procedures are the best method to improve the present situation because of the optimized cash flow they offer to investors. Even though relief at source is the preferred relief method, there is also a clear need also for efficient refund procedures.

No less than 14 Member States have, formally, in general now already relief at source procedures in place: These Member States are the Czech Republic, Estonia, Finland, France, Ireland, Italy, Lithuania, The Netherlands, Portugal, Poland, the Slovak Republic, Slovenia, Spain and Sweden.

The FISCO Group proposed to abolish the requirement to file paper based claims and instead permit intermediaries to pass on information in electronic format.

Germany and the Netherlands have already successfully introduced special refund procedures for securities held with intermediaries, with the aim of eliminating part of the administrative burden. Both procedures have in common that they allow (foreign and domestic) custodians to file refund claims on behalf of their clients in a standardised electronic format. The main advantages of these procedures are that no separate refund claim for each single claimant is required and that the refund process is possible electronically, more efficient and quicker than the previous systems based on paper forms.

4. EFFICIENCY IN SECURING AND PROTECTING TAX REVENUES

4.1. Introduction: The aim of this Chapter

The aim of this chapter is to highlight, analyse and describe the implementation of the FISCO proposals in the context of efficiency in securing and protecting tax revenues, such as reducing tax evasion.

This chapter focuses on the efficiency in securing and protecting tax revenues along the lines of the FISCO proposals such as relief at source procedures that are already in force. Finland and Ireland were asked to provide information as regards the systems they have implemented to provide relief at source and the efficiency of those systems in securing and protecting tax revenues.

This chapter also focuses on the effects on securing and protecting tax revenues on the exchange of communication in electronic form in Member States. Germany and the Netherlands, that already have such systems in force, have provided such information.

4.2. Securing tax revenues on already implemented measures

4.2.1. Finland: An efficient and reliable process of taxation

Under Finnish internal legislation, the Finnish payer may give the benefits of tax treaty, only if the foreign recipient has been properly identified. An exception to this is dividends of the nominee-registered shares, which constitute the majority of dividends paid out from Finland. The lower tax rate can be applied to dividends for nominee-registered shares even though the recipient is not totally identified, but then the payer must know on the day of payment the resident country of the shareholder. The tax at source at the 15-percent rate can be withheld, unless the tax treaty requires a higher rate.

As described in paragraph 3.2.3 the account operator (on behalf of the issuer) can apply this method if the account operator has an agreement with the last foreign custodian in the chain and the last foreign custodian is registered in the Foreign Custodian (Intermediary) Register held by the Finnish Tax Administration. The last foreign custodian is committed to provide, when needed, the correct information regarding the shareholders residency and identity.

In most tax treaties concluded by Finland, the withholding tax rate for portfolio dividends is 15 per cent or less. There are some treaties where the withholding tax rate is higher, but the amount of investments from those countries to Finnish shares is insignificant. Of course there is always a risk that an investor resident in one of those countries or a resident in a non-treaty country may have been able to give the first foreign custodian false information and that this false information has been communicated through the chain of intermediaries to the account operator. On the other hand there is also a legal way to achieve

the same outcome e.g. a lower withholding rate by using more sophisticated constructions.

While using the quick refund the account operator only makes corrections to its own monthly reports and payments. The quick refund is usually used when the account operator do not have the correct information about the residence of the shareholder at the time when the dividends must be paid out. In that case they will withhold 28 per cent withholding tax and revise the report and payment after obtaining the correct information. The quick refund procedure is also used when the treaty rate is lower than 15 per cent. When the quick refund is applied, the account operator must obtain the identity of the shareholder.

After the calendar year of the payment, complete information on the shareholder's identity must, in order to ensure the benefits of the tax treaty, be communicated to the Tax Administration.

In the case of nominee-registered shares, the issuer is not responsible for the incorrect withholding of taxes if there is sufficient evidence that the beneficial owner of the shares is a resident in a tax treaty country. If the account operator has received the information from the last foreign custodian, it is considered that sufficient evidence exists. This requires that there is a valid agreement with the last foreign custodian in the chain and that the foreign custodian is registered in the Foreign Custodian (Intermediary) Register. If the foreign custodian substantially neglects provisions of the agreement or its obligations to provide correct information it can be removed from the Foreign Custodian (Intermediary) Register.

4.2.2. Ireland: Dividend Withholding Tax: Exemption at Source Controls

A substantial portion of investment in Irish companies is made through intermediaries (e.g. banks or stock-broking firms). The Irish Dividend Withholding Tax (DWT) legislation provides for exemption at source in such cases once the intermediary is authorised by Revenue as a Qualified Intermediary. In order to be approved as a Qualified Intermediary an applicant must meet the criteria set out in Section 172E(4) TCA 1997.

“Revenue shall not authorise an intermediary to be a qualifying intermediary unless the intermediary –

- (a) is a company which holds a licence granted under section 9 of the Central Bank Act, 1971, or a person who holds a licence or other similar authorisation under the law of any relevant territory which corresponds to that section;
- (b) is a person who is wholly owned by a company or person referred to in paragraph (a);
- (c) is a member firm of the Irish Stock Exchange Limited or of a recognised stock exchange in a relevant territory; or

- (d) is, in the opinion of the Revenue Commissioners, a person suitable to be a qualifying intermediary for the purposes of this Chapter.”

Qualified Intermediaries are permitted to receive gross payments on behalf of exempt shareholders subject to having received the appropriate documentation from the shareholder and notifying the paying company that it is in possession of same.

In addition to the application process, and as part of the agreement with Revenue, QI's must provide an independent auditor report on its compliance with the terms of the agreement within 15 months of been authorised and thereafter upon request by Revenue. Failure to comply with the terms of the agreement could lead to the removal of QI status.

As part of the agreement, Revenue also reserves the right to carry out systems audits, (usually desk based), on Individual Qualified Intermediaries on a random basis. The DWT Unit carries out a risk assessment exercise and selects a number of qualified intermediaries for such audits on an annual basis.

In addition to exemption at source, Qualified Intermediaries are permitted to make bulk quarterly refund claims on behalf of their clients with minimal filing requirements where DWT has been deducted. The refund system for Qualified Intermediaries is a risk based system. The risk based system takes into account the volume and level of previous refunds claimed by the qualified Intermediary. Pre and Post payment audits are also carried out on a sample of transactions and full supporting documentation is requested in such cases. The audit recommendations are generally around best practice, account reconciliation, etc. The audits to date have not encountered any evidence of fraud amongst Qualified Intermediaries.

The process of approving Qualified Intermediaries along with the Audit and Control measures in place have ensured that the system works efficiently with a high percentage of claims exempted at source, thus enabling refund claims to be dealt with more speedily.

Claims for refunds of DWT can also be made by persons other than qualified Intermediaries however full documentation, including dividend vouchers and certificates of residence must be submitted in support of the claims.

4.2.3. Netherlands -the 'Large Authorised Representative Regulation' (GGC)

The Dutch electronic system - the 'Large Authorised Representative Regulation' (GGC) - has led to a better system of control than the previous non electronic system. The older non-electronic or paper system demanded a costly personal audit of all requests for refund of Dutch withholding tax, which was too expensive in view of the costs of available personnel. Under the GGC random checks of requests are performed to ensure that the electronic system is fraud-proof. These checks consist of 100% in depth audits. In addition, several requests are assessed by experts of the Tax Administration, on the basis of their knowledge and experience. As already mentioned in the chapter describing the Dutch system, the Tax Administration carries out an on-

site EDP (electronic data processing) investigation in the first year of audit of a financial institution such as a bank. During this check the AO/IC of the Bank is also assessed. So far, the Tax Administration has not had to make any correction or adjustment of any audited digital request.

4.2.4. Germany

In Germany there are two main contrasts between the “Data Medium Procedure - DMP” (Datenträgerverfahren) - and the old DTC-procedure in terms of combating fraud – identification of the individual refund beneficiary and the possibility of exchange of information. For example the DMP participant assigns to each refund beneficiary a separate identifier, which unequivocally identifies this person. The German Competent Authority, the Federal Central Tax Office (Bundeszentralamt für Steuern, BZSt), also issues its own identification number for each refund beneficiary when the first application is filed. The automatic processing of applications facilitates monitoring possibilities such as the comparison of data of refund applications so as to avoid double refunds. Further on, refund beneficiaries may only be included in DMP applications if the DMP participant has required documents at its disposal. Although it is not necessary to have a refund beneficiary’s residence confirmed by the respective foreign tax authority at the place of residence for every application, the refund beneficiaries must make declarations to the DMP participant confirming that they meet the requirements of the respective Double Taxation Agreement’s provisions. These declarations must be submitted within a reasonable period of time at the BZSt’s specific request. The BZSt can request the subsequent submission of a residency certificate by the tax authority at the place of residence either on a random base or to verify the data on certain refund beneficiaries. Therefore the DMP participant must support the check by providing the necessary details or by forwarding the queries to the respective refund beneficiaries/ shareholders. Furthermore the information of individual refund beneficiaries can be subject to an exchange of information with the tax authorities of the refund beneficiary’s state of residence. However, the DMP participant undertakes to repay amounts which the BZSt claims back from people unjustifiably granted relief via the DMP system on the basis of evidence subsequently obtained.

The significant advantage of the electronic system is the automatic processing which simplifies the procedure for the refund of withholding tax and the monitoring abilities. Therefore applications are processed more quickly by the BZSt and spot checks can be carried out promptly. Further on, there are several requirements to be met by DMP participants which as a result, lead to better control of the IT-supported procedure. However, some applications (both, written and electronic) are examined more closely by the Competent Authority, based on knowledge and experience.

4.3. Summary and Conclusions of this Chapter

The contribution from Finland suggests that the relief at source model for nominee-registered shares, when combined with the quick refund system, works reliably and efficiently with a high percentage of reduced withholding tax rates being applied

immediately at source, thus enabling refund claims to be dealt with more speedily. This model has reduced the administrative burden and relieved resources of both the intermediaries and the Tax Administration to be used on more vital issues.

The contribution from Ireland suggests that the process of approving Qualified Intermediaries along with the Audit and Control measures in place means that the system works efficiently with a high percentage of claims exempted at source, thus enabling refund claims to be dealt with more speedily.

The contributions from Germany and the Netherlands, which are countries that already have electronic systems in force, indicate that the implemented measures have led to more efficient control by the tax authorities and consequently less tax evasion.

5. COSTS AND BENEFITS: BREAKDOWN BY TYPE OF ACTOR

An analysis of the economic and financial advantages from replacing the present withholding relief systems and procedures by the FISCO proposals must differentiate between cost savings in the public sector, i.e. the national tax administrations, and such savings at the private sector. Examples of savings within the public sector were described in Chapter 3. This Chapter develops the analysis further and shows a breakdown by type of actor by focusing on possible savings within the private sector.

Within the private sector further differentiation is required between costs and benefits arising at the level of intermediaries and costs and benefits arising at the level of investors. Consequently, the aim of this Chapter is to identify, exemplify and estimate the costs and benefits of the FISCO proposals both:

- at the level of intermediaries and
- at the level of investors.

Notwithstanding this differentiation, all costs of the intermediaries will affect also the investors, as the intermediaries in the long run may pass on all costs incurred at their level to their customers. Thus, in the end, all advantages and cost savings from the FISCO proposals within the private sector are also of relevance to the investors.

Paragraph 5.1 explores the present costs and expected savings at the level of intermediaries. In order to describe the present costs the different components of costs arising from present refund procedures are identified.

A substantial cost driver is for instance the current paper work and the present diversity of requirements of the refund procedures such as the requirements of many different paper forms and different document formats. Another cost-driver is the considerable workload resulting from the reconciliation of incoming credit notes with the pending refund claims of the relevant investors and allocating the credit items to the investors' bank accounts. The different referencing systems and structures often require further enquiries of the crediting depository or of the tax authority of the source country.

Paragraph 5.2 describes the present costs and expected savings at the level of investors. It provides examples of estimates on present costs for investors on each refund claim. The chapter also includes estimated costs for the investors of delayed refunds.

A tax amount which falls below the fees to be paid, may not justify a refund claim, in the view of investors. Consequently, only an investor that expects a refund in excess of the fee is likely to make a claim for refund. Otherwise, the investor may actually forego it. The chapter gives examples and estimates of the current threshold levels for the investors.

Annex 3, "Practical examples from a large European intermediary" illustrates costs and possible savings for a given EU actor when dealing cross border in some Member States.

5.1. The level of Intermediaries – Present costs and expected savings

5.1.1. Components of costs arising from present refund procedures

An analysis of the cost components that arise at present at the level of the intermediary which acts as custodian for the investor should focus on the present tax refund procedure in contrast to the optimum relief at source procedures that currently already exist. The reason is that, in the case of refund procedures, more work steps have to be accomplished than in the case of the relief at source. Given that – in the view of the FISCO Group – relief at source is generally the preferred method, the FISCO Group suggests that relief at source supersedes the refund method and that refund should remain only a backup instrument for the reduction of withholding tax.

The current costs for processing tax refund claims comprise the following components:

- Costs of the relevant operations department of the custodian or of an external service provider, if such service is performed by a transaction bank and not by the custodian itself. Such costs comprise costs of staff, occupancy costs and operating costs. The unit costs per refund claim could indeed differ depending on the level of service, which is offered by the service provider involved. But it can be assumed as an average peak indicator that an intermediary providing full service would bear costs of at least € 50 per refund claim.
- Even in case of involving an external service provider, the additional operating costs of the custodian itself, such as verifying signatures of refund forms would amount to approximately 10 % of the average unit costs i.e. approximately € 5 per refund claim.
- Additionally fees of an (International) Central Securities Depository (I)CSD can be involved in processing the tax refund form and effectuating the refund payment and / or such costs may be incurred by the foreign depository; i.e. in the normal case € 30 – 75 per claim. This is the case if the tax refund process must be initiated through the upper tier depository, or if the intermediary (or his provider) opts do to so.
- In singular cases of late filing or filing close to deadlines additional fees – similar to “civil penalties” – may rise to € 500 per claim (e.g. Finland), and, since the end of 2008, in the case of particular source countries may amount to € 1.000 per claim.

5.1.2. Cost driver: Paper work and diversity of source country requirements

The contemporary costs of the refund procedures are heavily ballooned by the required use of paper forms and by the different document formats, different documents to be attached, different confirmations, certifications etc. That means in detail:

- Each source country has its own form, which can only be used for that particular country, with country-specific requirements, different layout

and contents. That implies not only a stock of all types of forms, but also specific know how of country-specialised operators. The full cost analyses, including cost contributions from ancillary functions which support, but are not exclusive to tax reclamation e.g. document acquisition and management via relationship management, legal and compliance in assessing complex tax positions of clients also needs to be taken into account.

- The processing of refund claims requires six separate production steps to be performed by the intermediary:
 1. “Data”, i.e. data processing, which includes data mining, data uploading, data maintenance and administration.
 2. “Printing”, i.e. printing of physical refund forms, current quality checks and consigning to customers and/or to local tax offices.
 3. “Processing”, i.e. processing of incoming mail from customers and from local tax offices.
 4. “Dispatching”, i.e. forwarding completed physical refund forms to the responsible tax office of the source country or to the upper tier depositary.
 5. “Booking”, i.e. monitoring of claimed tax credits, reconciliation of payments received, and booking of incoming payments.
 6. “Changes and Reporting”, i.e. process maintenance, executing change management as the case arises, attending to client queries, and reporting.

Four of these production steps, namely “printing”, “processing”, “dispatching” and “booking”, could be reduced considerably by eliminating the present paper-based practises and introducing standardised tax relief procedures, as proposed by the FISCO Group.

- One illustrative example of the present burden of papers is that, a large European transaction bank, which also provides custody and transaction services for some other custodians, has an annual turnover of 1 million sheets of paper for operating refund claims.
- Another consequence is that many hands are necessary to “make light work” - much work must be performed manually. Roughly 45 % of all processing costs are directly induced by necessary quality checks and by the accomplishment of paper based reclaim forms.
- With many processes being paper intensive there is also a big risk element of losing documentation. The issues of lost documentation and missed deadlines appear to be a problem in less than 5 % of the cases, although large values can be at stake in some cases.

The average costs generated by the mentioned forms processing – i.e. including external costs – can be put at a range between € 50 - 140 per refund claim. These costs can be reduced considerably if – first – the existing system of paper forms would be replaced by an electronic system

that is applicable throughout the whole EU and – second – the existing different formats and requirements would be replaced by one single electronic standard, e.g. a uniform electronic OECD standard. An estimate of such cost reduction must take into consideration that a new electronic procedure will mean a new expense factor. Under a conservative approach the savings would range from between 30 % to 50 % of the total present costs.

5.1.3. Cost-driver: investor referencing at refund crediting

The requirements of the source countries in terms of investors' verification vary heavily. A peculiar complexity results from the systems of investor referencing. The structure of tax refund credit references and systems used for tax refund credits are absolutely different from country to country. Accordingly reconciliations can currently be processed only manually.

A considerable workload results from the reconciliation of incoming tax refund credit notes with the pending refund claims of the relevant investors and allocating the credit items to the investors' bank accounts. The different referencing systems and structures often require often further enquiries of the crediting depository or of the tax authority of the source country.

The additional costs incurred thereby amount to one third of the total processing costs. Thus this difficulty is clearly to be regarded as a "market-barrier".

These costs could be reduced by using a uniform characteristic, which would be applicable – at least – Europe-wide. Some operations experts recommend for purposes of electronic reconciliation, the introduction of a Tax Identification Number (TIN), similar to the EU VAT Identification Number in combination with a standardised reclaim identifier.

5.2. The level of Investors – Present costs and expected savings

5.2.1. Cost burden of investors

According to an example provided by the EBF, the average custodian – based on its cost calculations – usually charges its customers between € 10 and € 35 (plus VAT), in particular cases € 75 (plus VAT) for each refund claim. As these amounts do not include fees from an upstream depository, the charges to customers can in extreme cases increase by such additional external fees to more than € 140.

Aside from some postal costs the investor has generally no further costs for preparing a refund claim; as the claim is prepared completely by the custodian.

However, additional financial disadvantages occur if there is a delay in refunding the customer. In general a time lag of six months is to be expected. However, sometimes in the past the refund could take years. To estimate the opportunity costs, one could apply the interest paid for taking out a loan. Consequently, if the average relief amounts to € 1000 annually per investor and

there are approximately 50 million cross-border investors in total within the EU, the total relief could be estimated at € 50 billion annually. If the investors receive the relief without delay they could invest their relief with at present at least a 4 per cent return per year. Consequently, the costs for the investors due to the delay could be estimated at approximately € 2 billion per year, or € 1 billion per six months of the delay.

5.2.2. Estimates of how much tax relief investors forego

A tax amount which falls below the actual fees to be paid does not justify a refund claim. Thus regularly only an investor that expects a refund in excess of the fee will claim a refund and he/she will otherwise forego it.

That means that the underlying dividend must at least amount to more than € 200 – 500, because the domestic withholding tax rates mostly amount to 25 %, and the refund amounts to 10 % of the gross dividend amount.

In practice refund operators – regardless of whether they are external transaction banks or internal bank departments – usually make refund claims only above a certain threshold in each single case. For instance a threshold of € 25 is not unusual. Such threshold corresponds to a dividend of € 250. An industry average threshold would seem to be approximately € 40 – € 50 i.e. the value of the reclaim must exceed this level.

However, it should be noted that such threshold applies only in case of refund claims – in contrast to processing relief at source. In correspondence with the lower costs of the relief at source procedure the threshold is in this case much lower too. There is no question but that the relief at source procedure is less laborious and costly than the refund procedure.

According to the practical experience of the large European bank, referred to in the Annex 3, with widely spread customers holding custody accounts approximately 40 % – 50 % of such domestic resident investors forego their tax relief. It is expected that as a result of implementation of the FISCO proposals including the general introduction of relief at source more than 90 % of the investors will be granted tax relief. This corresponds to an average amount of € 40 per investor or – in the case of a European transaction bank – € 5.500.000 in total. Depending on the composition of the customers and the composition of their investments these figures may vary considerably. Precise figures for the value of EU tax reclaim entitlements which go unclaimed are very difficult to obtain. Industry participants estimate, however, that around 30% by value of the entitlements of retail clients are not claimed. It is probable, therefore, that in the EU the majority of potential reclaims are not recovered.

Consequently, there is clear evidence that many potential reclaims are not recovered. This is a reflection of several factors which can be summarised as follows:

- Lack of awareness (custodian and beneficial owner): there may be an entitlement but no-one ever does anything about it although in the EU this is probably less of a factor.

- Choice of non disclosure (some beneficial owners choose not to claim in order to avoid disclosing their identity either to a foreign tax authority or to another financial institution).
- Failure to meet deadlines (particularly where documentation is very specific and time delimited).
- Claims fall outside statute (financial intermediaries and beneficial owner inefficiencies mean many claims that are identified are never filed because financial intermediaries have too large a backlog).
- Lack of service offering (if the custodian does not provide a service, ALL the possible claims on their clients holdings go into the "not claimed" pot).
- Threshold. Claim values below a certain threshold never get filed. The threshold varies per financial intermediary as highlighted elsewhere in the document.
- Lack of scope of offering - income type: many financial intermediaries do not claim on particular types of income e.g. ADRs for perceived complexity reasons.
- Lack of scope of offering – beneficial owner type: the financial intermediary is not able to process claims on behalf of some beneficiaries.
- Lack of scope of offering – structure: some financial intermediaries will not do claims for clients with complex structures because the risk is too high and the cost is too high.
- Structure - some investment structures, e.g. complex Trusts are deemed transparent. The claim at the fund level would be viable, but with thousands of investors, claims at the investor level are just not worth filing (cost too high), so never get done.
- Lack of scope of offering - systems limitations: some financial intermediaries cannot process certain types of claims because their systems are not structured to aggregate data in the right way.
- Claims filed incorrectly - many tax authorities reject claims if the correct paperwork is not completed accurately.

A number of custodian intermediaries have also commented that the most common operational issues are the delays of the tax authorities in agreeing eligibility for an underlying client or the onerous process that needs to occur in order to obtain a tax recovery. However, many countries have straight-forward procedures which for custodians, who execute thousands of reclaims are not problematic, but they are generally paper driven. If the process could be changed to electronic transmission there would be many benefits, as long as the tax authorities were to sign up to the process. These benefits would ultimately be speed, security and the possibility of outsourcing operations to a low cost processing centre.

5.3. Summary and Conclusions of this Chapter

The current disparate arrangements in Member States for the application or recovery of withholding tax are without doubt causing significant costs to investors and the intermediaries that they employ. The cost and disruption of the various procedures currently adopted (many of them paper based) act as a barrier to investors (particularly retail investors) receiving the application of the correct tax rate on their dividends and income payments.

Consequently, a substantial cost driver concerning withholding tax procedures appears to be the processing of different paper forms and documents. The average costs generated by the forms processing range between € 50 - 140 per refund claim²⁰. These costs could be reduced considerably, if – firstly – the existing system of paper forms was replaced by an electronic system that is applicable throughout the whole EU, and – secondly – the existing different formats and requirements were replaced by one single electronic standard, e.g. a uniform electronic OECD standard. Under a conservative approach, a cost reduction of 30 % to 50 % seems possible. Another cost-driver is the considerable workload resulting from the reconciliation of incoming credit notes with the pending refund claims of the relevant investors and allocating the credit items to the investors' bank accounts. For this reason the recommendation follows the conclusion of the FISCO report to adopt tax relief at source, and to set up, where this is not feasible, standardised and quick refund procedures.

The recommendation, furthermore, invites Member States to carry out refunds in a reasonable period of time and normally, at least, within 6 months of receipt of the refund application by the relevant tax authority, provided that all necessary information and supporting documents are available.

²⁰ These particular estimates are from a large European transaction bank.

6. THE IMPACT ON EUROPEAN GDP

Fiscal barriers can be an important obstacle to the full economic and financial integration of the European Union (EU). The existence of fiscal barriers is not surprising given the nature of European integration which is based (among other features) on a common market and a common currency but different tax policies and tax regimes across countries. While the existence of different tax procedures may not be a problem per se, it becomes a problem if investment decisions are affected by inefficient tax systems or complex and ambiguous tax treaties (double taxation agreements) between countries.

This chapter aims to assess the economic impact of a reduction and removal of fiscal barriers. The study transforms scenarios of reduced fiscal barriers on changes in the cost of capital and ultimately on changes in the growth rates of the European Union economy.

The chapter analyzes cross-border holdings of equity and debt securities in the EU, dividend and interest payments before and after tax and shows how a change in the effective tax rate (through a reduction in the inefficiencies associated with the tax procedures) changes the cost of equity capital and the cost of debt capital. We use different measures for the cost of capital and different assumptions for the reduction of the inefficiencies associated with the tax systems. The estimated change in the cost of capital is used to assess the impact on economic growth by employing a macroeconomic model.

We estimate a direct cost reduction due to inefficient tax relief procedures of €7.56bn per year and a 0.028% higher GDP in the EU if the barriers were removed. The long-run (10 year) cumulated effect exceeds €37 bn.

The remainder of the chapter is structured as follows: section 6.1 describes the methodology, section 6.2 the data, section 6.3 presents and discusses the results and section 6.4 summarizes the main outcomes and concludes.

6.1. Methodology

In this section we describe the methodological framework of the chapter and the different stages of the estimation process.

First, we collect information on the cross-border holdings of equity (*hequity*) and debt securities (*hdebt*) from different sources and verify their adequacy through an analysis of consistency and data integrity.

Second, average dividend yields (*dy*) and interest rates (*i*) are estimated in order to obtain figures of the total dividend (*totdiv*) and total interest (*toti*) payments per year in the EU.

Third, based on these numbers, the amount of withholding tax revenues is computed by multiplying the average tax rate for dividends and interest by the total dividend and interest payments (per year) as follows:

$$wt = \tau_1 \text{totdiv} + \tau_2 \text{toti} \quad (1)$$

where $w\tau$ is the amount of withholding tax revenues in the EU, τ_1 and τ_2 are the average tax rates for dividends and interest and $totdiv$ and $toti$ are the total dividends and interest payments in the EU, respectively.

The EU withholding tax revenues define the size of the cake that can be altered by a change in the tax procedures or a change in measures that affect these procedures. Under the assumption that the current tax regime is inefficient in the sense that existing tax relief programmes are not optimal, the actual tax burden for companies is higher than the revenues generated by the nominal tax rate ($w\tau = (1+k) (\tau_1 totdiv + \tau_2 toti)$, where k is a measure of the inefficiency associated with the suboptimal tax procedures).

Fourth, we focus on these inefficiencies and assess the potential effects of a more integrated withholding tax regime on the cost of capital. The potential effect is transformed into a different “effective” tax rate which affects the cost of capital.

Fifth, the cost of capital is estimated and its relative change is computed. The relation between the cost of capital and the tax rate is established theoretically and discussed empirically. The theoretical relationship is based on a direct linkage and the empirical relationship can be assessed with a regression analysis using time-series or panel data.

Sixth, the estimated change in the cost of capital is inserted into a macroeconomic model which yields an estimate of the change in gross domestic product (GDP). It thus measures the impact of a regulatory change (more efficient withholding tax procedures and elimination of barriers) on the GDP of the EU that could be expected when moving from a situation without any tax relief at source to a situation where the procedures proposed in the FISCO recommendation are in place.

The last step assesses the sensitivity of the obtained results to the change in GDP and thus provides an essential robustness and specification check of the economic impact assessment.

6.1.1. Effects of Barrier Removal

The withholding tax increases the cost of capital by the amount of the tax. This relationship can be written as follows:

$$cc = cc^* (1 + \tau) \quad (2)$$

where cc^* is the cost of capital net of taxes and cc is the cost of capital including the tax. The tax rate is given by τ and can differ for equity (dividends) and debt (interest payments).

One can show that taxes usually lead to a deadweight loss which is an increasing function of the tax rate. Hence, a lower effective tax rate should reduce the loss of efficiency, that is, the deadweight loss.

Associated with the withholding tax there are three additional (withholding tax-specific) losses of efficiency. First, there is an

opportunity cost. Since there is usually a time difference between the day when the withholding tax on dividend or interest income has to be paid and the day when the investor receive parts of it back due to double taxation agreements or other forms of tax relief, he or she loses interest payments due to the delayed submission of the claim or the delayed payment of the tax credits (by the fiscal authorities).²¹ The respective opportunity cost is computed as the number of days of delayed action times the alternative yield on a risk-free asset:

$$oc = (d/360) r_f \quad (3)$$

where oc is the opportunity cost, d the number of days of delayed action and r_f is the yield of a risk-free asset.

Second, if the investor is relatively small, the costs to submit a claim for a tax relief can be too high to make such a claim profitable. If a claim is too costly due to the complexity of the tax procedures (i.e. the costs exceed a certain threshold), relatively small investors will refrain from a submission of a refund request.²² The according loss of tax relief can be formulated as follows

$$ltr = w tottr \quad (4)$$

where ltr denotes the loss of tax relief of relatively small investors which is the product of the fraction of these investors compared to the total amount received by all investors (w) and the total amount of tax relief ($tottr$).

A third component is given by the amount of all administrative costs occurring at the different stages of the reclaim procedure (e.g. paperwork and other bureaucratic issues related to the refund, etc.).²³

In summary, the effective tax rate consisting of the actual tax rate plus the inherent deadweight loss as well as additional tax-specific costs (delayed refunds, foregone relief and actual refund costs) increases the actual cost of capital.

The above discussion focussed on the cost of capital and its link to the costs and benefits for investors. We can identify two additional groups that are affected by a removal or reduction of the fiscal barriers. These are intermediaries and tax authorities. In chapter five, it was shown that an adoption of the FISCO proposals will reduce the total costs for intermediaries. As far as national tax authorities are concerned, chapter three described that initial (non-recurring) transformation costs will be more than offset by resulting benefits in the long run. Hence, both groups are positively affected which additionally increases the estimated impact on GDP.

²¹ More information on this is given in chapter 5.2.

²² See chapter 5.2 for a more detailed discussion on the relevant factors.

²³ Chapter 5 contains more information on the respective elements.

6.1.2. Cost of Capital

6.1.2.1. Cost of Equity Capital

This subsection presents different measures of the cost of equity capital and explains how they are related. Since the cost of capital is an essential ingredient of the economic impact assessment (the change in the cost of capital determines the estimated change in GDP), it is important to describe and critically assess different measures in order to use the best available estimate as an input for the macroeconomic model.

The cost of equity capital can be estimated (i) based on the expectations of the future stream of dividends, (ii) the earnings-to-price ratio, (iii) the expected returns using sample averages, the CAPM and shrinkage estimators and (iv) a weighted average of different measures.

The cost of capital based on the future stream of dividends can be written as follows

$$cc = DIV_1/P_0 + g \quad (5)$$

where cc is the cost of capital, DIV_1 the dividend paid in period 1, P_0 the current market price and g the growth in dividends.

The cost of capital based on the earnings-to-price ratio is given by

$$cc = EPS/P_0 \quad (6)$$

where EPS is the earnings per share. If the dividends are equal to the earnings (earnings retention rate is equal to zero) and the dividend growth rate g is zero, the dividend yield is equal to the earnings-to-price ratio.

The third estimator of a firm's cost of capital is the sample average of the asset's historical returns. If we assume that there is no nontrivial variation over time, the sample average is an unbiased estimator of expected future returns.

This can be formulated as follows:

$$E(R) = cc = (II(1+R_t))^{(1/T)} - 1 \quad (7)$$

where $E(R)$ is the expected return of a firm's shares, cc is the firm's cost of equity capital, II is the product operator adding up the historical returns R_t from period 1 to period T leading to an average over T observations (days, weeks, months or years).

Due to the imprecision of the sample average (caused by a relatively high standard deviation), one can combine the sample average with another estimate optimally derived from an economic theory (see e.g. Pastor and Stambaugh, 1999). Such a theory-derived estimate can be based on the CAPM which is given as follows:

$$E(R) - R_f = \beta [E(R_M) - R_f] \quad (8)$$

where R_f is the risk-free rate and $[E(R_M) - R_f]$ is the expected excess return on the market as a whole, and is often called the equity premium.

With a shrinkage estimator for β and a long-time series for the equity premium, one can obtain an estimate of the expected return that is less noisy than the sample average.

A typical shrinkage estimator for β uses the cross-sectional mean as a prior estimate. The firm's posterior mean is then "shrunk" away from its own OLS estimate and toward the cross-sectional mean (e.g. see Pastor and Stambaugh, 1999 and Vasicek, 1973).

Studies (like this one) that focus on aggregate cost of capital measures can circumvent most of the problems outlined above since cross-sectional averages based on individual time-series averages are by far less noisy than cost of capital estimates for single companies.

6.1.2.2. *Cost of debt capital*

As a measure of the cost of debt capital we use average medium-term Eurozone interest rates and corporate bond yields. The average (mean) cost of debt capital is computed as a sample average of monthly average interest rates (or yields) over a relatively long time period.

6.1.3. **Cost of Capital and Withholding Tax**

This section briefly describes two different approaches to obtain the elasticity of the cost of capital with respect to the withholding tax. The first approach uses the theoretical relationship of the cost of capital and the tax rate as follows

$$cc = cc^* (1 + \tau) \quad (9)$$

where cc is the after-tax cost of capital which is higher due to the tax rate. The actual statutory tax rate equals the domestic tax rate minus the equivalent of tax relief due to double tax agreements. The effective rate may be higher than the actual statutory rate due to delayed and

foregone tax reliefs as well as occurring costs related to refund procedures.

An alternative approach could entertain a regression analysis in order to empirically determine the elasticity of the cost of capital with respect to the relevant tax rates. A cross-section regression analyzes the relationship between the cost of capital and tax rates across countries (by regressing the cost of equity or debt capital of each country on the country-specific tax rate) and a time-series regression analyzes the relationship between the cost of capital and the tax rates for each country across time (regressing a country's cost of equity or debt capital on its tax rate for a certain number of years). The cross-sectional approach does not adequately estimate the effect of an effective tax rate change (more efficient tax procedures) on the cost of capital for each given country since it pools different countries with different tax rates. The result can be misleading if there are small countries with a higher cost of capital and lower tax rate as well as large countries with a lower cost of capital and higher tax rate. Only a time-series approach or a panel data setting would provide meaningful outcomes in this case.

6.1.4. Effects on GDP

This section establishes the relationship between the cost of capital and GDP. In order to measure the impact of a change in the cost of capital, we use a macroeconomic model based on a Cobb-Douglas function. This model estimates the change in the GDP statically, i.e. there is no dynamic component in the model. An alternative approach would estimate the change in GDP dynamically for a 20 year horizon based on a more complicated model as outlined e.g. in Ratto, Roeger, Veld and Girardi (2004).

Following the model used by London Economics (2002, page 113) we use a Cobb-Douglas function for GDP as follows

$$Y=AL^{\alpha}K^{1-\alpha} \quad (10)$$

where Y is the GDP, A is a parameter for the technology or the total factor productivity. Labour and capital are denoted as L and K with a share denoted by α and $(1-\alpha)$, respectively. In order to derive a relation between the cost of capital and a change in the capital stock K, we compute the derivative of Y with respect to K which yields the marginal product of capital (denoted as MPK) which is equal to the cost of capital. The relation can be written as

$$cc=MPK= \Delta Y/ \Delta K \quad (11)$$

The cost of capital cc is

$$cc=AL^{\alpha}(1-\alpha)K^{-\alpha}=(1-\alpha)YK^{-1} \quad (12)$$

The optimal K^* obtained through the derivative as computed above is then

$$K^* = (1 - \alpha) Y / cc \quad (13)$$

In order to compute the change in the capital stock, we take the logarithm of the above equation which yields

$$\ln K^* = \ln (1 - \alpha) + \ln Y - \ln cc \quad (14)$$

The relevant part of this equation is $-\ln cc$ which shows that the elasticity implied by this model is $e(K, cc) = -1$.

In order to estimate the effect on GDP we take the logarithm of equation 10 and get

$$\ln Y = \ln A + \alpha \ln L + (1 - \alpha) \ln K \quad (15)$$

Note that we make no assumptions regarding a change in the technology or the total factor productivity (TFP) as represented by A in equation 15. It could be assumed that a lower cost of capital would enhance productivity and thus increase TFP which eventually would further raise GDP. However, since it is difficult to estimate this effect, we abstract from a change in TFP. The final estimated impact on economic growth can thus be interpreted as a conservative figure if it is accepted that TFP increases with a more efficient tax system. Moreover, we assume a constant tax policy of the national governments meaning that they will not react to the (possibly) altered tax revenues by increasing or decreasing tax rates. As described earlier, we expect the new tax procedures to generate higher (non-recurring) costs for governments in the short run, but increased benefits in the long run.

6.2. Data

This section first describes the data for cross-border holdings of equity and debt securities. Next, the withholding tax rates in different countries and the cost of capital estimates for equity and debt are presented. In the final step, the relevant macroeconomic data required for the analysis is depicted.

6.2.1. Cross-border holdings

The cross-border holdings are obtained from the IMF's "Coordinated Portfolio Investment Survey" (CPIS). The information is analyzed and compared with other sources of similar data such as the ECB, the European Commission and the OECD. The aggregate data for all 27 EU countries shows that the amount of equity securities held by non-domestic investors in the European Union was 6.4 trillion US\$ in 2006. The respective figure for debt securities was 10.3 trillion.

6.2.2. Withholding Taxes

Table 6.1 shows the current domestic tax rates within the EU, obtained from the International Bureau of Fiscal Documentation (IBFD). It can be seen that the rates vary considerably over the 27 countries. As described in detail in chapter two, cross-border investors might face lower rates due to double taxation agreements. The weighted average for the "actual statutory" rate is 11% for dividends and 3% for interest payments. Compared to the domestic rates this implies an average reduction of more than 10% (combined for dividends and interest payments) for non-domestic portfolio investors.

Table 6.1: Domestic tax rates (in percent)

Country	Dividends	Interest	Country	Dividends	Interest
Austria	25	0/15	Latvia	0/10	0/25
Belgium	25	15	Lithuania	15	0/15
Bulgaria	5	10	Luxembourg	15	0/15
Cyprus	0	0	Malta	0	0
Czech Republic	15	15	Netherlands	15	0/15
Denmark	28	0	Poland	19	20
Estonia	0	0	Portugal	20	8/16/20
Finland	28	28	Romania	16	0/5/16
France	25	0/18	Slovakia	0	19
Germany	20	25/35	Slovenia	20	0/20
Greece	10	0/10/20	Spain	0/18	0/18
Hungary	10/25	20	Sweden	30	0
Ireland	0/20	0/20	United Kingdom	0	20
Italy	12.5/27	0/12.5/27			

6.2.3. Cost of capital

The cost of capital consists of two components: (i) the cost of equity capital and (ii) the cost of debt capital.

The cost of equity capital is estimated with data obtained from Datastream (Thomson Financial) and based on 22 major countries for a 30-year period. Datastream's total market indices are used which consist of a large number of firms for the bigger EU countries like Germany, France, Italy and the UK.²⁴ The sample also comprises non-EU countries like the US and Japan for comparison. The sample period of the data is 30 years, commences in December 1978 and ends in December 2008. The sample frequency is monthly.

We provide three measures for the cost of equity capital. The dividend yield, the earnings-to-price ratio and the expected return based on realized returns are shown in table 6.2 where the country, the number of monthly observations and the average value are provided.

²⁴ The number of firms for Germany, France, Italy and the UK is 250, 248, 159 and 545, respectively.

Table 6.2: Dividend yield, earnings-to-price ratio, and realized return (in percent)

<i>Country</i>	<i>N(dy)</i>	<i>mean(dy)</i>	<i>N(epr)</i>	<i>mean(epr)</i>	<i>mean(return)</i>
Austria	361	1.776	349	5.313	7.500
Belgium	361	3.715	361	9.031	6.266
Bulgaria	99	1.163	95	16.977	
Cyprus	192	8.432	192	24.429	
Czech Rep.	179	3.298	182	6.689	
Denmark	361	1.848	361	7.507	11.345
Finland	249	2.586	249	8.565	
France	361	3.579	361	7.190	8.750
Germany	361	2.342	361	5.843	5.494
Greece	228	2.789	252	6.872	
Hungary	210	3.082	210	6.834	
Ireland	361	3.807	361	10.548	6.943
Italy	361	2.659	269	5.952	9.970
Luxemburg	204	2.234	204	6.886	
Netherlands	361	3.924	361	7.560	7.002
Poland	178	1.801	178	8.563	
Portugal	228	2.948	228	6.771	
Romania	132	4.551	130	15.171	
Slovenia	120	1.019	113	6.203	
Spain	262	3.053	262	7.173	
Sweden	324	2.556	324	7.102	
UK	361	4.074	361	7.366	8.348
EU	361	3.453	361	7.186	7.547
US	361	2.949	361	6.645	8.013
Japan	361	1.032	361	2.970	2.798

The average figures for the total EU market are 3.45% for the dividend yield, 7.19% for the earnings-to-price ratio and 7.55% for the annualized index return. The first estimate clearly differs from the latter two since the dividend payments are only a fraction of the earnings and the average dividend does not include a dividend growth rate. In contrast, the earnings-to-price ratio and the annualized index return do not differ significantly.

Figures 6.1 and 6.2 show the average dividend yield and earnings-to-price ratio for the EU, the United States and Japan over the entire period (December 1978 – December 2008). It can be seen that there is a considerable fluctuation over time and that both measures are significantly smaller for Japan than for the EU and the U.S.

Figure 6.1: Average dividend yield for the EU, the U.S. and Japan

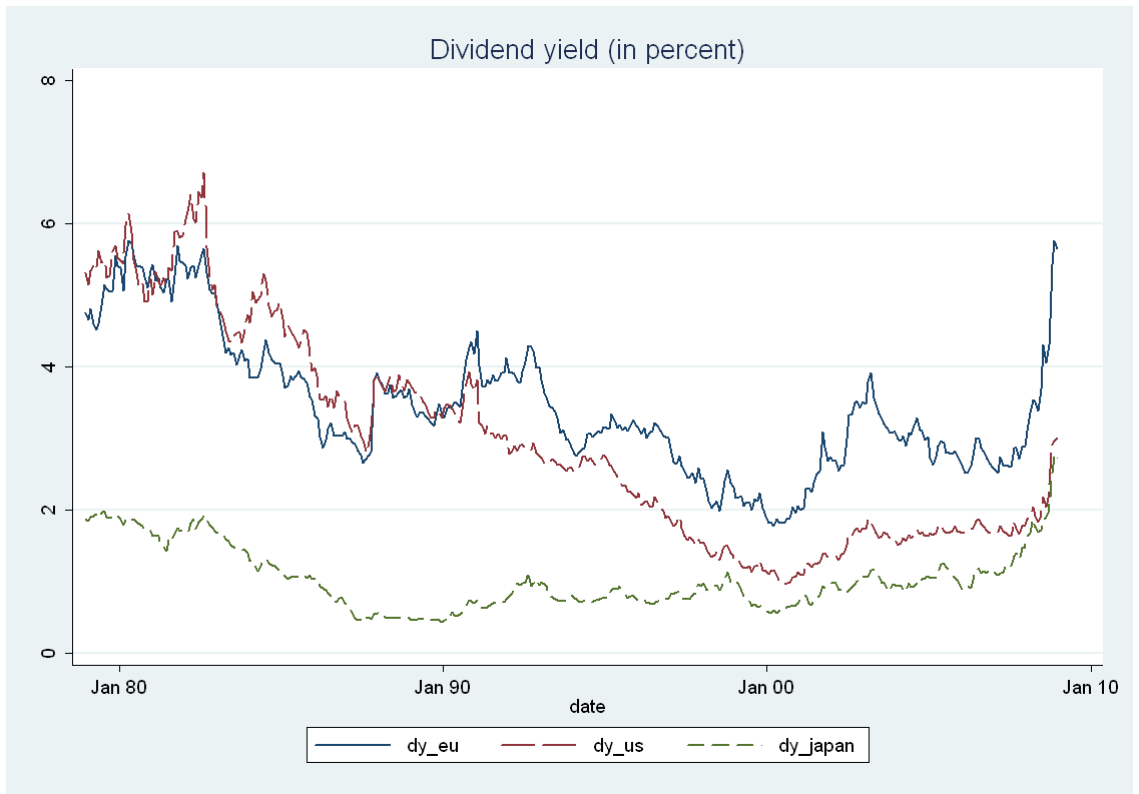
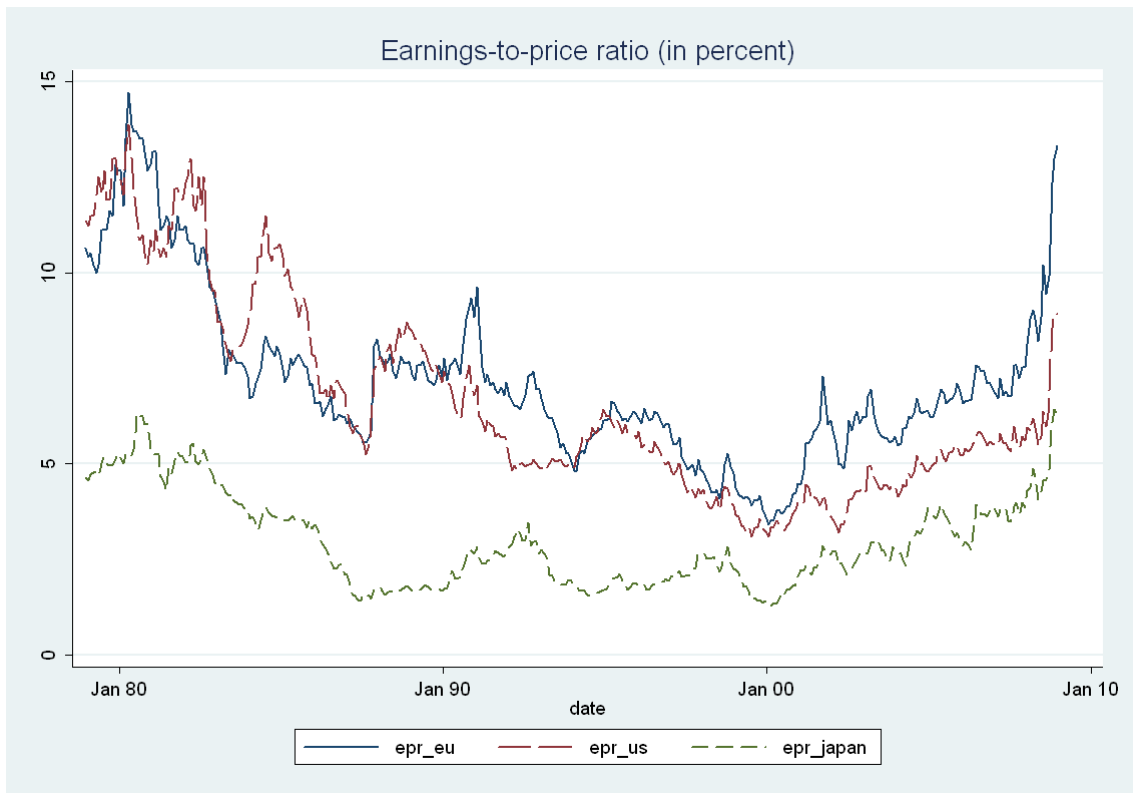


Figure 6.2: Average earnings-to-price ratio for the EU, the U.S. and Japan



The cost of debt capital is estimated based on EURIBOR rates with different maturities, Frankfurt overnight interbank monthly averages (Bundesbank) and corporate bond yields. The average interest rate for the 3-month EURIBOR rate from December 1999 to December 2008 with a monthly frequency is 3.356%, the 12-month rate is 3.519% and the corporate bond yields (German firms) from December 1978 until December 2008 is 6.719%. While the standard deviation is around 1% for the EURIBOR rate, it is slightly above 1.75% for the corporate bond yields.

6.2.4. Macroeconomic Data

The key equations in the macroeconomic model described in section 6.1.4 are the capital formation equation based on a change in the cost of capital ($K^* = (1-\alpha) + Y - cc$) and the equation which links the change in the capital stock to the change in GDP ($Y = A + \alpha L + (1-\alpha) K$).²⁵

The first equation implies that the elasticity of capital K with respect to the cost of capital is minus one: $e(K,cc) = -1$. Interestingly, many studies showed that empirical estimates are close to this theoretical value. For example, Britton and Whitley (1997) find an elasticity value of -0.9 for the UK, -1.4 for France and -1.2 for Germany. This result also shows, however, that there is a rather large degree of heterogeneity. This aspect will be further addressed in the sensitivity analysis (section 6.3.1).

The relevant estimate for the share of labour (α) in the second equation is obtained from Ratto et al. (2004) who find that α is equal to 0.5940 for the EU.

6.3. Estimation and Results

This section describes the estimation of the costs of the existing fiscal barriers, the reduction potential and its impact on the cost of capital and eventually on the economic performance of the economy.

The costs related to the fiscal barriers are a function of the total dividends and interest payments received by cross-border EU portfolio investors. The total amount of dividends received in 2006 can be estimated as the average dividend yield (3.45%) times the amount of equity securities held by non-domestic investors (6.4 trillion US\$). The total amount of interest payments received is estimated accordingly as the average interest rate (4.53%²⁶) times the amount of cross-border debt securities (10.3 trillion US\$). The sum of both components yields 687 billion US\$ or 547 billion EUR (using an average 2006 USD/EUR exchange rate of 1.2562).

²⁵ All variables are given in logs.

²⁶ We used a weighted average of the government (2/3) and corporate (1/3) bond rates.

Apart from the inherent deadweight loss associated with taxes in general, we identified (and described in section 6.1.1) three additional sources of costs related to the existing fiscal barriers.

The first element is the opportunity cost due to delayed claims and payments of tax refunds. It is estimated as the average delay period times the according risk-free rate times the total amount of tax relief. Chapter 5.2 provides more information on the underlying figures. We assume an average delay of one year, a risk-free rate of 3.356% and an average tax relief of 10%. With these figures, we obtain an opportunity cost of $0.0356 \cdot 0.1 \cdot \text{€}547\text{bn} = \text{€}1.84\text{bn}$ per year.

The second component is estimated as the foregone tax relief due to (small) investors who do not claim their tax refunds. Chapter 5.2 contains an extensive discussion on the potential reasons and resulting threshold values. We assume that 10% of the total cross-border investment is affected (in the next section we will also analyse the impact of different values of this figure). The resulting estimated cost amounts to €5.47bn per year.

The third factor is the actual amount of occurring costs related to the reclaim procedures (paperwork, etc.). Chapter 5.1 provides more information on the various relevant components. We assume the sum of all elements to account on average for 2% of the refundable amount. This figure yields a total estimate of €1.09bn per year.²⁷

The total value of the three components is thus given by €8.40bn. However, if we assume that only 90% of all cross-border investments are affected (due to missing double taxation agreements in some cases), the value is reduced to €7.56bn per year.

This amount is relatively small compared to the total tax burden and GDP. However, since this direct loss is incurred every year, it adds up and yields an aggregate net present value of €65bn over a 10-year period and €113bn over a 20-year period (with a discount rate given by the average 3-month EURIBOR).

Moreover, the potential change of the effective tax rate is calculated as the ratio of the total costs (€7.56bn) to the total amount of dividends and interest payments (€547bn). We obtain a figure of 1.38% which implies a reduction in the cross-border cost of financing of equal magnitude (if the costs were eliminated). Since cross-border portfolio holdings constitute only a fraction of all holdings (our calculations are based on a share of 25%²⁸), the estimated effective reduction of the cost of capital amounts to $1/4 \cdot 1.38\% = 0.35\%$.

This reduction in the cost of financing influences only that part of real investment that is financed via debt and new equity. If investment projects are financed by retained earnings, dividend taxes have, under certain assumptions,

²⁷ This figure is in line with chapter 3, where the respective saving potential is estimated to be €140 million for Germany (Germany accounts for about 11% of equity and 18% of debt EU cross-border holdings)

²⁸ See ECB (2008), Financial Integration in Europe, April 2008

no impact on investments²⁹. According to empirical cross-country study of Corbett and Jenkinson (1997), based on data 1970-1994 around 80 percent of new real investments are financed by the retained earnings of companies. For this reason the estimated impact on the cost of capital would amount only to 20% of the figure above: $1/5 \cdot 0.35\% = 0.07\%$.

In addition, the cost reductions due to more efficient withholding tax procedures will increase the income of existing shareholders. However, this will in the short run not influence the investment decision of companies and will therefore have only a minor impact on GDP.³⁰

Plugging the reduction in the cost of capital figure into the macroeconomic model illustrated in section 6.1.4, we obtain an estimated 0.07% increase in the capital stock which ultimately raises GDP by $(1 - 0.594) \cdot 0.07\% = 0.028\%$.

With an EU GDP of around €12 trillion, this value leads to an estimated increase of €3.4bn per year (or more than €37 bn over a 10-year period with an assumed 2% growth rate of real GDP).

This number is significant in economic terms and quantifies the potential benefits for investors due a removal of the fiscal barriers associated with cross-border holdings of securities. As illustrated in section 6.1.1, an inclusion of the positive impact on intermediaries as well as national tax authorities would additionally raise the estimated impact on European GDP. Also, it should be noted that the conducted analysis is static. An additional consideration of dynamic effects (e.g. an increasing share of cross-border holdings due to the removal of the barriers) would provide a rising estimate of the impact on GDP over time. However, it should be noted that partly this impact on GDP has already been realised because some Member States have already adopted some of the measures proposed by the FISCO recommendation.

Finally, it should be mentioned that the utilized methodology (like any empirical analysis) is of course a simplification of the real world and thus can only provide an imperfect estimation of all underlying relations and resulting consequences based on the (limited) information available.

6.3.1. Sensitivity analysis

The changes in the cost of capital and GDP critically depend on the assumptions and estimates obtained and used in the different estimation stages. For example, there is a direct relationship between the assumed fraction of cross-border holdings and the change in GDP. If the share of non-domestic investors is increased from 25% to 50%, the estimated GDP change raises from 0.028% to 0.056%.

²⁹ For a detailed discussion on why dividend taxes are neutral to corporate investment decisions under retained earnings financing, see Sinn (1991).

³⁰ The income gains of shareholders might lead to growth effects in the long run. But in the framework of this analysis we do not take into account these second round effects.

Similarly, if the fraction of the invested amount for which no refund is claimed is assumed to be 20% instead of 10%, the estimated change in GDP is 0.046% instead of 0.028% (the figure is not entirely doubled since the affected costs are only a part of the total costs). Table 6.3 shows the estimated impact on GDP for several additional values of the foregone tax relief.

Table 6.3: The impact on GDP for different fractions of foregone tax relief

Fraction of foregone refund	Impact on GDP
5%	0.019%
10%	0.028%
15%	0.037%
20%	0.046%
25%	0.055%
30%	0.065%

Also the assumptions made regarding the macroeconomic model (as described in section 6.1.4) have an influence on the outcome. If the elasticity of the capital stock with respect to the cost of capital was assumed to be -1.2 instead of -1, the estimated change of GDP would be 0.034% instead of 0.028%. In this context, it should again be noted that our analysis is static, i.e. we assume a direct link between the variables and abstract from any dynamic effects due to further adjustment processes. While these examples show that the main result is very sensitive to the chosen values, it must be stated that our figures are rather conservative estimates and could easily be assumed to have higher numbers.

Finally, one could ask if a distinction between cross-border holdings of EU investors (in another EU country) and non-EU investors would have an impact on the results. While the direct cost reductions (€7.56bn) can of course be accordingly allocated to EU- (roughly 63%) and non-EU-investors (37%), the respective proportion does not play a role for the macroeconomic figures, since the cost of capital of a company is reduced independently of the structure of its shareholders.

6.4. Summary and Conclusion of this chapter

This chapter analyzed the effect of more efficient withholding tax procedures on the cost of capital and economic growth. We estimate that improved tax procedures would increase EU GDP by € 3.4bn or 0.028% per year (or more than €37 bn over a 10 year period with an assumed 2 % growth rate of real GDP).

This figure is highly sensitive to the assumptions used in the estimation process. Different, yet highly plausible and consistent, assumptions could yield higher estimates than the given numbers. Moreover, additional components like the reduction of the deadweight loss associated with lower effective tax rates or a

positive effect on the total factor productivity would further increase the estimated figures.

Also, it should be kept in mind that the analysis is confined to the potential benefits for investors. As described in chapters three and five, an inclusion of the reduced costs for intermediaries as well as the positive consequences for national tax authorities (which would face some initial non-recurring transformation costs, but significantly higher benefits in the long run) would further raise the estimated impact on European GDP. The same would be the case if the static analysis was extended to also comprise dynamic effects (e.g. an increase in the share of cross-border holdings due to the removed fiscal barriers).

7. SUMMARY AND CONCLUSIONS

7.1. Introduction and Background

The Giovannini Group of financial market experts, that advises the European Commission on financial market issues, identified 15 barriers to the integration of EU securities post-trading systems in reports of 2001 and 2003. The second Giovannini Report recommended, inter alia, that all financial intermediaries established within the EU should be allowed to offer withholding agent services in all of the Member States to ensure a level playing field between local and foreign intermediaries (Barrier 11).

The FISCO Group concluded 2006 and 2007 that the withholding tax relief procedures which exist in Member States do not, at present, take sufficient account of the multi-tiered holding environment. The present procedures are therefore costly and inefficient.

As it becomes more and more common to hold securities cross-border, EU citizens are increasingly facing the remaining fiscal barriers relating to withholding tax procedures. Consequently, the present barriers hinder the functioning of capital markets, are a burden for industry and investors and increase the costs of cross-border trading. They also lead to misallocation of resources that could be used in a more efficient way. The reality of a single European securities market is not compatible with a fragmented European post-trading sector.

The ECOFIN has many times 2006-2009 stressed that post-trading of securities transactions is a key area for financial integration in the EU and that the removal of the fiscal compliance barriers is urgently needed.

The importance of efficient, safe and sound post-trade within the EU is also highlighted by the actual financial crisis. In this difficult situation it is important for the Member States to be competitive as issuers of different debt instruments in order to get sufficient resources to manage the crisis. Consequently, under the present circumstances of lack of liquidity and financing need, both for Member States and industry, the case for simplification in capital markets is stronger than ever.

7.2. Presentation of Relevant Basic Statistics

It can be identified that the amount of cross-border holdings within the European Union was 16.7 trillion dollars in 2006, composed of 6.4 trillion in equity securities and 10.3 trillion in debt securities. This amount can be compared with the total global amount of cross-border holdings of 32.4 trillion dollars (13.8 trillion in equity securities and 18.6 trillion in debt securities). The European Union thus accounts for more than 50% of the worldwide amount, both with respect to the origin and the destination of the investments. Moreover, there has been a significant increase of the total amount of cross-border holdings within the EU, from 6.4 trillion dollars in 2001 to 16.7 trillion in 2006.

Taking into account the respective amount of cross-border security holdings, the weighted average withholding tax rate for domestic investors is 14.8% for dividends and 19.7% for interest payments. The average actual statutory rate for non-domestic investors is 11% and 3%, respectively.

7.3. Evaluation of Implemented Solutions in some Member States

This chapter focus on the costs and savings for Member States if more efficient fiscal compliance procedures were implemented. In order to identify such information, the Commission asked about examples of Member States that already have implemented some of the FISCO proposals. Information on some Member States, such as the Czech Republic, Finland, France, Ireland, the Slovak Republic, Sweden, Germany and the Netherlands has been delivered. The actual examples give a clear indication of a positive economic impact of the FISCO proposals. However, these examples do not infer that the actual Member States have implemented perfect procedures in all senses. Nevertheless, the examples illustrate that the steps that have been taken by the actual Member State, that are in the same direction as suggested by the FISCO proposals, in general have a positive impact.

7.4. Efficiency in Securing/Protecting Tax Revenues

Examples from Member States such as Finland, Germany, Ireland and Netherlands have also been provided as regards the efficiency in securing and protecting tax revenues on already implemented measures of the FISCO proposals, such as relief at source and on the exchange of communication in electronic form. Both Finland and Ireland conclude that their respective system works reliably and efficiently with a high percentage of claims exempted immediately at source, thus enabling refund claims to be dealt with more speedily. It has reduced the administrative burden and relieved resources of both the intermediaries and the tax administrations to be devoted on more urgent topics. The contributions from Germany and the Netherlands, that already have electronic systems in force, indicate that the implemented measures have led to more efficient control from the tax authorities and consequently less tax evasion. Consequently, all examples provided indicate that the implemented measures work reliably and efficiently in securing and protecting tax revenues.

7.5. Costs and Benefits: Breakdown by type of Actor

It is clear that more efficient procedures will result in benefits in the form of reduced costs, not only for Member States, but also for different actors such as intermediaries and investors.

Three main present cost drivers were identified:

- The current reclaim procedures in form of different paper forms and documents. The costs related to present reclaim procedures are assumed to account on average for 2% of the refundable amount and are estimated to a value of € 1.09 billion annually.

- Foregone tax relief due to high thresholds. Many (small) investors do not actually claim their tax refunds due to the current high costs. The assumed amount of foregone tax relief is estimated to € 5.47 billion annually.
- Opportunity cost due to delayed claims and payments of tax refunds. The current delayed refunding is estimated to amount to an opportunity cost of € 1.84 billion annually.

7.6. The Impact of European GDP

The Study estimate that improved tax procedures would increase EU GDP by € 3.4 billion or 0.028% per year compared to a situation where no tax relief at source or quick refund procedures are available (or more than € 37billion over a 10 year period with an assumed 2 % growth rate of real GDP).

This figure is highly sensitive to the assumptions used in the estimation process. Different, yet highly plausible and consistent, assumptions could yield higher estimates than the given numbers. Moreover, additional components like the reduction of the deadweight loss associated with lower effective tax rates or a positive effect on the total factor productivity would further increase the estimated figures. However, because some Member States have already implemented procedures that comply with the proposal, parts of the positive growth effects could already be realised.

Also, it should be kept in mind that the analysis is confined to the potential benefits for investors. As described in chapters three and five, an inclusion of the reduced costs for intermediaries as well as the positive consequences for national tax authorities (which would face some initial non-recurring transformation costs, but significantly higher benefits in the long run) would further raise the estimated impact on European GDP. The same would be the case if the static analysis was extended to also comprise dynamic effects (e.g. an increase in the share of cross-border holdings due to the removed fiscal barriers).

7.7. The Way Forward

The Commission is of the opinion that the time now is mature to act. The elements on which there is a large agreement and which do not necessarily require legislative changes in the Member States can best be captured now in a Commission Recommendation without prejudice to any possible further initiative. The legal basis for such a recommendation would be Article 211 EC Treaty. This article empowers the Commission to formulate recommendations for the proper functioning and development of the common market, if the Commission considers this necessary. There is no restriction to fiscal matters or to tax procedures. From a procedural point of view, a Commission Recommendation merely requires a decision by the College and no approval by the Council or the Parliament. The last time that the Commission issued a Recommendation in the tax field was in 2000, but it is not uncommon in other fields.

In view of this, the Commission Recommendation will ask Member States to amend the withholding tax procedures in the direction towards more efficient movement of capital within the EU. The proposed solutions are expected to lead to improved, standardised, simplified and modernised procedures adapted to the way EU financial markets operate today. Consequently, Member States, industry, investors, tax payers and the single market as a whole stand to benefit.

However, it has to be clarified that the Commission Recommendation will not eliminate the Giovannini barrier 11 totally. Nevertheless, as described in this report, the present costs caused by this barrier will be substantially reduced.

Once the recommendation is adopted, the Commission will then explore with Member States whether further legislative initiatives are feasible to eliminate further Giovannini barrier 11. The Commission will also continue the dialogue with industry and to liaise closely with the OECD.

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ANNEX 1

AGREEMENT ON THE DIGITAL SUBMISSION, BY AUTHORISED REPRESENTATIVES, OF REQUESTS FOR THE REFUND OF TAX ON DIVIDENDS

General background

On the grounds of international conventions, foreign entitled parties can apply to the Tax Authorities/Limburg/International Office in Heerlen for the refund of Dutch tax that has been paid on dividends.

Present working method

The bank (authorised representative) submits a written request for a refund (IB 92) for each client.

If required by the convention, a request needs to be accompanied by a statement regarding place of residence from the Tax Authorities in the country of residence. This request should be accompanied by invoices relating to dividends.

After it has been processed, a refund order is drawn up per client, stating whether a request is to be honoured in full, in part, or completely rejected.

The sum of the refund is transferred, per client, to the account number of the authorised representative who then takes care of payment to the client.

As many authorised representatives also store the necessary data digitally, a new working method is used that offers advantages to both the authorised representative and the Tax Authorities.

New working method

Authorised representatives will no longer be submitting requests in writing, but digitally in the form of a text file (ASCII). This can be via a diskette or per e-mail. In principle there are no rules relating to the frequency with which files are sent. Individual agreements will be made per authorised representative.

After the file has been read in, the authorised representative will receive a refund order for the total sum of the file. This sum will be transferred to the authorised representative's account number.

Requests will be checked retrospectively.

I. Contacts

Both the Tax Authorities and the authorised representative will appoint a person who will act as contact.

Communication relating to the regulation will take place via these contacts.

II. Administrative Organisation/Internal Audit (AO/IC)

The authorised representative will provide insight into the way in which the AO/IC is organised for the processes involved in dealing with requests for refunds. Insight will also be provided into the automated support of these processes.

The strength of the AO/IC will determine the way in which retrospective checks are carried out and how thorough they will be.

This can vary from an EDP-investigation to a detail-check, upon request, involving the relevant documents.

Important alterations in the AO/IC and automatic processes will be passed on immediately to the Tax Authorities.

III. Submitting requests for refunds

The file may only contain sums in euros and every request can be rounded off (upwards) to whole euros.

If the paper flow continues to exist alongside the digital submission, then agreements will be made about this.

The data can be provided via e-mail or per diskette. Up till the moment of submission, the risk of external interference in the files being submitted is borne by the client.

The data are submitted encoded. Applying codes provides a reasonable guarantee of confidentiality during transport. After receipt, the Tax Authorities guarantee adequate security of the data.

The statement regarding the place of residence on form IB 92 will still be required.

The convention with the United States of America does not require a statement regarding place of residence. It is necessary to record that the interested party is actually eligible for application of the tax convention between the Netherlands and the United States of America. This can be proven, for example, by the 6166 form that can be obtained from the American Tax Authorities, although having this form is not obligatory.

When the Tax Authorities carry out a check and are unable to confirm whether an interested party is eligible for application of the convention, then the authorised representative will be asked to apply for and provide a 6166 form.

The Tax Authorities' e-mail address for the submission of requests is: spin0643@tiscali.nl.

Files submitted will contain a minimum of 25 requests.

See Appendix 1 to this Annex 1 for further details of the data model. The reference number for section 1 of the model will be provided by the Tax Authorities.

Every time a file is submitted, there should be an accompanying letter stating:

- - the name of the authorised representative;
- - the diskette number;
- - the number of requests; and
- - the total amount of the file.

IV. Processing a file

The application used for processing electronically submitted requests implements a number of checks when reading a file in. Processing is terminated if and when one of the requirements has not been fulfilled. This results in rejection of the entire file and this fact is brought to the attention of the authorised representative.

If the file is accepted, then an order is drawn up with the total sum of the file and the sum is transferred to the authorised representative within three weeks.

An individual interested party can, upon request, receive an order drawn up in his/her name.

V. Retrospective checks

A check can take place up to one year after the end of the year in which a file was submitted.

A check is announced in advance in writing and where possible the Tax Authorities indicate which related documents they want to see. In the case of an EDP investigation, agreements will be made about how to supply the automated file to be checked.

Where inaccuracies are found, then a retrospective assessment will be imposed in the name of the interested party. The retrospective tax assessment will be sent to the authorised representative who acts as guarantor for payment of the assessment.

If the results and the fulfilment of any related agreements are not satisfactory, then participation in the regulation can be terminated.

VI. Obligation to retain documents

The IB 92 forms and the related dividend invoices must be retained for 7 years after the end of the year in which the file was submitted.

In accordance with the statutory regulation, it must be possible to consult digital records for at least seven years.

APPENDIX 1 TO ANNEX 1: DATA MODEL

Uniformity will be given a high priority when submitting information.

The mode of writing must be identical for all sections. This means, in particular, that:

- All data in Columns 1-5 incl. and 7-9 incl. must be written in capitals
- The dieresis should not be used (Ä becomes AE)
- French punctuation (acute/grave accent, cedilla, etc.) should not be used
- No hyphens should be used (interspacing is used instead)

Column	Field	Type	Obligatory	Comments
1	Reference no. Large Authorised Representative	Numerical(12)	Y	Capitals
2	Name	Text(50)	Y	Capitals
3	Prefixes	Text(20)	N	Capitals
4	Initials	Text(20)	N	Capitals
5	Street	Text(50)	N	Capitals
6	House number	Text(20)	N	
7	Postal code	Text(20)	Y	Capitals
8	Town/city	Text(35)	Y	Capitals
9	Security	Text(50)	Y	Capitals
10	Distribution date	Datum	Y	
11	Number of shares	Numerical(12)	Y	
12	Gross distribution	Numerical(12,2)	Y	
13	Refund sum	Numerical(12,2)	Y	
14	Currency	Text(1)	Y	E
15	Country code	Text(3)	Y	
16	Their reference	Text(50)	Y	
17	Their Diskette number	Text(50)	Y	

Explanation.

- Column 1. The system must recognise the Applicant. Furthermore, his status must be “active”. The Reference number allocated by the Tax Authorities is entered into this column.
- Column 2. See “Comments in advance”. The number of positions that can be used is maximized.
- Column 3. See “Comments in advance”. Prefixes are written out in full. The number of positions that can be used is maximized. Non-obligatory field.

- Column 4. See “Comments in advance”. Initials are written without interspacing or full-stops. The number of positions that can be used is maximized. Non-obligatory field.
- Column 5. See “Comments in advance”. The number of positions that can be used is maximized. Non-obligatory field.
- Column 6. See “Comments in advance”. The number of positions that can be used is maximized. Non-obligatory field.
- Column 7. The number of positions that can be used is maximized.
- Column 8. The number of positions that can be used is maximized.
- Column 9. The Tax Authorities indicate which name is used for which security. For the sake of uniformity all applicants should use the same name. The number of positions that can be used is maximized.
- Column 10. Date. The dividend is determined by the shareholders’ meeting. This date, which is made public, is used as date of allotment. The date must be recorded as follows: dd/mm/yyyy.
- Column 11. Number of shares over which a request is submitted. Numerical digits and a maximum of 12 positions.
- Column 12. Number of shares multiplied by the allowance per share. The number is numerical and the number of positions maximized.
- Column 13. The gross sum multiplied by the percentage that is linked to the relevant country code. The country code (numerical) is allocated by the Tax Authorities and is comprised of a maximum of 3 positions.
- Column 14. E (euro)
- Column 15. The Tax Authorities determine which code is allocated. Several codes can be allocated to a country with several percentages. The codes are recorded in the country table.
- Column 16. Important for correspondence.
- Column 17. The Bank is obliged to allocate their own (serial) number to the diskette (Their Diskette Number). After the diskette has been processed, the Bank will receive a letter stating that the diskette has been processed correctly. The number of the diskette involved is stated in this letter.

ANNEX 2.

APPLICATION PROCEDURES FOR THE REFUND OF GERMAN CAPITAL YIELD TAX PURSUANT TO DOUBLE TAXATION AGREEMENTS (DTAs) USING MACHINE- READABLE DATA MEDIA (THE “DATA MEDIUM PROCEDURE” – DMP)

With effect from 1 January 2002, section 50 d, subsection 1, sentence 6 of the Income Tax Act (EStG) makes it possible to file applications for the refund of withheld capital yield tax pursuant to DTAs using machine-readable data media. This takes account of the growing globalization of the stock market. The procedure was conceived for dividend payments to shareholders resident abroad. It is not designed to provide relief on capital yield tax on other types of capital income (e.g. interest).

Furthermore, it cannot process special relief claims or forms of holdings such as income from so-called “inter-company participations” or holdings in German-Swiss frontier power stations.

In cases where participation in the simplified refund procedures is not possible, a written refund application using the officially prescribed form pursuant to section 50 d, subsection 1, sentence 3 of the EStG, is necessary.

Background:

Already in the past, most refund applications from foreign shareholders were not filed by the shareholders personally, but by their custodian banks on their behalf. As a rule, the custodian banks have the necessary information in order to assert refund claims on behalf of dividend creditors.

Purpose:

The new IT-supported procedure is particularly suitable for banks that have already filed applications for the refund of capital yield tax in the past on behalf of customers who are resident abroad.

The DMP offers the following advantages over the previous procedure:

- It is no longer necessary to write separate applications for each refund beneficiary on the officially prescribed form.
- It is no longer necessary to have a refund beneficiary’s residence confirmed by the respective foreign tax authority at the place of residence for every application.
- It is no longer necessary to enclose original documents for every beneficiary on the amount of investment income and on capital yield tax withheld and paid.
- Applications are processed more quickly by the BZSt.

Conditions for registration

The BZSt has compiled a list of requirements to be met by mass applicants, the circle of foreign shareholders entitled to participate under the provisions of DTAs, and the IT processing of the data – see Appendix 1 to this Annex 2.

APPENDIX 1 TO ANNEX 2: Requirements for Participation in the Data Medium Procedure (DMP)

1. DMP participants

Possible DMP participants include:

- financial institutions that distribute dividends to their customers (e.g. custodian banks),
- other institutions (e.g. clearing houses) that are professionally involved in the distribution of dividends and have the necessary information and a power of attorney from dividend recipients (shareholders) who are entitled to a refund,
- domestic corporations for the dividends they distribute to their foreign shareholders.

Other requirements:

- DMP participants must be able to prove that they have the qualified, specialist staff needed to implement and adhere to the requirements,
- DMP participants must be able to prove that they have the operational and procedural capacity needed to ensure compliance with the registration requirements,
- DMP participants must have the staff and resources needed to conduct all necessary correspondence in German.

2. Formal requirements

Each DMP application can only be used for refund beneficiaries from one country; applications for recipients from different countries cannot be made in one application/file. A written application signed by a duly authorized signatory or agent of the DMP participant must be enclosed with each application in addition to the data medium – it simultaneously serves as the accompanying document for the data.

The document accompanying the data medium must contain at least the following information (cf. also file description, record type “K”):

- the name of the data medium,
- the total number of entry lines,
- the total amount of gross dividend distributed,
- the total amount of withheld capital yield tax, plus withheld solidarity surcharge,

- the total refund amount that is being applied for.

3. Powers of attorney and declarations by refund beneficiaries

The refund beneficiaries must make declarations to the DMP participant confirming that they meet the requirements of the respective DTA's provisions and that they authorize the DMP participant to file applications and receive notices and payments on their behalf.

Form of declarations:

Standardized letter/form from the DMP participant; content must correspond to the BZSt's checklist. The BZSt provides a guide containing appropriate templates for every country that has a DTA with Germany.

Refund beneficiaries may only be included in DMP applications if the DMP participant has the required documents at its disposal. If a the DMP participant is operating for other custodian banks – with a substitute power of attorney – it is sufficient if the documents and credentials are held by the respective custodian bank.

These declarations and powers of attorney remain with the DMP participant; however, they must be submitted within a reasonable period of time at the BZSt's specific request (usually on a random basis).

4. Restrictions

(i.) Restrictions on the circle of beneficiaries

The beneficial owners entitled to a refund according to the provisions of the respective DTA must be determined for every country with which Germany has a DTA.

Insofar as tax-transparent entities (e.g. partnerships) are authorised to claim benefits because the persons concerned are resident in this country, proof of the residence of the persons concerned must be submitted to the DMP participant in the form of appropriate documents or declarations.

Certain persons can be excluded from relief on capital yield tax using the DMP procedure if the DMP participants cannot judge without the participation of the BZSt whether these persons meet the conditions. If such excluded investment-income creditors wish to claim relief pursuant to a DTA, they must be referred to the written application procedure pursuant to section 50 d, subsection 1, sentence 3, in combination with subsection 4 of the EStG.

(ii.) Restrictions on certain investment income

The DMP is only possible for dividends on shares that are unequivocally identified by a German security identification number (WPKN). Relief can only be granted on the regular rate provided for in the respective DTA on

income from dividends (not including special arrangements such as so-called “inter-company participations” or holdings in German-Swiss frontier power stations, etc.).

5. Avoiding duplicate applications

Several securities/German security identification numbers (WPKNs) and several payment dates can be included together in one DMP application.

However, it is not permissible for a refund beneficiary to submit more than one entry line related to a specific distribution date of a certain security under the same identifier.

A submitted application line will be excluded from further processing if the submitted file (or a file submitted earlier) contains an application line from the same refund beneficiary with the same security identification number, the same payment date and same identifier!

6. Timing of the application

A DMP application may not be submitted before the statutory payment date of the capital yield tax. The creation date of the data medium must be after the distribution date of this security.

The DMP application should be made to the BZSt within a reasonable time after the distribution date (in principle within 6 months).

7. Proof of residence

Proof of residence by confirmation from the foreign tax authority, which has in principle been required in the written application procedure up to now, is not required. However, the BZSt can request the subsequent submission of a residency certificate from the tax authority in the place of residence – either on a random basis or to verify the data on certain refund beneficiaries.

The DMP participant must inform the refund beneficiary that the information transmitted via the DMP to the BZSt can be subject of an exchange of information with the tax authorities of the refund beneficiary’s state of residence.

8. Avoiding duplicate refunds

The refund beneficiaries undertake in their declaration to the DMP participant not to file any individual applications in addition to participating in the DMP (see marginal number 3).

9. Guarantee/surety

The DMP participant undertakes to repay amounts which the BZSt claims back from people unjustifiably granted relief via the DMP system on the basis of subsequently obtained evidence.

10. Corrections

Should the DMP participant subsequently ascertain that the shares were sold at the time of the distribution, i.e. that they were no longer owned by a person granted relief in the DMP procedure – or that other conditions were not met – then the amounts wrongly refunded must be transferred back to the BZSt stating the necessary details.

11. Checks by the BZSt

In individual cases the BZSt reserves the right to check entitlement pursuant to the DTA. The DMP participant shall support the check by providing the necessary details or by forwarding the queries to the respective refund beneficiaries/shareholders.

12. Mandatory data set

The data to be transmitted via the DMP must be sent according to a file description specified by BZSt. If changes in the data structure become necessary, the BZSt will inform the DMP participant and request that the data media be submitted according to the updated file description.

13. Data media

Possible data media include:

- CD-ROMs or
- magnetic tape cartridges

14. Identifiers for the individual refund beneficiaries

The DMP participant assigns to each refund beneficiary a separate identifier (e.g. an account number), which unequivocally identifies this person. This identifier must not be assigned to another person after the refund beneficiary stops taking part in the DMP system!

The BZSt also issues its own identification number for each refund beneficiary when the first application is filed. The DMP participant undertakes to assign the identification numbers issued by the BZSt to the refund beneficiaries in subsequent applications (cf. file description). Applications for persons who are already known from earlier refund applications (including written ones!) must be submitted under the identification number already issued by the BZSt. (The identification number can be found in notices issued in previous years; in the refund notices it was printed next to the name of the respective refund beneficiary).

15. Registration procedure

Before submitting DMP applications candidates for DMP participation must apply for registration providing the necessary information (cf. annex on “Zulassungsantrag 07-2002”). As part of the registration procedure, they must file a trial application with a test file.

The BZSt will inform the DMP candidate about the result of the check.

If the registration conditions and technical requirements are met, the BZSt will issue a registration notice for participation in the DMP.

The DMP participant will then be entitled to send applications via the DMP.

Consequences of violations:

Violations can lead to individual lines or files being rejected; in the event of continued or serious violations, DMP registration will be revoked.

16. Notifications on processing, issue of notices

(i.) Notification on the processing of a filed DMP application

The notification contains information (number of refunds and refund amounts applied for):

- on the submitted individual lines,
- on individual lines that could not be further processed,

A list (the bank's identifier, name of the beneficial owner, remarks) is enclosed of the individual lines that could not be further processed. Once the reasons for rejection have been clarified and the errors corrected, it is possible that processing will be subsequently completed manually; or perhaps these cases can be re-filed via the DMP.

No notice is issued if the data medium contains serious or numerous formatting and plausibility violations; instead, a communication is sent indicating the rejection of the entire file and listing the errors.

- on the individual lines that were processed.

(ii.) Notice on the DMP application

The notice is always issued subject to subsequent review pursuant to section 164 of the Fiscal Code (AO). It comprises the individual lines that were processed, as determined from the DMP application, and consists of an assessment section and a settlement-of-accounts section with information on the manner of payment.

A text file on the individual entries accounted for is generated as an enclosure to the notice; it includes (among other things) the classification criteria of the bank (bank's internal identifier) and the BZSt (identification number), bases of assessment, amounts to be refunded and any memo items.

These tax-assessment data are returned electronically.

Mass applicants who submit their application data via magnetic tape cartridge receive the assessment section in digital form on a magnetic tape cartridge.

Mass applicants who submit their application data on CD-ROM receive the assessment part in digital form via email. The assessment file sent by email is asymmetrically encrypted using GnuPG. To this purpose the mass applicant generates one public key for the BZSt. The BZSt encrypts the email with this public key; the recipients decrypt the email with their private key.

ANNEX 3

PRACTICAL EXAMPLES FROM A LARGE EUROPEAN INTERMEDIARY

This annex provides a practical example from a large European intermediary and illustrates costs and possible savings for a given EU actor when dealing cross border in some Member States. The actual costs and possible savings should be considered only as examples of a large European intermediary holding custody accounts for domestic investors with investments in foreign securities. Consequently, the real figures could in fact differ from these examples. The European Banking Federation has for instance stated that they consider that the average run through time from point of dispatching to custodian/foreign tax offices, presented in the first table, is approximately 6-8 months in France rather than 8-14 months as indicated in the table. The FBE also consider that the "source country complexity factor", indicated in the second and fourth table, for France should be lower than what is indicated in the tables.

The annex consists of five tables.











The first table lists 12 European source countries, where refund of tax withheld from dividends is performed. It shows the applicable tax rates, the required forms for refund and the average time duration, until the payment is effected.

The second and third tables show the average processing costs and their components for various selected European source countries, segregated into internal and external costs. The six internal cost components in the chart "Total costs on the basis of actual volumes" are consistent with the six production steps that were introduced in Chapter 5.1.2. Additionally "external charges", i.e. fees of a source country depository or an (I) CSD, are implied. Such "external charges" arise only in those source countries, where – according to practical experience – a local intermediary is usually involved in the refund processing even when, at least in certain cases, it is possible to approach the tax office directly. As the volume of work for each single refund claim varies from country to country, this is accommodated by the "source country complexity factor", which is shown in the upper chart "Annual Number of Refund Claims".

The last columns show the estimated savings under the FISCO proposals both in percentage rate and in absolute currency. Particularly it shows in detail, to what extent the costs of each single production step could be reduced. The savings are calculated on the assumption that the intermediary assumes withholding responsibility. This means that the intermediary receives the gross income payment, withholds any tax to be deducted and remits it to the tax authority of the source country. However, it is assumed that the savings will not differ materially if the intermediary does not withhold tax but only provides tax rate information to upstream agents, which then perform withholding services.

The last two tables show the costs and possible savings of implementing a more efficient procedure. The fourth table shows the costs and savings per one single refund claim i.e. per unit for each source country. The fifth and last table illustrates by way of a realistic example the different dispersion of an annual volume of refund claims in respect to the 12 mentioned source countries.

The total cost savings range in the mentioned examples between approximately 52 % and 56 %. However, it should be noted that the estimates are based on a rather conservative approach. The estimates take into consideration that the FISCO proposals also create additional costs particularly by new electronic systems requirements. For this reason none of the six cost components referred to in Chapter 5.1.2 would be reduced completely to zero.

	Withholding Tax (WHT)	WHT allowable in % according to DTA	WHT refundable in % according to DTA	name of refund form for German tax residents	average run through time from point of dispatching to custodian / foreign tax offices
Austria 	25	15	10	Formbl. ZS-RD1	6 months
Belgium 	25	15	10	276 Div	18 months
Denmark 	28	15	13	U34 D	6 - 9 months
Finland 	28	15	13	form free	6 - 9 months
France 	25	15	10	Form 5000/5001	8 - 14 months
Ireland* 	20	0*	20	DWT	6 months
Italy 	27	15	12	Formbl. R/DE-I/1 + Procura Speciale	60 - 84 months
Norway 	25	15	10	form free	3 - 6 months
Portugal 	20	15	5	n.a.	12 - 24 months
Spain 	18	15	3	EE-RFA Devolution	12 - 24 months
Sweden 	30	15	15	SKV 3740	6 - 9 months
Switzerland 	35	15	20	Form 85	6 - 8 months

* Tax exemption for investors resident in the EU based on domestic Irish law

Annual Number of Refund Claims:

	Austria	Belgium	Denmark	Finland	France	Ireland	Italy	Norway	Portugal	Spain	Sweden	Switzerland	Total number of reclaims
average													
source country complexity factor	0,60	0,83	0,90	0,90	1,65	1,13	1,35	0,90	0,90	0,90	0,75	1,20	
Enter annual reclaim volumes	1	1	1	1	1	1	1	1	1	1	1	1	12

Total costs on the basis of actual volumes:

Enter average cost per unit: 50,00 EUR

cost driver factor in %	Austria	Belgium	Denmark	Finland	France	Ireland	Italy	Norway	Portugal	Spain	Sweden	Switzerland	Total per cost driver in EUR	Estimated saving in %	Estimated savings in EUR
Data ¹	0,09	0,13	0,14	0,14	0,26	0,18	0,21	0,14	0,14	0,14	0,12	0,19	1,88	0,00	0,00
Printing ²	4,85	6,67	7,27	7,27	13,34	9,09	10,91	7,27	7,27	7,27	6,06	9,70	96,98	80,00	77,59
processing ³	4,01	5,52	6,02	6,02	11,03	7,52	9,03	6,02	6,02	6,02	5,02	8,02	80,25	70,00	56,17
Dispatching ⁴	4,70	6,47	7,06	7,06	12,94	8,82	10,58	7,06	7,06	7,06	5,88	9,41	94,09	50,00	47,04
Booking ⁵	9,11	12,52	13,66	13,66	25,04	17,07	20,49	13,66	13,66	13,66	11,38	18,21	182,12	50,00	91,06
changes / reporting ⁶	7,23	9,95	10,85	10,85	19,89	13,56	16,28	10,85	10,85	10,85	9,04	14,47	144,68	0,00	0,00
TOTAL internal costs	30,0	41,3	45,0	45,0	82,5	56,3	67,5	45,0	45,0	45,0	37,5	60,0	600,0	45,31	271,87
external charges*	0,00	0,00	0,00	0,00	62,48	0,00	62,48	0,00	0,00	62,48	0,00	0,00	187,43	75,00	140,57
TOTAL incl. external charges	30,00	41,25	45,00	45,00	144,98	56,25	129,98	45,00	45,00	107,48	37,50	60,00	787,43	52,38	412,43

¹ Data mining / upload / maintenance

² quality checks and forwarding to customer / local tax office

³ processing of incoming mail from customer / local tax offices

⁴ dispatching of completed forms to foreign tax authority or upper tier custodian

⁵ Monitoring / Chasing / Reconciliation / Booking of incoming tax credits

⁶ change-management to process / customer reporting

* foreign charges include costs induced by the source country custodian (if any) and by a (I)CSD (for purpose of this analysis it is assumed, that 50 % of the securities are held through an (I)CSD

Annual Number of Refund Claims:

	Austria	Belgium	Denmark	Finland	France	Ireland	Italy	Norway	Portugal	Spain	Sweden	Switzerland	Total number of reclaims
average													
source country complexity factor	0,60	0,83	0,90	0,90	1,65	1,13	1,35	0,90	0,90	0,90	0,75	1,20	
Enter annual reclaim volumes	400	1.200	400	7.200	26.500	1.400	10.000	2.800	300	3.000	3.800	33.000	90.000

Total costs on the basis of actual volumes:

Enter average cost per unit: 50,00 EUR

	Austria	Belgium	Denmark	Finland	France	Ireland	Italy	Norway	Portugal	Spain	Sweden	Switzerland	Total per cost driver in EUR	Estimated saving in %	Estimated savings in EUR
cost driver factor in %															
Data ¹	29,49	121,64	44,23	796,16	5.372,23	193,51	1.658,66	309,62	33,17	331,73	350,16	4.865,41	14.106,02	0,00	0,00
Printing ²	1.520,49	6.272,02	2.280,73	41.053,21	277.014,14	9.978,21	85.527,52	15.965,14	1.710,55	17.105,50	18.055,81	250.880,73	727.364,06	80,00	581.891,25
processing ³	1.258,13	5.189,78	1.887,19	33.969,44	229.215,08	8.256,46	70.769,67	13.210,34	1.415,39	14.153,93	14.940,26	207.591,02	601.856,69	70,00	421.299,68
Dispatching ⁴	1.475,12	6.064,89	2.212,69	39.828,35	268.749,18	9.690,50	82.975,73	15.488,80	1.659,51	16.595,15	17.517,10	243.395,48	705.662,50	50,00	352.831,25
Booking ⁵	2.855,36	11.778,36	4.283,04	77.094,70	520.210,80	18.738,30	160.613,97	29.981,27	3.212,28	32.122,79	33.907,39	471.134,30	1.365.932,56	50,00	682.966,28
changes / reporting ⁶	2.268,26	9.356,57	3.402,39	61.242,98	413.248,35	14.885,45	127.589,54	23.816,71	2.551,79	25.517,91	26.935,57	374.262,65	1.085.078,17	0,00	0,00
TOTAL internal costs	9.406,8	38.803,2	14.110,3	253.984,8	1.713.809,8	61.732,4	529.135,1	98.771,9	10.582,7	105.827,0	111.706,3	1.552.129,6	4.500.000,0	45,31	2.038.988,47
external charges*	0,00	0,00	0,00	0,00	1.655.587,50	0,00	624.750,00	0,00	0,00	187.425,00	0,00	0,00	2.487.762,50	75,00	1.850.821,88
TOTAL incl. external charges	9.406,85	38.803,24	14.110,27	253.984,84	3.369.397,27	61.732,43	1.153.885,09	98.771,88	10.582,70	293.252,02	111.706,30	1.552.129,61	6.987.762,50	55,83	3.889.810,34

¹ Data mining / upload / maintenance

² quality checks and forwarding to customer / local tax office

³ processing of incoming mail from customer / local tax offices

⁴ dispatching of completed forms to foreign tax authority or upper tier custodian

⁵ Monitoring / Chasing / Reconciliation / Booking of incoming tax credits

⁶ change-management to process / customer reporting

* foreign charges include costs induced by the source country custodian (if any) and by a (I)CSD (for purpose of this analysis it is assumed, that 50 % of the securities are held through an (I)CSD

ANNEX I.

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LIST OF EXTERNAL EXPERTS PROVIDING COMMENTS AND EXAMPLES ON THE IMPACT ASSESSMENT

BATTIAU Piet	MAGARIN Steffi
BAUR Dirk	McGILL Ross
BENNETT Mary	McCORMACK Brendan
BESSON Hugues	PEKAROVA Elena
BROWN Patricia	PFLUGBEIL Antje
BURMEISTER Frank	QUA Lu-Shen
COCHARD Sébastien	RANKIN Douglas
DE GRAAF Arnaud	REHNBERG Ulf
EKSTRAND Niklas	REZESSY Andras (JRC-ISPRA)
FIALKOVÁ Lenka	RUTBERG Anne
FOELLMARK Markus	RYAN Paddy
GILBERT Chris	SCHULZE Niels (JRC-ISPRA)
GRUNDELL Ella	SCHWARZ Hilmar
HARDING Bob	TOMOVA Mariana (DGT)
HELLIER Charles	URIA Francisco
HERDIN-WINTER Judith	VAN DER ZALM Mels
HOKKANEN Marja	WICHMANN Michael
JOINIEMI Harri	WITTE Véronique
KAISER Roger	YOUNG Richard
KERFS Philip	ZDENEK Peter
KONTKANEN Erkki	ZINKEISEN Klaus
LATOURET Jean-Francois	

ANNEX II.

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MEMBERS OF THE EU CLEARING AND SETTLEMENT: FISCAL COMPLIANCE GROUP - FISCO

Members of the FISCO Group:

Mr. Francis BARRIER
Société Générale
PARIS

Mr. Hugues BESSON
Deutsche Börse Group/Clearstream
International
LUXEMBOURG

Mr. Joseph DE WOLF
Banque Nationale de Belgique
BRUSSELS

Dr. Daniel DEAK
Professor of Law, Financial and Fiscal Law
Dept., Corvinus University, BUDAPEST;
Research Fellow, Taxation Law and Policy
Research Institute, Monash University,
MELBOURNE

Mr. Gabriele ESCALAR
Studio Associato Legale Tributario fondato
da F. Gallo
ROME

Ms. Ella GRUNDELL
NCSD Sweden
STOCKHOLM

Mr. Charles HELLIER
Linklaters
LONDON

Mr. Philip KERFS
Euroclear
BRUSSELS

Dr. Erkki KONTKANEN
The Finnish Bankers Association
HELSINKI

Mr. Koen MARSOUL
Ernst & Young
BRUSSELS

Mr. Steven McGRADY
Stamp Taxes Group - KPMG LLP
LONDON

Dr. Martine PETERS
Clifford Chance
AMSTERDAM

Ms. Anne RUTBERG
Mannheimer Swartling Advokatbyrå
STOCKHOLM

Mr. Francisco URIA
Asociación Española de Banca
MADRID

Dr. Klaus ZINKEISEN
Deutsche Bank AG
FRANKFURT AM MAIN

Chairman of the Group:	Dr. Mario NAVA “Financial Markets Infrastructure” European Commission
Secretary of the Group:	Mr. Tomas THORSÉN “Financial Markets Infrastructure” European Commission
DG Internal Market and Services Observer:	Ms. Doris KOLASSA “Financial Markets Infrastructure” European Commission
DG Taxation and Customs Union Observer:	Ms. Kerstin MALMER "Direct Tax Legislation" European Commission
OECD Observers:	Ms. Mary BENNETT Ms. Patricia BROWN

(List updated September 2007)

