

How do these changes affect customer confidentiality rules?

These changes will have no impact upon customer confidentiality unless you elect for the exchange of information option. If you elect for exchange of information then relevant details regarding the account and the interest payment will be provided to the Isle of Man Tax Authorities who in turn will provide that information to the tax authorities of the EU Member State in which you are resident.

If you do not elect for the exchange of information option then no information regarding you or your Isle of Man bank account will be provided to either the Isle of Man Tax Authorities or the Tax Authorities of the Member State in which you are resident.

Does the EUSD just relate to bank accounts?

No, the EUSD also extends to a number of other forms of "savings income". These other areas are: interest from, and the proceeds of sale or redemption of, certain bonds and income from certain types of investment funds. Further details can be found at www.isleofmanfinance.com.

How can I find out more?

Further guidance on the EUSD can be found at www.isleofmanfinance.com. This document only provides a summary of the key points relating to the impact of the EUSD on bank accounts and should not be regarded as a comprehensive statement of the impact of the EUSD on the reader. If you are in any doubt about the impact of these changes on your personal position you should contact your bank or your usual professional adviser.

Isle of Man guide to the European Union Savings Tax Directive

for customers of banks
located in the Isle of Man

EU Member States:

UK, Ireland, France, Germany, Netherlands, Belgium, Italy, Luxembourg, Spain, Portugal, Greece, Austria, Sweden, Finland, Denmark, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia.

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Do I need to read this guide?

This guide is for individuals who are residents of European Union ("EU") Member States and hold accounts with any bank located in the Isle of Man. Individuals resident outside the EU are generally not affected, although if you hold a passport issued by an EU Member State you should also read on.

A full list of the EU Member States, which of course includes the UK, is provided at the end of this Guide. The Isle of Man, Jersey and Guernsey are not part of the EU and so individuals resident in those jurisdictions are not affected.

What is the European Union Savings Tax Directive ("EUSD")?

The EUSD is an agreement between the EU Member States to automatically exchange information with each other about customers who earn interest in one EU Member State but reside in another.

This means that, for example, where a resident of France holds a bank account in Germany, the German bank will provide to the German Tax Authorities details of interest payments on that account. The German Tax Authorities will then in turn provide that information to the French Tax Authorities. This is known as "*automatic exchange of information*" and enables the French Tax Authorities to compare the amount of income declared by that individual on his or her own French personal tax return with the information provided under the EUSD.

Although the EUSD is centred on "*automatic exchange of information*", three EU Member States (Austria, Belgium and Luxembourg) have opted to apply a withholding tax instead. This is known as "the withholding tax option". Under the withholding tax option, banks automatically withhold tax, initially at a rate of 15%, from interest paid to residents of other EU

Member States. No information is exchanged under this option. Customers of banks located in those jurisdictions will generally have the option of electing for exchange of information and thereby receiving their interest payments gross.

How does the EUSD affect the Isle of Man?

Although the Isle of Man is not part of the EU, it has voluntarily agreed (along with Jersey, Guernsey, Switzerland and a number of other jurisdictions) to apply similar provisions. The Isle of Man has decided to follow the same withholding tax option as adopted by Belgium, Luxembourg and Austria. Customers of banks located in the Isle of Man will generally have the option of electing for exchange of information. Jersey, Guernsey and Switzerland have also followed the withholding tax option.

In the Isle of Man, Jersey and Guernsey the withholding tax option is known as the "*retention tax option*".

When does the EUSD take effect?

The EUSD is currently expected to come into force on 1 July 2005.

So will it affect me?

If you are an individual resident in an EU Member State (eg the UK or Spain) and you earn bank interest on an account held with a bank located in the Isle of Man, then you will be affected by the EUSD.

If you are resident outside the EU but hold a passport issued by an EU Member State then you should fall outside the scope of the EUSD. However, you may be asked to provide proof that you are resident outside the EU to your bank in the Isle of Man.

Your bank will use its normal "know your customer" information to determine where you are resident for the purposes of the EUSD.

How will it affect me?

If you are affected by these rules, then interest payments made to you by banks located in the Isle of Man after 1 July 2005 will be paid net of 15% retention tax, unless you elect for the exchange of information option (see below). This rate of retention tax will increase to 20% from 1 July 2008 and 35% from 1 July 2011.

If you elect for exchange of information then no tax will be deducted from interest payments made to you.

If you are UK resident but domiciled outside the UK then different provisions may apply – please contact your bank for more information.

How do I elect for exchange of information?

It is likely that your bank will give you the option to choose the exchange of information option instead of the retention tax. If you choose exchange of information then no retention tax will be deducted from interest payments made to you. Instead, details of your identity and residence, along with details of the level of interest received and the period to which it relates, will be provided by your bank to the Isle of Man Tax Authorities. The Isle of Man Tax Authorities will then in turn provide this information to the EU Member State in which you are resident.

Will these changes mean that I should pay more tax?

No. On the basis that you are already declaring the interest income to your home tax authorities these changes will have no impact upon the overall level of tax that you pay. If interest payments to you are made net of the 15% retention tax then this tax will be available for credit (ie offset) against your tax liability in the EU Member State in which you are resident