OBSERVATOIRE DE L'EPARGNE EUROPÉENNE

TAXATION OF SAVINGS PRODUCTS
AN INTERNATIONAL COMPARISON

Belgium, Denmark, France, Germany, Italy,
Luxembourg, Portugal, Spain, Sweden,
the Netherlands, the United Kingdom, the USA

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Supervisor : Pierre Kopp
President of ARMI

Project managers : Yannick L'Horty, Thierry Laurent

Comparative study : Jose Manuel Gonzales-Paramo, Yannick L'Horty, Nuria Badenes Pla

National Notes :

Belgium *Denmark*	Denis Anne
Germany *The Netherlands* *Luxembourg* *Italy*	François Hada
France *United Kingdom*	Yannick L'Horty
Portugal	Miguel Gouveia
Spain *Sweden* *USA*	Jose Manuel Gonzales-Paramo Nuria Badenes Pla

For any comments on this report, please contact Yannick L'Horty,(lhorty@chello.fr) or Thierry Laurent (Laurent@eco.univ-evry.fr)

A.R.M.I. - 6 rue Duméril 75 013 Paris

"At the ECOFIN Council meeting in November 2000, finance ministers reached a significant agreement on the key points for the implementation of the tax package agreed in December 1997 and designed to curb harmful tax competition and reduce the current distortions of the Single Market Progress was made on a three elements of the tax package: the Code of Conduct (business taxation), the proposal for a directive on taxation of savings income and the proposal for a directive on interest and royalty payments between associated companies.

As for the Code of Conduct, the finance ministers confirmed the timetable agreed in 1997 for the roll back of the harmful measures. They also agreed that no new beneficiaries should enter into the harmful regimes after 31 December 2001 and that, irrespective of whether granted for a fixed period of time or not, at the benefits from the harmful measures must run out by the end of 2005. Only in the presence of particular circumstances and an express decision by the Council on a case-by-case basis the effects of the harmful measures may continue beyond that date. As regards the taxation of savings income the finance ministers approved the substantial content of the future directive. Equally, it was agreed that the Presidency and the Commission should enter into discussions with key non-member countries to ensure the adoption of equivalent measures in those countries and the Member States were invited to report regularly, starting from June 2001, on similar discussions with their dependent or associated territories with a view to ensuring the adoption of the same measures in these territories. With respect to the interest and royalty payments between associated companies the finance ministers reached a compromise solution on a outstanding points of disagreement.

The ECOFIN Council reaffirmed the deadline of 31 December 2002 established at the European Council in Feira for the final agreement on the tax package as a whole. Work will continue on a three elements of the package with this timetable in view."

Report from the Commission on the implementation
of the 2000 Broad Economic Policy Guidelines
Brussels, 7.3.2001, COM(2001) 105 final

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Fiscalité des produits d'épargne: une comparaison internationale

Il n'existe pas de véritable point de vue européen en matière de fiscalité des produits d'épargne. Les prises de position répétées des gouvernements pour une harmonisation accrue des fiscalités et les projets de directives européennes en matière de fiscalité des non résidents n'ont pas remis en question les inégalités des épargnants européens face à l'impôt. Les fiscalités de l'épargne sont très diverses d'un pays à l'autre et d'un produit à l'autre sans qu'une logique d'ensemble puisse être trouvée au niveau européen ni même au niveau de chaque pays.

L'objet de cette étude est de dresser un état des lieux des fiscalités européennes en matière de revenus des produits d'épargne. Les difficultés méthodologiques étaient importantes : les règles fiscales sont très diverses selon les pays et il n'y a pas de définition des produits d'épargne standardisée au niveau international. En outre, dans chaque pays et pour chaque produit d'épargne, la charge fiscale peut varier en fonction des caractéristiques de l'individu ou du ménage et de la structure de son portefeuille.

Hypothèses et méthodologie de l'étude

Face à ces difficultés, la démarche a consisté en deux étapes successives. Dans un premier temps, un ensemble de produits d'épargne types a été défini et les règles fiscales en vigueur pour chaque produit dans chaque pays ont été étudiées. Cette analyse fait l'objet de la première partie du rapport. Dans un deuxième temps, les fiscalités ont été comparées sur la base d'une méthodologie commune, en calculant des taux effectifs marginaux de prélèvements pour chaque catégorie de produit et dans chaque pays.

Parmi les douze pays analysés, huit sont dans la zone Euro (Belgique, Pays-Bas, Luxembourg, France, Allemagne, Italie, Espagne et Portugal), trois sont en dehors (Royaume-Uni, Danemark, et Suède), le dernier pays étant les Etats-Unis, considérés à des fins de comparaison transatlantique. Sept catégories de produit d'épargne sont étudiées : les revenus tirés de l'épargne liquide (comptes courants rémunérés et à

terme) ; ceux des obligations ; les dividendes ; les gains en capital à court et à long terme, les produits d'assurance vie et enfin, l'épargne retraite facultative.
La charge fiscale est résumée à l'aide d'un indicateur synthétique : le taux marginal effectif de prélèvement. Par exemple, un taux de 10 % signifie que les prélèvements obligatoires grèvent de 10 % le rendement réel du produit d'épargne, un taux de 100 % signifie que le rendement réel est complètement annulé par la fiscalité (le rendement net est égal à l'inflation). Lorsque les revenus d'un produit d'épargne s'étalent sur plusieurs années ou que la fiscalité est différée dans le temps, le taux de prélèvement a été actualisé et ramené sur une base annuelle.

Tous les calculs ont été effectués en neutralisant les différences de rendement selon les produits d'épargne (un taux nominal de 5 % a été retenu pour chaque type de produit) et les différences d'inflation selon les pays (un taux unique de 2 % a été retenu dans tous les cas). Les taux marginaux de prélèvements ont été évalués pour trois niveaux de revenus correspondant respectivement à une fois, deux fois et quatre fois le revenu moyen de chaque pays (tel qu'il est publié par l'OCDE).

L'étude ne porte que sur la fiscalité des résidents (la fiscalité des non résidents, en cours d'harmonisation, est en hors champ). Les taxes locales sont incluses ainsi que les contributions sociales (particulièrement importantes en Belgique et en France). Les produits particuliers qui font l'objet de dérogation aux règles fiscales générales de chaque pays, a fortiori lorsqu'ils sont complètement défiscalisés, ne figurent pas dans la partie comparative de l'étude.

Principaux résultats

Le tableau ci-dessous présente une synthèse des principaux résultats. Les pays sont classés par ordre décroissant de charge fiscale, et il en est de même pour les produits d'épargne.

Taux marginaux effectifs de prélèvement

Pays/produit	Dividendes	Plus-values à court terme	Liquidités	Obligations	Plus-values à long terme	Assurance-vie	Fonds de pension et autres compléments de retraite	Moyenne par produits
Suède	1,14	1,02	0,97	1,02	1,02	0,18	-1,13	**0,60**
Danmark	0,42	0,98	0,71	0,71	0,42	0,12	0,13	**0,50**
Allemagne	0,89	0,68	0,61	0,68	0,09	-0,36	0,11	**0,39**
Pays-Bas	0,69	0,48	0,48	0,50	0,00	-0,21	-0,03	**0,27**
Belgique	0,54	0,68	0,38	0,38	0,13	-0,30	-0,21	**0,23**
Espagne	0,49	0,38	0,40	0,38	0,29	0,02	-0,53	**0,20**
Royaume-Uni	0,48	0,32	0,33	0,33	0,32	0,04	-0,44	**0,20**
Luxembourg	0,49	0,65	0,65	0,33	0,02	0,06	-0,88	**0,19**
France	0,61	0,43	0,42	0,42	0,43	0,02	-1,36	**0,14**
Italie	0,28	0,21	0,45	0,21	0,21	0,06	-0,74	**0,10**
Portugal	0,36	0,16	0,33	0,33	0,00	-1,45	-1,47	**-0,25**
Pays européens	**0,58**	**0,54**	**0,52**	**0,48**	**0,26**	**-0,17**	**-0,59**	**0,23**
Etats-Unis	*0,76*	*0,21*	*0,29*	*0,17*	*0,21*	*0,05*	*0,05*	***0,25***

Premier constat, les revenus des produits d'épargne les plus liquides sont généralement les plus taxés. Les dividendes font ainsi l'objet de la taxation la plus lourde dans la plupart des pays européens, notamment en France (toutefois, les produits tels que le PEA ne sont pas considérés dans ce tableau). Les produits les plus longs font en revanche souvent l'objet d'une prime fiscale qui accroît le rendement réel du placement et se traduit par un taux marginal de prélèvement négatif (retraites complémentaires facultatives et assurance vie dans la plupart des pays européens).

Deuxième constat, les pays européens ont un niveau global de prélèvement proche de celui des Etats-Unis, aux environs de 25 %, mais les disparités selon les produits sont beaucoup plus fortes en Europe qu'aux Etats-Unis. La fiscalité sur les plus-values est plus favorable aux Etats-Unis, mais celle sur les produits les plus longs y est moins favorable.

Troisième constat, plusieurs groupes de pays peuvent être distingués. Les pays du nord, incluant l'Allemagne, ont la fiscalité la plus lourde, avec au sommet la Suède où le taux moyen dépasse 100 % du fait de l'importance des taxes locales (au taux de 31 %). Les pays du centre, avec la France et le Bénélux, ont les taux de prélèvements les plus proche de la moyenne européenne. Les pays du sud ont les taux de prélèvement les

plus faibles. Le Royaume-Uni enfin, est en dehors de cette typologie géographique avec des taux plutôt faibles et proches de ceux des Etats-Unis.

Quatrième constat, il y a clairement peu de cohérence internationale dans l'usage de la progressivité des prélèvements en matière de revenu d'épargne. Il n'est apparu en effet aucune relation claire entre le niveau de taxation pour chaque produit et la progressivité de cette taxation selon le revenu des ménages. Des fiscalités progressives existent pour des produits différents dans des pays différents, que le niveau des taxes y soit faible, moyen ou élevé.

Enfin, on constate à quel point la fiscalité est un élément essentiel pour comparer les rendements de l'épargne. Même en considérant un rendement nominal identique pour toutes ces catégories de produits, les rendements réels sont très variables selon les produits et les pays. Il n'y a d'ailleurs pas de classement stable des fiscalités des produits d'épargne selon les pays, car les taux de prélèvements sont très variables selon les produits au sein de chaque pays.

Le rapport est rédigé en anglais et comprend 134 pages. Une première partie (86 pages) est consacrée à la présentation des règles fiscales en vigueur dans les douze pays couverts par l'étude. On y décrit les réformes récentes, la structure de l'épargne dans chaque pays, ainsi que les principales caractéristiques des régimes fiscaux en vigueur aujourd'hui pour les sept catégories de produits d'épargne. La deuxième partie (31 pages) présente de façon synthétique les résultats de l'analyse comparative. On y présente tout d'abord la méthodologie du calcul des taux marginaux effectifs de prélèvement puis le calcul de ces taux, par produit pour chaque pays et par pays pour chaque produit. Le rapport s'achève sur cinq annexes (l'annexe IV donne le texte du projet de directive soumis par la commission en juin 1998, les autres annexes contiennent les statistiques nationales en matière de revenus, de taux de change, d'inflation et de taux d'intérêt).

En cas de citation, les références exactes du rapport sont les suivantes
« Taxation of Savings Products : An International Comparison », Observatoire de l'Epargne Européenne, juin 2001.

Introduction

European Governments has repeatedly emphasized the need for greater international co-operation in particular exchange of information to tackle financial crime, harmful tax competition, tax evasion and avoidance. The draft Directive on Taxation of Savings sets out the case for tackling evasion of tax on savings income through exchange of information on as wide an international basis as possible. The future Directive will harmonize taxation savings regime to non residents, instead of numerous bilateral agreements, but taxation rules for residents will remain extremely various across Europe.

In this context, the aim of this report is to take the measure of this varsity, comparing tax regimes applicable to each categories of savings products across Europe and estimating the amounts on which tax incentives apply for these savings products. In the existing literature, there is a lack of information in this area and it seems very important to go further if one deals for example with tax efficiency, tax evasion or tax harmonization in Europe. Our international comparison is covering the current rules of taxation (says, at the end of 2000) but an historical perspective of national taxation regimes is also given.

Describing taxation of savings products in Europe raises several problems connected with international comparisons. Three mains problems can be noticed to introduce this report.

- First, saving products are numerous in each countries and the set of products supplied differ from one country to another. More precisely, supply of savings products in Europe is based mainly on specific rules, for instance through the importance of state regulated products in the savings asset market. Considering these specific rules, it becomes hard to find an European integrated market for savings products.

- Second, taxation regimes of household portfolios is also varied across European countries, with two main taxation rules, at source within withholding taxes at a fixed rate, or within the taxable income at a fixed or variable rate, depending on household income. Those rules are implemented with many parametric

differences (on tax basis, tax rates, share of savings income recognized as taxable income, allowances amount, tax credits…). We will see there is often a mix of these rules in each country, moreover this mix differs from one product to another. Seeking for consistency in those European taxation rules is not an easy task.

- Third, for one product in one country, the amount of taxes generally depend on many individual parameters like taxable income level, status of residency (being resident or not) or household size (single, married filing jointly or separately, number of children…). The issue investigated in this report is a delicate one because tax burden depends on the type of household, his portfolio structure and the taxation regime in the considered country (and abroad when he owns foreign savings products and when the tax is at source).

A two step approach

A good way to deal with such a methodological problem is to proceed step by step. We propose a two step approach: In a first step, we describe national taxation regimes for a standardized set of savings products and without taking into account the individual dimension of taxation rules (considering all the households). We choose a set of representative products covering all the existing savings products. We collecte in each country all the information necessary to compute marginal tax rates on savings products faced by individual taxpayers. These tax rates generally depends on household incomes (this implies to present also the income tax table for each country). It is also important to gather information on non resident portfolio taxation.

At the end of the first step, we get descriptive country notes built on the same model.

In a second step, we compute effective marginal tax rates (EMTR) to provide a synthetic measure of fiscal pressures for every country and savings products. These tax rates depend on taxation parameters, nominal return, inflation rates, and the duration of the product; the latter is assumed equal for every country (our database can be used to simulate the impacts of nominal return or inflation rate spread on marginal effective tax rates). In fact, marginal tax rates depend on expected inflation rate. They equal one

minus the ratio of real return after taxes on real return before taxes. When nominal returns are given, more inflation leads to more marginal tax rates. We took an inflation hypothesis of 2 % for all countries and a nominal return of 5 %. For these computations, we consider standard levels of household income in order to get meaningful comparisons. We assume that the gross taxable income at which saving returns are accrued is labour income. The gross labour income for the reference taxpayer of each country is the benchmark calculated by OECD, and known as APW (average production worker). The appendix I gives the most recently published levels of gross income we used, referring to 1998. On this basis, we compute EMTR for three levels of incomes (one APW, two APW and four APW). We consider for our calculations only single taxpayers (tax treatment for families, and consideration of dependants are covered only in the first step of the research). We finally compute a comparison of marginal tax rates for different portfolio structures and for each country.

Countries covered

The study cover eleven European countries: Belgium, Denmark, France, Germany, Italy, Luxembourg, The Netherlands, Portugal, Spain, Sweden, and UK. We took also USA as a benchmark We will present our results per country in an alphabetical order.

All the figures given in this report are in Euros, but we present sometimes national currencies amount into brackets. The appendix II gives the change for EMU members. These are the rates published in the Official Journal (L 359 31.12.1998 + L167 7.7.2000). For non EMU members (Denmark, Sweden and UK), we took the Euro Foreign Exchange reference rates at 22 March 2001 (= 0.8889 US Dollar).

Savings products covered

We use an homogeneous typology of seven families of savings products in the two part of the report. In the first one, dealing with national taxation rules, we cover all the existing savings products belonging to each family. In the second part, where we compute effective marginal tax rates in a comparative perspective, we focus, when there

was several products in a same family of asset, on the most popular product in the country covered. In all the report, we leave aside real estate income.

1. Liquidity

We consider interest on a current account at the usual rate in each country. This family include both demand deposits and time deposits. Taxation rules on those deposit are simple to compute anywhere and give a useful benchmark for international comparison.

2. Income from state regulated savings products

Savings products taxation among European countries are linked to the relative weight of state regulated savings products. For instance, they are very popular in France and UK but not in Portugal or Spain. But the individual income tax in many countries includes tax breaks (either deductions or credits) for two or three different purposes, in particular retirement accounts. This is the case in Portugal but also the case with the IRA's and the 401-k's in the US. That is why retirement accounts are the most relevant kind of tax favored savings product. Other areas in the realm of the individual income tax are housing accounts. It is thus very difficult to find a generic product in this family.

3. Dividend

For share owners, we need to distinguish taxation of dividends from taxation of capital gains. On one hand, taxation rules differs among countries. On the other hand, effective marginal tax rate computation is not the same, with the correction of double taxation for dividends.

4. Bonds

The same problem arises sometimes for bond owners with special taxation rules in some countries. This is why we will consider capital gains as a separate category.

5. Capital gains associate with bonds and share cession

Nominal return of shares and bonds cumulates on one hand, dividend or interest and on the other hand, capital gains, but the taxation is often different on these two types of

return. (and by type of financial asset - for example in Portugal capital gains taxation for bonds and for other assets is different). In this family of savings products, we distinguish short term capital gains and long term capital gains (the latter are less taxed is many countries).

6. *Life insurance*

We have to distinguish tax gains at the beginning of the contract (when for example it reduces the taxable income), taxation on the return of the contract and taxation on the transmission of capital at the end of the contract. So, we used actuarial computation to compute effective marginal tax rates.

7. Pension scheme

There are primarily three events involving a funded retirement plan that are relevant for income tax purposes : i) contribution to a plan ; ii) investment, gains and losses on a plan's assets ; iii) distribution from the plan to employee participants in the plan. To compute the nominal return before and after taxation, we will also need some actuarial calculation. The tax treatment is also sometimes different depending on whether you take out the funds from a pension plan in a lump-sum or as an annuity. For instance, annuities can be treated like social security pensions (which have generous deductions or exemptions) but lump sums can be considered as capital income.

The first part of the report covers the twelve national taxation systems using the seven families typology given above. In the second part, we compute marginal effective tax rates to compare fiscal pressure on savings products among European countries. We will rank saving products tax burden in each country and rank taxation regime per product and per countries.

Part I. National surveys

In order to resume the spirit of taxation regime in every country, the main part of the national surveys describe taxation regimes for the seven families of savings products. We focus on the main characteristics of the taxation system (taxation at source, income taxation and solidarity surcharges, for resident and non resident) and insist on dispensatory regimes. National surveys also give a description of the last reforms in the taxation system when they have introduced important change and some data on the evolution of savings during the nineties (level and structure) when it is available.

Belgium

Belgian saving rate is close to the European average, nearly 15 % of the gross household income. Capital income is rather 14 % of the gross household income, but most of this income comes from real estate. Transferable savings represent less than 1 % of the Belgian gross household income, with nearly one billion of euros in 1998.

The taxation of saving products is mostly based on withholding taxes, called "précomptes", which depend on the kind of saving product, with many exemptions. This income is not supposed to be declared with the income tax. Nevertheless, Belgians may include them to calculate their income tax, if this is more profitable. So, the withholding tax rates are usually maximum rates. Besides, thanks to some savings products, Belgians are eligible to an allowance on income tax. For these reasons, we have to present both tax systems.

a) An overview of the Belgian taxation system

The Belgian government is currently making a tax reform which may suppress the two higher tax levels. Now, the marginal rates of income tax are :

Tab 1 : Marginal rates of income taxation in Belgium

Income threshold	Marginal tax rate
1 BEF	25%
6 312 € (255 000 BEF)	30%
8 391 € (339 000 BEF)	40%
11 956 € (483 000 BEF)	45%
27 476 € (1 110 000 BEF)	50%
41 214 € (1 665 000 BEF)	52,5%
60 472 € (2 443 000 BEF)	55%

Note : there are several personal allowances for couples and children.

In addition, Belgians pay a local tax (from 0 to 9 % according to the localisation) and a "contribution complémentaire de crise", a 3 % crisis tax which has started decreasing since 2000 and will disappear in 2003. Household is tax exempted if the total income is

under 5 099 € (206 000 BEF) for a single person, 9 109 € (368 000 BEF) for two persons, and more with children.

There is an allowance system for amounts paid to life insurance and pension scheme (see part on these products).

Most of the income integrated into the income tax are pre-paid by employers or organisms which pay the income. It is called "précompte". So, the Belgian tax system is a mix of an income and a withholding tax system. The "précomptes" are deducted from the final income tax. As the income tax, the "précomptes" contain a crisis tax which will be abolished in 2003. A special contribution on transferable saving income has been suppressed in 1995.

b) The Belgian taxation system per products

The financial savings strongly increased in the 1990s in Belgium. The total amount of financial investments represent 338 % of the GDP in 1999, i.e. Euros 787 billions. The structure of the Belgian domestic savings shows the increase of institutional investors products, in particular pension schemes or insurance companies, which give tax advantages to householder.

Tab 2 : Household financial saving (1990-1999)

	1990 %	1999 %	1999 (billions €)	(billions BEF)
Liquidity	27%	22%	173.1	6 993
Shares and bonds	56%	51%	401.3	16 212
Institutional investors (Investisseurs institutionnels)	13%	26%	204.6	8 265
Others	4%	0%	0.0	-
Total amount (% of the GDP)	**225%**	**338%**	**786.9**	**31 789**

Source : Belgian National Bank and national accounts

Liquidity

Interests of ordinary current or deposit accounts are tax free until 1 361 € (55 000 €). Further, the tax rate is 15 %.

Nominal interest rates on current account is about 2 or 2,5 %. For deposit accounts, the rate is from 4 to 6 % according to the duration. Deposit accounts have an increasing bonus (a further rate for increasing deposit) and a fidelity bonus (for durable saving). On account of inflation in Belgium (1,1% in 1999), real rates are close to the monetary market rates.

Dividends and Bonds

Dividends taxation change accordingly to the kind of shares. Tax rates rank from 15 % up to 25 %. The rate depends if the share is a listed share, the date of issue, if the firm is Belgian or not… The lowest tax rate is reserved to Belgian firms listed on the stock exchange, half of which or more is owned by individuals. These shares are called "PRVV" or "VVPR" shares, abbreviation of "reduced tax" in French and Flemish ("précompte réduit/verlaagde voorheffing"). Since 1998, to promote innovating firms, dividends received from little or middle-sized businesses can be taxed on the same preferential rate.

Dividends received from real estate investment funds have no "précompte" to pay (under conditions). However, the exemption of withholding tax can be possible for these savings.

As dividends, taxes on bonds interests change according to the date of issue and country (cf. tab 3). The first 149 € (6 000 BEF) of interests and dividends are tax free if they come from firms with social objectives.

Tab 3 : Withholding on dividends and bonds

	Tax rate
Dividends	
Shares issued since 01/01/1994 by appel public à l'épargne (saving offer open to the public) and shares from quoted firms in stock exchange	15 %
Others dividends (in particular dividends from others countries)	25 %
Bonds	
Interests on bonds issued since 03/01/1990	15 %
Interests on bonds issued before 03/01/1990	20 %

Source : Mémento fiscal, Ministère des finances belges

Capital gains associated with bonds and share cession

In Belgium, there is no taxation on capital gains (neither deduction on capital losses) when they come from "normal management of a private patrimony". The only case of taxation is for selling an important part (more than 25 %) of the capital of a Belgian firm to a foreign firm. In this case, the tax rate is 17 %. Even the stock-options are only taxed (15 %) on their value when they are offered (+ 1% for every year until owner is authorized to sell them), but not on the capital gains that the owner may realize.

The "occasional gains", except those who come from "normal management of a private patrimony", are taxed at 33 %.

Besides, there is in Belgium a tax on stock exchange operations: 3,5 ‰ on the primary market, and 1,70 ‰ on the second market.

Life insurance and pensions

In Belgium, since 1993, life insurance and pensions schemes have been taxed equally as long term savings. Savings offer tax reduction on the income tax and the capital saved is taxed at the end of the contract.

To benefit from reduction, the contract has to be made by a Belgian resident, aged from 18 to 65 years and for a duration of 10 years or more.

The amount of savings which is deducted from the taxes is limited for each member of the couple to 15 % of the first bracket of 1 361 €(55 000 BEF), 6 % for further, with a maximum of 1 633 €(66 000 BEF).

The tax deduction rate (called "special average rate") is calculated for each spouse : it is the average rate of the income tax (Taxes free of deductions / Total taxable income). The resulting rate must be in the bracket of 30 % to 40 %.

When the contract is over, there is a taxation on the capital saved if a fiscal advantage has been received during the savings period. Taxable capital is an estimated capital and not a real one. If the real capital is higher, there is no more taxation, if it is lower, there

is no deduction. The capital of the pension is estimated by a capitalisation with the rate of 6,25 % for savings until 1992 and 4,75 % since 1992.

If the taxpayer is 60, or if the contract is over 10 years, the tax rate is 16,5 % (capital saved until 1992) and 10 % (since 1992). If he is younger, the tax rate is 33 % (since 1992) or is equal to the income marginal tax rate (until 1992). For pension or life insurance, the tax is collected in all cases at the 60th birthday. In case of death, capital is taxed as inheritance, except if pension rights are transmitted to another person.

If the savings product offer an annuity and not a lump-sum benefits, the annuity is taxed with the other income to the marginal rate of the householder.

There is no tax on capital of life insurance products which are valid only in the case of death.

Main aspects of the Belgian saving products taxation

Savings products	Tax system	Tax rates	Deductions, allowances and comments
Liquidity	Withholding	15 %	Free of tax until 1 361 € (55 000 BEF)
Dividends	Withholding	15 %(PRVV shares) 25 % (others)	
Bonds	Withholding	15 % (bonds since 1990) 20 % (bonds before 1990)	
Capital gains	No taxation normally	0 % (“normal gains”) 33 % (occasional gains)	Stock exchange operations tax : 3.5 ‰ (primary market) 1.7 ‰ (second market)
Capital losses			No deduction
Life insurance and pensions savings	Withholding / income tax		“Special average rate” of deduction (30 – 40%) Deduction if savings do not exceed 1 633 €(66 000 BEF)
Pension return			Estimated capital capita lisation (see benefits)
Benefits			
Lump sum scheme	Withholding / income tax	Normally ended contract : 16.5 % (capital saved before 1992) 10 % (capital saved after 1992) Earlier ended contract : 33 % (after 1992)	Taxed the 60th birthday. Taxed on an estimated capital : capitalisation rate of 6.25 % for savings before 1992 and 4.75 % after
Annuity	Income tax	Marginal rate	Added to others incomes
Particular cases :			
Life insurance only in case of death		No Tax	
Death before end of contract	Inheritance tax	From 3 % to 80 % according to the amount and parent degree	No inheritance tax if contract transferred to another person

Denmark

Denmark's taxation is one of the highest of the EU countries. The total tax revenue represents about 50 % of the GDP. Personal income taxes and taxes on goods and services represent about 80 % of the total central taxes, almost half for the only income taxes. Is there a connection ? The households savings ratio is very low in Denmark : 1,8 % in 1999, with a 163 billions € GDP (1 216 billions of DKK). Most of the savings products income is integrated into income tax.

a) The income taxation

Since the 1980s, Denmark has made successive tax reforms. The main aspects of these reforms are :

- Introduction of new tax bases, personal income (labour income and transfer income less net contributions to pension schemes), capital income (interest income less interest expenditures) and income deductions (e.g. transportation costs, where personal income and positive net capital income are taxed progressively).
- Introduction of employee labour market contributions and a special pension contribution at respectively 8 per cent and 1 per cent of the wage bill. Both deductible from the income tax
- Income deductions and negative net capital income is only subtracted at the lowest income level.
- Reduction of certain deductions and a more consistent taxation of fringe benefits.

The only savings products not integrated in the income tax are dividends and some capital gains (or losses). All the others, essentially savings producing interests are added to the other income (professional and social income).

The income tax system in Denmark is individual, and children are not included. For couples, capital income is added to the highest income. There are only three tax-brackets, and no exempted one. Nevertheless, every taxpayer has an allowance from 4 330 €(32 300 DKK) per person and 3 217 €(24 000 DKK) per child under 18; some expenditures are deductible from the taxable income (interest paid, pension cotisations…). For a couple, the unused tax credit of one is transferable on the other. A labour market contribution of 8 % and a 1 % special pension savings are paid into the salary.

On their taxable income, Danish people also have to pay a religious tax (≈ 1 % of the income) and local taxes. On average, the local taxes rate is 32 % in 2000, which has to be added to the income tax rate. A ceiling tax of 59 % is established. If central and local taxes are higher than the ceiling tax, central government reduces its tax rate to obtain 59 % of global tax rate.

The global tax rates (central and local) are high in Denmark, especially for the bottom rate, but they are decreasing with the tax reforms. Three tax reforms have been made (in 1987, 1994, 1999). These reforms aim to decrease tax rates, but to enlarge the tax base. For example, the 1999 reform (which will be achieved in 2002) is reducing the first bracket rate and increase the bottom limit of middle tax bracket, but most people will go up in a superior bracket because they will deduce less interest (see II).

Table 1. The marginal rates of income taxation in 2000 and 2002

	%				
	Central government tax (2000)	(2002)	Local taxes (average)	Total (2000)	Total (2002)
Less than 20 241 € (151 000 DKK)	7	(5.5)	32	39	(37.5)
From 20 241 €* to 34 638 €	13	(11.5)	32	45	(43.5)
More than 34 638 € (258 400 DKK)	28	(26.5)	32	60 (tax ceiling** 59%)	(58.5)

** 22 922 €(171 000 DKK) in 2002*
*** if the total tax rate exceeds 59%, the central government tax is reduced correspondingly; the religious tax is not included in the tax ceiling.*

Taxation of non residents

Non residents are taxed according to resident rules for their income in Denmark. The local tax rate used is 32 %. Denmark signed international treaties with the other European countries to avoid double taxation. Non residents will not be taxed on Danish rates if they can prove that they paid the taxes of their residence country. Nevertheless, because of the globalisation of income in the income tax and of the lack of banking secret, Denmark is not advantaged in the tax competition between European countries.

b) The Danish taxation system per products

As noted before, in Denmark, the income from transferable savings products are added to other income to calculate the income tax. The only exception is for dividends which have a special tax. However, there are some special rules for some savings products, and the most important is the deduction of financial expenditures or losses.

Since the 1995, the amount of shares and others equity are growing fasters than any other savings products in Denmark. In the same time, The amount of savings in bonds is declining (see table 2.)

Table 2. Households assets in Denmark

	(end of the year)	1995	1996	1997	1998	1999	1996-1999
Currency and deposits	Million €	52 386	55 457	59 666	63 275	64 797	+24 %
	Million DKK	*390 797*	*413 712*	*445 108*	*472 028*	*483 384*	
Securities other than shares (bonds)	Million €	29 954	30 054	30 212	27 727	25 207	- 16 %
	Million DKK	*223 454*	*224 201*	*225 378*	*206 842*	*188 041*	
Shares and other equity	Million €	27 292	32 556	43 270	36 815	47 084	+ 73 %
	Million DKK	*203 598*	*242 867*	*322 794*	*274 637*	*351 245*	

Source : Statistics Denmark

Liquidity

The Danish taxation system taxes *net* capital income into account. Interest expenditures are deducted from interest incomes. If the balance is negative, the taxable income is

reduced. One of the most important effect of taxation reforms since 1987 to 1999 was to reduce these deductions to enlarge the taxation base. Today, in case of negative net capital income, the tax value is on the complete income, with a rate of 46 %. This rate will be 32,4 % in 2002. Of course, in case of *positive* net capital incomes, the tax value equals the marginal income tax.

The Danish real interest rate on liquidities is near of the EU's one. For instance, even if the Danish monetary market rate is higher than the EU's average (5% and 4,45 % in 2000), the inflation rate in Denmark is higher too (2,8 % for 1999 in Denmark, 2,5 in EU). So, the real interest rate is close to the European one.

Dividends

A special tax is paid for dividends. It is withheld for Danish firms. There are two tax rates : 25 % until 4 987 € (37 200 DKK) of dividends, 40 % for those which make more. For couples, the 25 % rate is applied until 9 973 € (74 400 DKK) of share income. Dividends paid by firms to parent companies are tax free.

Bonds

The bonds' income is added to the other income and taxed in the income tax with other interests.

The 10-year government bond yields is 4,9 % for 1999, and 6,7 % for the 30-year mortgage credit bonds (with an inflation rate of 2,5% in 1999).

Capital gains associated with bonds and share cession

Only speculative gains on shares are specifically taxed. If the shares were held for 3 years or more, they are not considered speculative, and taxed as share income with dividends.

- Gains on shares held for less than 3 years are taxed as investment income. Losses on shares held for less than 3 years can be deducted from gains on shares held for less than 3 years. Losses may be carried forward for 5 years.

- Gains on shares held for 3 years or more are taxable as dividends. Exemption is available for listed shares if the value held by the taxpayer and his spouse doesn't exceed 15 724 €(117 300 DKK) within the previous 3 years. For shares held for 3 years or more, losses are deductible differently if they are listed shares or not. Losses are deductible

- Losses on unlisted shares are deductible and the tax value of losses may be set off against tax on other income.

- Losses on listed shares can only be offset against taxable gains on sales of listed shares held for 3 years or more. Losses can be carried forward 5 years.

- Gains on derivatives such as options and forward contracts are taxed as investment income. Losses can be offset against previous profits on the same contract and against future profit on all derivatives.

- Gains on Danish bonds bearing a minimum interest rate at the time of issue are tax-exempt. In December 1999, the minimum interest rate was 4%. Other gains on bonds cession are taxed as investment income; losses are not deductible.

Life insurance and pensions

Private pension funds are significant in Denmark. The financial assets of pension funds represented 17 % of GDP in 1996. The total asset managed by pension funds and pension life insurance companies is almost 100 billions of euros (essentially bonds).

Schemes approved by the Financial Supervisor Authority (FSA) are given tax preferential treatment. For others, tax privilege isn't given and capital gains are subject to income taxation (cf capital gains).

Private contributions to Danish pension schemes (approved by the FSA) are deductible. Deductible annual contributions to private lump sum life insurance and savings schemes is limited to 4 718 €(35 200 DKK).

There is no limitation for deducting amounts paid into an annuity pension, provided that equal contributions are made over at least 10 years. If a capital contribution is made or the period is less than 10 years, deduction for the aggregate amount is allocated equally

over a period of 10 years. The annual deduction may, however, amount to at least 4 718 €.

Denmark 's tax treaties with the United Kingdom and Switzerland allow payments to UK and Swiss pension schemes to be treated in the same way as Danish pension schemes. To some extent this also applies to the tax treaty with the Netherlands. The UK scheme and the Dutch scheme are subject to approval by the Danish tax authorities.

The taxation of pension investment return is reorganised by the 1999 tax reform. In the earlier 1980s was introduced a variable tax rate which fluctuated with the real interest rate. The tax rate was about 40-50 %, but decreasing with the drop of the interest rate. Since 2000, this variable tax rate is replaced by a fixed tax rate at 26 %. Return to equities, however, is subject to a 5 % tax rate only.

Tax treatment of benefits depends on whether the scheme is annuity or lump-sum scheme. Annuity are taxed as personal income during the liquidation period, whereas lump-sum benefits under capital pension schemes are taxed at 40 %. Employees covered by occupational pension schemes are required to pay labour market contribution at the rate of 8 % of pension contributions.

Main aspects on taxation system of Denmark

Savings products	Tax system	Tax rates	Deductions, allowances and comments
Liquidity	Income tax	Marginal rates	Deduction for interest expenditures
Dividends	Withholding tax	25 % until 4 987 €(37 200 DKK) per person 40 % (from 4 987 €)	Dividends from company to parent company free tax
Bonds	Income tax	Marginal rates	
Capital gains :			
Shares held for 3 years or more	Withholding tax	As dividends taxes	
Shares held for less than 3 years	Income tax	Marginal rates	
*-Capital losses			Deducted from capital gains of the same kind of shares (deducted without conditions for unlisted shares) May be carried for 5 years
Life insurance and pensions :			
savings	Tax preferential treatment (if approved by FSA)		Deductible contributions limited to 4 718 €(35 200 DKK)
Pension return		26 % Return to equities : 5 %	
Benefits :			
Lump sum scheme	Withholding tax	40 %	
Annuity	Income tax	Marginal rate	

France

The French taxation system of savings products is both complex, unstable and not very consistent. Over the past ten years, the system has been affected every year by four or five main reforms. For instance, if one focus only on the life insurance taxation regime, 13 important reforms have been launched between 1990 and 1998. There is no global orientation in those reforms, but an accumulation of local adjustments linked to specific issues. The French tax council ("*Conseil des impôts*") has pointed out this lack of consistency in several reports. Another specific aspect of the French tax system is the extent of the state regulated savings products that are often tax exempted and the low fiscal return of the system as a whole.

a). Main aspects of the French taxation system

The French saving rate is close to the European average (savings are about 7 % of the GDP and 14 % of the gross household income), with a total income from transferable savings products which represent 87 billion of Euro in 1998 (this is the last figure that we have from the French National account). But more than half of this amount is tax free, due to the importance of state regulated savings products (table 1). Moreover, less than 13 % of all the income amount from transferable savings products is effectively taxed under the income taxation system. This figure is quite impressive in a country where the income taxation of savings products is the theoretical norm.

Table 1 - Taxation structure of savings products

Transferable savings incomes	100 %
Non taxable savings products (evasion, omission, accounting mistakes)	19,9 %
State regulated products (more or less) tax free	51,1 %
Withheld tax assets	12 %
Potential income taxable assets	17,1 %
Allowed assets	2,1 %
Assets owned by non income taxable households	2,1 %
Effective income taxable assets	12,9 %

Source : Conseil des impôts, 1999, pp. 128 ; National Account, 1996.

To understand this fact, one have to keep in mind three main aspects of the French taxation system. First, income taxation of savings products is a general and theoretical norm but there are many exemption to this norm : state regulated products, of course, but also bonds and obligations (owners have the choice between an income taxation and

a withholding taxation) or capital gains (with a withholding tax). In fact, dividends are the only savings products income which is clearly in the income taxation.

Second, income taxation for dividends in France is linked with a tax credit system as well as with an allowance system, and the tax table itself is applied to only half of all the households (this explains the two leaks of 2,1 % in table 1).

Third, France introduced at the beginning of the nineties a new system of taxes, a mix of social contributions, that complement the income taxation and the withholding standard taxation. Now, there are two stages in the French taxation system : the first one is this withholding social tax, the other one is the income taxation or the withholding standard taxation. Some savings products are free of taxes, others are taxed only with the social contribution, others are taxed with the social contribution and the income tax or the other withholding tax (see scheme 1).

Scheme 1. Spirit of the French taxation system of saving products

State regulated savings products		Other savings products
		Income taxation or withholding taxation
	Social contributions	

Social contributions has been extended during nineties. At the beginning of the decade, a "Contribution Sociale Généralisée" (CSG) was introduced for most of the earnings and it was extended in 1991to the savings products. The first CSG rate was 1,1 % but has increased in 1993 (2,4 %), 1997 (3,4 %) and 1998 (7,5 %). It became partly deductible of the income tax in 1997 (5,1 % are deductible). At the beginning of 1996, a "Contribution pour le Remboursement de la Dette Sociale" (CRDS) was introduced with a 0,5 % rate. In 1998, a third tax was introduced, called "Prelèvement social de 2 %". The CRDS and the "prelèvement social de 2 %" are not deductible from the income tax. On the whole, these three taxes have introduced a withholding taxation at a rate of 10 % (7,5 + 0,5 + 2) which it is applied for most of all savings products incomes .

Second, the standard withholding taxation system has also been largely modified during the nineties. A convergent decreasing of the different rates of taxation has been applied (except for life insurance assets where there was a taxation increasing), leading to a 15 % benchmark rate (i.e. 25 % with social contributions).

The income taxation of savings products has also been reformed during the decade. We will not give a detailed account of all the reforms in this note. Table 2 presents the actual marginal rates of income tax for the six income thresholds of the French system. In this system, 50 % of the savings incomes are earned by taxpayers on the last thresholds (with a marginal rate of 53,25% for the 2000 incomes). The last reform was implemented at the end of 2000 and it will changed all these rates for the 2002 incomes (see table 2.).

Table 2. Marginal rates of income taxation before and after the year 2000 reform

Income threshold (in Euro)	0	4 000	7 866	1 3845	22 418	36 476	44 983
Marginal rate in 1999 (%)	0	10,5	24	33	43	48	54
Marginal rate in 2000 (%)		8,25	21,75	31,75	41,75	47,25	53,25
Marginal rate in 2002 (%)	0	7	20,5	30,5	40,5	46,5	52,5

Source : Ministry of Finances, 2000.
Note : In the French income tax, there is a 10 % and then a 20 % allowance on income before computing the income tax.

The magnitude of information that circulates between fiscal authorities and banking system is another important feature of the French framework. During the nineties, the legal obligations of the banks have increased. In 2000, about 8000 financial establishment declare every month the withholding contributions of their customers on savings products.

b). The French taxation system per products

In order to analyses savings structure per products, one can adopt a patrimony view and observe the structure of the stock of savings. Table 3 underlines two main features : as mentioned above, French savers owns a huge part of their patrimony in state regulated products (nearly 30,1 % according the French Patrimony Survey, and the computation of the National institute for Statistics, the INSEE); on an other hand, retirement private savings represent a small part of households portfolios (7 %).

Table 3. Structure of savings products in the households patrimony (billions of Euro and %)

Liquidity	Current account	119,5	7,0%
	Term account	111,3	6,5%
State regulated products		513,4	30,1%
	Housing (1)	185,5	10,9%
	Non housing (2)	327,9	19,2%
Shares and bonds	Obligations	66,0	3,9%
	Shares	239,6	14,1%
	Others assets (3)	194,7	11,4%
Long term savings products	Life insurance	447,3	26,3%
	Retirement	11,6	0,7%
Total		1703,5	100,0%

Source : Patrimony Survey, 1998 ("Enquêtes patrimoine 1998"), INSEE, 1999.

(1) CEL and PEL

(2) Livret A ou bleu ; Codevi, Livret jeune ; LEP ; Livret d'épargne déficalisé.

(3) Including OPCVM

Liquidity

The liquidity savings products in France are mainly state regulated and these state regulated products are very liquid. This is why the share of non regulated liquid accounts in all the households liquidity products averages 13,5 % in 1998 (see table 3). The taxation rules of obligations also apply for liquidity. Owners have the choice between an income taxation of their interest (without any allowance) and a withholding taxation at a 15 % rate (25 % with social contributions). In any case, the social contribution is not deductible from income tax.

The gross return of the non regulated liquidity is usually closed to monetary market interest rate. This monetary real rate was 2,5 % in 1998, and the real return for the short term deposit was 2,9 % (4,5 % for the 5 year treasury bonds).

Income from state regulated savings product

The state regulated savings product are free of taxes in France, except the housing savings products which pay social contributions ("Compte d'Epargne Logement" and "Plan d'Epargne Logement"). On the whole, they represent more or less a third of savings products stock

Table 4. Characteristics of the state regulated savings products : an overview

Name of the product	Total amount of savings (billions of Euro) (1)	Number of assets (billions) (1)	Taxation regime	Special Condition	maximal amount of deposit (in Euro)	Nominal rate of return (2)
Livret A	109	47	None	One per head	15 245	3 %
Codevi	34,5	17	None		4 573	3 %
Livret d'épargne populaire	32	7	None	Annual income tax less than 635 Euro	6 098	4,75 %
Livret jeune	4,6	6	None	Between 12 and 25 years old	1 524,5	At least 3 %
Compte d'épargne logement	25	8	CSG + CRDS		15 245	2 % (3)
Plan d'épargne logement	164	16	CSG + CRDS		60 980	4 % (4)

(1) Source : Conseil des impôts, 1999
(2) Source : INSEE (1999)
(3) This product opens the access to a special credit, at a 3,5 % rate of interest, which the amount is depending of the cumulate deposit on the account.
(4) This product opens the access to a special credit, at a 4,6 % rate of interest, which the amount is depending of the cumulate deposit on the account.

The table 4 list of products is not exhaustive, even if it covers the larger part of this type of specific products. The "livret A" is a monopoly of the "Caisse d'épargne" ("Caisse d'épargne et de prévoyance" and "Caisse nationale d'épargne") and is a very liquid and tractable product. The "Codevi" funds are devoted to the industrial development. To hold a LEP, which is a non liquid product, one must belong to an household with a low income, and to hold a "Livret jeune", one must be under 25. The CEL is more liquid but less lucrative than a PEL.

Dividends

Taxation of dividends differs from taxation of interest or capital gains in France. The principle is to tax dividends with the household's income. The marginal rates given in table 2 are applied but there is a special tax credit, called "avoir fiscal" which is designed to avoid the double taxation mechanism. The amount of this tax credit is theoretically equal to the amount of the taxes on firms profits, before the dividends sharing. The income tax rate is applied on the dividends plus the "avoir", and one have to subtract the "avoir" to give the amount of taxes. There are 5 millions of households in France which benefits of this tax credit.

There is also an allowance system but it is reserved to resident owners of French shares. The amount of this allowance is 1 220 Euro per year for a single and 2 440 for a couple. These amounts has not been changed since 1988. The cost for public finance is 3 billions of Euro. In 2000, the allowance is suppressed when the household income is more than 91 225 Euro (for a couple) or 45 612 Euro (for a single).

Social contributions are applied on dividends without any allowance or tax credit. This taxes are partly deductible from income tax (5,1 % of the 10 % rate).

It is important to noticed also that there is a special public plan for share's owners, called Plan d'Epargne en Action, which is another state regulated savings products. In this plan, the total amount of shares has to be below 91 500 euros for a single and 182 940 for a couple. Then, it is free of taxes, but not of social contribution. The capital gains are taxed at a 32,5 % rate if the shares are owned since less than two years, at a 26 % rate between 2 and 5 years, and they are free of taxes if the shares are owned since more than five years (these figures include the social contribution). In 1998, nearly 3 millions people owned a PEA in France, for a total amount of 43 billions of Euro and an average tax credit of 262 Euros.

Bonds

Bonds owners have the choice between two taxation regime : the income taxation or a withholding taxation. In the income taxation, there is no tax credit and no allowance (it was suppressed in 1986). The withholding taxation is always effective for non resident savers and is often chosen by the richest resident savers. The rate of this withholding tax is 15 %, unchanged since 1995. In any case, the social contributions has to be applied (this gives a marginal tax rate of 25 % under the withholding tax, the social contribution is not deductible in this case).

Capital gains associate with bonds and share cession

The computation of capital gains has to include all the fees and taxes linked to the buying or selling of assets. In France, these capital gains are taxable by inclusion in the personal income tax. The tax rate is 16 % (plus 10 % of social contribution, which are not deductible). But there is a minimal threshold to be taxed, at an amount of 7 622

Euros (50 000 FF). This threshold doesn't differ for shares and bonds and it has strongly decreased in the nineties. If there is no allowance for capital gains, there is some dispensatory regime but they are of little interest in practice.

Life insurance

Before the middle of the nineties, life insurance products were tax free at the beginning of the contract (it reduced the taxable income), it gave tax gains on the return of the contract and no taxation on the transmission of capital at the end of the contract. The first tax exemption has been suppressed in 1997. The second one is now strongly depending of the contract duration. Before 4 years, an exit of a life insurance contract leads to a 35 % withholding tax (including social contribution); between 4 and 8 years, it leads to a 15 % withholding tax; after 8 years, the tax rate is 7,5 %. But there is also an allowance on these taxes (excluding social contribution) which is quite important : 4 573 Euro for a single, 9 146 Euro for a couple. With this allowance, one can sell gradually a life insurance contract without paying any taxes. The third exemption has been also suppressed : the capital at the end of the contract has to be integrated into the inheritance, except if the contractor is more than 70 years old and if the capital is less than 30 490 Euros. Beyond one million Francs (152 500 euros), there is a withholding tax at a 20 % rate.

An important exemption to these tax regimes was introduced by the former Minister of Finance, Dominique Strauss-Kahn. If the insurance life contract consist in investment in shares for half of his amount (with at least 5 % of capital assets), the contract becomes free of taxes (except of social contribution). One called this type of contracts, the DSK contracts.

Pension scheme

In France, the role of retirement savings products is played *de facto* by non retirement savings products, like life insurance contracts or state regulated products (especially "Plan d'Epargne en Action" ou "Plan d'Epargne Populaire"). This could explain why retirement products occupied such a little share of savings products in France. In the private sector, all the regimes collect 1,4 billions of Euro and they are concentrated in big firms and white collar employees. In the public sector, others regimes covers 3 % of

the eligible population. For the employers, which are less covered by public retirement regimes, 14 % are covered with pension schemes. There is an employee special scheme, called "Plan d'Epargne Entreprise" which collect 30,5 billions of Euro, but it is a collective scheme and there is no fiscal advantages at the entry in that scheme. On the whole, with 0,7 % of the patrimony stock, the private pension schemes are yet very little developed in France.

Germany

The German corporation tax is an integrated tax structure combining a split-rate system and a full tax credit. When a distribution of profits is made, the corporation tax imposed on dividends can be filly credited against the income tax to be paid by the shareholders (full imputation system).

With this year 2000 tax reform the German government has managed to launch the most ambitious tax reduction program in the history of the Federal Republic of Germany. In the period from 1998 to 2005, taxpayers will benefit substantially from net tax relief totaling more than DM 93 billion thanks to the Tax Reform 2000, the Tax Reduction Act 1999/2000/2002 adopted last year, the Family Benefits Act and other reform measures.

The Tax Reform 2000 alone will provide tax relief of DM 62.5 billion. Families, dependent employees and small and medium-sized businesses will be the main beneficiaries of the reform: around DM 33 billion of the total volume of reductions will be to the benefit of private households, and a good DM 23 billion to the benefit of SMEs.

a) Main aspects of the German taxation system

No net worth tax is imposed on individuals in Germany.

The German Bundestag has adopted the Tax Reform 2000 on 6 July 2000 based on the results of the mediation procedure achieved on 4 July 2000. On 14 July 2000, the Bundesrat also approved the Tax Reduction Act. Thus the law can now enter into force on 1 January 2001 as scheduled. Furthermore, the Bundesrat, which represents the Länder, has passed a resolution calling upon the federal government to supplement the reform by an additional law which is to provide further tax relief in particular to small and medium-sized companies.

Central elements of the Tax Reform 2000: Reduction of income tax

The 2002 stage of the Tax Relief Act 1999/2000/2002 will be brought forward by one year to 1 January 2001: The basic personal allowance will be increased from approx.

DM 12,300 in 1998 to approx. DM 14,000 in 2001. Over the same period, the basic rate of tax will fall from 25.9 per cent to 19.9 per cent. The top rate will be cut – also step-by-step – from 53 per cent in 1998 to 48.5 per cent as early as 2001.

As from 1 January 2003, the basic personal allowance will be increased to DM 14,500. The basic tax rate will be cut to 17 per cent while the top rate will be brought down to 47 per cent.

As from 1 January 2005, the basic personal allowance will be increased to DM 15,000. The basic tax rate will be reduced to 15 per cent while the top rate will be cut to 42 per cent as a result of the Bundesrat resolution. The top rate will be applied only to taxable income in excess of DM 102,000. This will help to mitigate the progressive increase in the tax rate for middle-income earners. The rate cuts will reduce the tax charge on all payers of income tax, affording the greatest relief to families and employees with low and medium incomes as well as small and medium-sized unincorporated businesses.

Net income is based on all gross earnings received during a calendar year and reduced by income related expenses for the same period for each of the above categories. Full offset of losses from one of the seven basic income categories against positive income from another income category has been limited to DM 100,000 per year for a single taxpayer and DM 200,000 per year for married couples filing jointly. In excess of these limits, in general only half of the remaining positive income can be offset by negative income from other income categories but subject to further detailed limitations.

The total income after deductions in each category represents the adjusted gross income, which may be further reduced by lump sum deductions or, within limits, by actual payments for special expenses, such as insurance payments or extraordinary burdens, to arrive at the taxable income.

Losses not offset in the year in which they occur can be carried back to the previous year up to DM 2 millions (DM 1 million as from the year 2001 onwards or alternatively carried forward) subject to restrictions.

Table 1. Tax brackets of income tax

	2001 - 2004		2005 and onwards	
	Bracket	Tax rate	Bracket	Tax rate
Single	0 - 13,499	0	0 - 14,093	0
	13,500 – 114,695	22.9% - 51.0%	14,094 - 107,567	19.9% - 48.5%
	114,696 +	51.0%	107,568 +	48.5%
Single			0 - 14,499	0
1 child			14,500 – 102,275	17.0% - 47.0%
			102,276 +	47.0%
Single			0 - 14,499	0
> 1 child			15,000 – 101,999	15.0% - 42.0%
			102,000 +	42.0%
Married	0 - 26,999	0	0 - 26,999	0
	27,000 – 229,391	22.9% - 51.0%	27,000 – 215,135	19.9% - 48.5%
	229,392 +	51.0%	215,136 +	48.5%
Married			0 - 28,999	0
1 child			29,000 – 204,551	17.0% - 47.0%
			204,552 +	47.0%
Married			0 - 28,999	0
> 1 child			30,000 – 203,999	15.0% - 42.0%
			204,000 +	42.0%

In addition, a solidarity surcharge of 5.5% is levied on the actual income tax amount.

b) The German taxation system per products

Liquidity

Interests from deposit securities are subject to income tax (at a maximum rate of 53,81%, corresponding to the upper rate of 51 % plus the solidarity surcharge of 5,5 %) and levying (31,5% normally, 36,92% if anonymous). A 6000 Dm reduction (12000 for married couple) is granted.

Interest from bonds and dividends

As a general rule, both dividends and interest are taxed with personal income tax at the ordinary tax rate. However, dividends from domestic corporations received by residents are entitled to a full imputation credit for the corporate income tax paid on distributed profits. Thus, the imputation credit amounts to 30/70 of the dividend. There is a separate imputation system in order to avoid double taxation of the solidarity levy.

As regards the taxation of dividends, the full imputation system will be applicable in 2001 for the last time. From 2002 onwards the full imputation system will be replaced by the so-called half-income system to make cross-border investment within Europe

more attractive. Under this system, only half of the distributed profits of a corporation will be included in the shareholder's personal income tax base. In return, it will be no longer necessary to credit the corporation tax paid by the company against the shareholder's income tax.

Dividend and interest income received from German or from non-German sources is taxable for German residents, in excess of DM 3,000 for single filers and DM 6,000 for married couples filing a joint return. They are subject to taxation at individual progressive rates. Up to 31 December 2001 German withholding tax on dividends (25%), on interest paid by banks (30%), and corporation tax (30%), as well as solidarity surcharge (5.5%), are credited against the personal tax liability. Foreign tax may also be credited.

After 31 December 2001 only half of dividend income is taxable and corporate tax will not be credited any more. Only 50% of foreign tax will be credited then.

Capital gains associate with bonds and share cession

Capital gains on the sale of shares held as a portfolio investment (the shareholding must not exceed 25%) are taxed at the ordinary personal income tax rate if the sale occurs within six months of the acquisition of the shares sold. Capital gains on the sale of shares (portfolio investment) that are sold after the six-month holding period are tax exempt.

The change in the system will be facilitated by transitional arrangements that are practicable as well as financially sustainable for both business and public finances. Capital gains from the sale of shareholdings between corporations will generally be exempted from tax. In order to prevent abuse, however, various restrictions will be imposed, among them a minimum holding period of one year. The new rules will enter into effect as from the 2002 tax year.

Private shareholders will be able to sell their stakes in corporations after a minimum holding period of one year without paying tax as before, unless they have a substantial interest. However, the threshold for what constitutes a substantial interest will be reduced from 10 % to 1 % as from the 2002 tax year. If the sale is subject to tax, i.e.

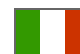
when shares are sold within the one-year holding period or represent a substantial interest the half-income method will apply from 2002 onwards.

After 31 December 2001 only 50% of short-term capital gains are taxable.

Life insurance

If each retired people can benefit from a maximum tax reduction of 3915 DM on the returns of the contract, 2/3 of the inherited capital is subject to taxation. Whether the pension contract ends in a payment of the capitalized rights as a whole or in annuities for more than 12 years, the pension recipient will have to settle a tax, applied at a rate decreasing with his or her age, or not.

Italy



The Italian fiscal system is very complex. Several hundred different taxes, duties, fiscal burdens and formalities pester taxpayers. In the last years, major tax reforms have been announced by the different Governments which followed each other, without significant progress.

Italy has a system of direct taxes and indirect taxes. The direct taxes are IRPEF (income tax on individuals), IRPEG (income tax on legal entities) and ILOR (income tax imposed by the national government for distribution to the local governmental entities). Direct taxation is currently governed by the Testo Unico (Consolidated Text) which became effective on January 1, 1988. The Testo Unico has been amended from time to time and modifications are normally introduced annually as part of fiscal budget related legislation.

a). Main aspects of the Italian taxation system

The Italian tax system is an imputation system. Under this system the corporate income profits are fully subject to corporate income tax (37%), and a tax credit of 58.73% of the net dividend is available for the shareholder. In principle, this tax credit would result in a full imputation of the 37% corporate income tax. However, as discussed below, the tax credit results in an imputation of less than 37% due to the levy of a local business income (IRAP), which reduces the net dividend to which the 58.73% tax credit applies.

Income tax

The main form of income taxation in Italy is IRPEF (Imposta sul Reddito delle Persone Fisiche – Tax on personal income), which is a progressive taxation. It takes into account different sources of income as well as family composition. In computing taxation the relevant income is the personal and not the household income, but if a person has dependent spouse or dependent children (or other members of the household) there is a precise amount that can be deducted from the due taxation, according to the number of dependent persons in the household. The total taxable income is given by the sum of employed and self-employed income, real asset income, transfers income, less those

expenditures that can be deducted. Income from financial assets is taxed separately. Real asset income is any rent received by the person out of owned house, but as well a figurative income coming from any real estate even if the household do not receive any monetary income from it. There is an amount (the maximum deductible amount, before the reform, equals to 1,8 million of lire) which can be deducted out of this income for the owned house where the household lives. Then the appropriate rates of taxation are applied to the taxable income. Finally there are the amounts that can be deducted from the resulting tax: those coming from dependent persons in the household, those applied if income comes from compensation of employees or social security pensions, those applied if income comes from self employed income.

In the past years, Italian households suffered from a heavy fiscal pressure in order to bring public finances under control and to respect the Maastricht criteria. The Italian public finances are now getting better and households ask for the reimbursement of a considerable tax bonus. The basic approach consists on a reduction of personal taxation without changing the personal tax structure. The object of this reform is to stimulate household's consumption through an expansionary fiscal package. The income tax measures will be applicable to all persons that receive income subject to IRPEF. All Italian regions are involved. The budget bill, recently approved by the Senate and the Chamber of Deputies, contains the following income tax measures:

1) a reduced tax rate for all income brackets and an increase of first income bracket with the lowest tax rate:

Current regime (millions of lire)	tax rate (%)
0-15	18,5
15-30	25,5
30-60	33,5
60-135	39,5
+ 135	45,5
After the reform (millions of lire)	tax rate (%)
0-20	18
20-30	22
30-60	32
60-135	38
+ 135	44

2) Total exemption for the first house income. Before this reform the limit was 1,8 million of lire. Now nobody pays tax on income for the owned house where he lives.

3) An increase in the amount of tax credit for dependent persons in the household for those perceivers whose total taxable income is not greater than 100 millions of lire.

4) An increase in the amount of tax credits for employed and self-employed income. Due to this increase, employed income until 12 millions of lire and self-employed income until 6 millions of lire do not pay taxes.

5) An increase in the amount of tax credits for those persons with low income who pay a rent for the house where they live.

The beginning of the reform is 2001 fiscal year ; the reform is to be achieved by 2003. This tax reform is supposed to be permanent.

b) The Italian taxation system per products

Liquidity

A 27% tax applies to interest received from bank issued deposit securities.

Bonds (withholding tax)

In principle, interest income is subject to personal income tax. The tax rate varies, depending on the source of income (e.g. interest on bank accounts: 27%; interest from bonds: 27% or 12,5% depending on the maturity date of the bonds). Interest paid by corporations, including interest paid to their shareholders, is taxed at the ordinary rate.

Dividends (withholding tax)

Dividends received are taxed in the hands of the private individual shareholders. However, as mentioned above, shareholders are entitled to a tax credit of 58.73% of the net dividend received. Due to the levy of IRAP, which comes on top of the 37% corporate income tax and which reduces the net dividend by an additional 4.25%, the 58.73% tax credit does not fully impute the underlying 37% corporate income tax. In

principle, the tax credit of 58.73% also applies to dividends that originate from profits that have been taxed with the Dual Income Tax rate of 27% (minimum combined rate). There is a difference however, with respect to the refund and carry forward of an excess tax credit.

With effect from July 1, 1998, a final withholding tax on dividends of 12.5% may apply to dividends that are distributed to private individual portfolio shareholders. This regime is optional and only favors shareholders who–as we assume in the following chapters of study–are taxed at the top marginal income tax rate of 46%. The benefit for these shareholders is a reduction of the overall tax burden on the dividends of about 1% (from 49.61% to 48.59% in a standard situation). The final withholding tax of 12.5% is also available for DIT-dividends.

Capital gains associate with bonds and share cession

The capital gain is considered to be a "business income" and is therefore taxed on the same way. Capital gains on portfolio investment shares are 12,5 % taxed. if the shares represent less than 2% of the voting rights (or less than 5% of the outstanding shares) with respect to listed companies, and less than 20% of the voting rights (or less than 25% of the outstanding shares) for non-listed companies. Two specific regimes may be applicable to capital gains on the sale of shares, of which one has a slightly different tax base (same tax rate of 12,5%).

Life insurance

Premiums can benefit a maximum of 475 000 L reduction. Every contract has to last a minimum of 10 years. For an annuities system, the recipient has to settle a regular income tax after a 40% allowance. In the case of a global payment, the capital is subject to a 12,5% levy rate. Inheritance of the capital is subject to tax too, except for a life insurance capital subscribed for the benefice of a designated beneficiary.

Luxembourg

The Luxembourg tax system is basically considered to be a classical system. Profits realised by the company are fully subject to corporate income tax, and dividend distributions are not deductible. Double taxation of corporate income tax and personal income tax is mitigated, however, by the exemption method: 50% of the distributed dividends are tax exempt at the level of the shareholder.

a). Main aspects of the Luxembourg taxation system

Income tax

Taxable income is based on the difference between payments received during a calendar year and expenses necessary to obtain such an income for the same period. A loss in one category of income can be offset against other income received in the same calendar year.

The total net income in these categories represents the adjusted gross income, which may be further reduced by lump-sum deductions or, within limits, by actual payments for private expenses relating to the welfare of the taxpayer and his/her family or certain extraordinary expenses, so as to determine the taxpayer's taxable income.

Personal income tax is levied at a progressive rate with a top marginal rate of 47.15%, which includes a 2.5% surcharge for the unemployment fund.

As far as residents are concerned, Income Tax will be determined in 2001 on the basis of a progressive rate, ranging from 6% on taxable income in excess of 390,000 LUF up to 46% on income in excess of 1,356,000 LUF. An additional 2,5% of the tax payable is added as a contribution to the unemployment fund.

2000			2001			2002		
Income Bracket		Tax rate	Income Bracket		Tax rate	Income Bracket		Tax rate
0	270.000	0%						
270.000	354.000	6%	0	390.000	0%	0	390.000	0%
354.000	423.000	16%	390.000	459.000	14%	390.000	459.000	10%
423.000	492.000	18%	459.000	528.000	16%	459.000	528.000	12%
492.000	561.000	20%	528.000	597.000	18%	528.000	597.000	14%
561.000	630.000	22%	597.000	666.000	20%	597.000	666.000	16%
630.000	699.000	24%	666.000	735.000	22%	666.000	735.000	18%
699.000	768.000	26%	735.000	804.000	24%	735.000	804.000	20%
768.000	837.000	28%	804.000	873.000	26%	804.000	873.000	22%
837.000	906.000	30%	873.000	942.000	28%	873.000	942.000	24%
906.000	975.000	32%	942.000	1.011.000	30%	942.000	1.011.000	26%
975.000	1.044.000	34%	1.011.000	1.080.000	32%	1.011.000	1.080.000	28%
1.044.000	1.113.000	36%	1.080.000	1.149.000	34%	1.080.000	1.149.000	30%
1.113.000	1.182.000	38%	1.149.000	1.218.000	36%	1.149.000	1.218.000	32%
1.182.000	1.251.000	40%	1.218.000	1.287.000	38%	1.218.000	1.287.000	34%
1.251.000	1.320.000	42%	1.287.000	1.356.000	40%	1.287.000	1.356.000	36%
1.320.000	2.640.000	44%	1.356.000		42%	1.356.000		38%
2.640.000		46%						

If accepted as tax-free foreign source earnings, the split portion of the employee's salary will be taken into account under most tax treaties when determining the rate of tax to be applied to the income taxable in Luxembourg.

Single non resident earning professional income in Luxembourg fall into the same tax class as single residents. Married non resident taxpayers who are not separated are, on request, put on class 2 (generally the tax class for non separated spouses) if they are taxable in Luxembourg for more than 50% of the professional income of their household. If both spouses gain professional income taxable in Luxembourg, the request for the application of tax class 2 leads to a combined assessment, i.e., the same procedure that applies to married resident taxpayers.

Non separated married nonresident taxpayers who do not comply with the above condition are put into the higher intermediary tax class 1a. In certain cases nonresidents, like residents, benefit from a favorable income tax rate if they receive income that qualifies as extraordinary income. In such case, tax rates will depend on the personal situation of the taxpayer but may not exceed 25%.

- Resident individuals are subject to a 0.5% net worth tax on the fair market value of the assets minus the liabilities (including participation).[1] Net worth tax cannot be deducted from the personal income tax.

- Owners of immovable property are subject to a real estate tax on a lump sum value which represents more or less 10% of the real value. The tax rate is a combined rate, which for instance for Luxembourg-city results in a tax rate of 0.75%. Real estate tax is deductible from the corporate income tax base.

b). The Luxembourg taxation system per products

Liquidity

These securities are subject to the marginal income tax rate, after a 60 000 FL deduction. A 1% social contribution is also taken upon the net income.

Dividends

As a general rule, dividends are taxed with personal income tax at the ordinary tax rate. However, a 50% exemption applies to dividends from companies that are resident in Luxembourg and that are subject to corporate income tax (at a 47,15% marginal rate) after a 60 000 FL reduction. A 25% levy (33,33% if the payer pays the tax) is applied on dividends distributed by firms subject to tax. A 1% social contribution is also taken upon the tax net value of the dividends.

Bonds

Interest income is generally taxable at the ordinary personal income tax rate. Capital gains on the sale of shares held as a portfolio investment[2] are taxed at the ordinary personal income tax rate if the sale occurs within six months from the acquisition of the shares sold. Capital gains on shares (portfolio investment) that are sold after the six-month holding period are tax exempt.

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1 Buildings are valued differently.
2 I.e. less than 25%.

Capital gains associate with bonds and share cession

Under the condition of a 6 months holding, gains are tax exempted. If the securities is ceased before 6 months, the gain is subject to the income tax rate. If the gain exceeds 25% of the bond or the share, after a FL 2 millions reduction, the tax rate applied is equal to half of the average rate.

Life insurance

A maximum 27 000 FL reduction is granted to premium for each person in a couple. Capital is to be held at least 10 years. Annuities are subject to income tax. In the case of a global payment of the capital, the plus-value is subject to income tax too, as well as inherited capital is.

Netherlands

The Netherlands have a relatively small-scale, and therefore, very open economy. The tax system is said not to hinder the international expansion of business, and it makes the Netherlands an attractive location for businesses which operate on an international scale. Examples are the tax treatment of business profits, the participation exemption, the absence of withholding taxes (except for dividend tax) and the large number of tax conventions to which the Netherlands is a signatory.

a) Main aspects of the Dutch taxation system

The Minister and the State Secretary are responsible for budgetary, monetary, and tax policies. The State Secretary is specifically responsible for tax policy. Four Directorates-General are responsible for these policies, with the following division of duties:

1. The Treasury is responsible for monetary policy ;
2. The Directorate-General for the Budget is responsible for budgetary policy ;
3. The Directorate-General for Tax and Customs Policy and Legislation is responsible for tax policy and legislation ;
4. The Directorate-General for the Tax and Customs Administration is responsible for the implementation of tax policy, and for the actual levying and collection of taxes.

In September 1999, draft legislation for the new Income Tax Act 2001 was submitted to the Lower House of the Dutch Parliament together with draft legislation governing its implementation. These bills represent the core of a major revision of the Dutch taxation system known as "the Revision of Taxation 2001 process". Both bills were accepted by the Lower House of the Dutch Parliament on 3 February 2000 and have now been sent to the Upper House which can either accept or reject them. The Revision of Taxation 2001 process is based on the government's coalition agreement and is further to the policy document "Taxation in the twenty-first century: an investigation". The proposed legislation is supposed to create a consistent and robust taxation system with a broader base and lower rates. The objectives of this revision of the taxation system include:

- Stimulation of employment opportunity, and strengthening of the Netherlands' economic structure and international competitive edge

- Reduction of the burden of taxation on labor

- Promotion of sustainable economic development

- Creation of a balanced and just burden of taxation

- Broadening and strengthening of the taxation base, through reduced and amended deductions

- Promotion of emancipation and economic independence

- Simplification of the taxation system in order to stimulate the economy and employment opportunity, the basic rates of taxation are to be lowered. Work will be made more attractive by the introduction of an "employment rebate": those people in paid employment will enjoy a tax advantage in the form of a fixed non-taxable deduction. The reduction in taxation on labor is to be financed by reductions in total collective expenditure and by increases in indirect taxes, such as btw (Value Added Tax) and environmental levies. By lowering the taxation on income from employment, together with a shift from direct to indirect taxation, the Netherlands' economic structure and its international competitive edge will be strengthened. Greater emphasis on environmental levies (such as those on energy consumption) will make a significant contribution towards achieving sustainable economic development. A well-balanced system of taxation will ensure stable tax revenues. In other words, the amount raised in taxes each year will remain reasonably constant. Under the current system, the total amount on which tax is levied (the "basis for assessment") is somewhat less stable. For example, certain constructions exist whereby taxable income such as interest and dividends can be "converted" into non-taxable capital gains. The new system will restrict the scope and effect of such constructions. In designing the new taxation system, the basic requirement was seen to be a more simple system which can be incorporated into the existing fiscal structure. The new arrangements must improve the operational efficiency and cost effectiveness of the collection system. It is intended that the new Income Tax Act 2001 will come into effect on 1 January 2001.

The « Box » system

The current income tax system is based on just one taxable income. This taxable income is made up of all the income that you receive in a year, such as your salary or social security payments, interest, the notional rental value of your own home, etc. Various deductions can then be made to arrive at your taxable income. These include mortgage interest relief, and certain exceptional expenses. Under the new system, you will have not one, but three taxable incomes, each of which falls into a «box». Each box has its own tax rate:

. Box 1: taxable income from work and home ownership (progressive rate)

. Box 2: taxable income from a substantial (business) interest (fixed rate of 25%)

. Box 3: taxable income from savings and investments (fixed rate of 30%)

Each form of income is taxed in one box only: there can never be double taxation. If the income in a box is negative, this can not be set off against a positive income in one of the other boxes. However, it is possible to set the negative amount off against a positive income in the same box in past or future years.

Taxable income from employment and home ownership: sliding scale rising to 52%

Taxable income from employment and home ownership comprises:

• wages, salary, social security payments, pension, etc.

• the property you use as your principal residence

('fixed rentable value' minus mortgage interest)

• gains from other activities

• gains from self-employment

• periodic receipts and payments (such as alimony)

• negative expenses relating to income provisions (e.g. refunds of life assurance or annuity premiums)

The taxable income is subject to deductions for:

• expenses relating to income provisions (e.g. life assurance premiums)

• childcare expenses

• individual allowances

• allowable losses from employment and home ownership

Table 1 : Taxable income from employment and home ownership

			% incl. Social security premiums*	
More than	Less than	%	Under 65	Over 65
—	NLG 31,652 or E 14,363	3%	32.55%	14.65%
NLG 31,652 or E 14,363	NLG 58,381 or E 26,492	7.30%	36.85%	18.95%
NLG 58,381 or E 26,492	NLG 99,460 or E 45,133	42%	42%	42%
NLG 99,460 or E 45,133	—	52%	52%	52%

* Based on 1999 figures

Taxable income from a substantial (business) interest : 25%

In general, a 'substantial business interest' refers to a shareholding of at least 5% in a private limited company (BV) or public limited company (NV) but may include other forms of holding.

Income from a substantial interest is taxable, but is subject to deductions for allowable losses arising from that interest.

Taxable income from savings and investments : 30%

The fixed assumed yield has been established at 4% per annum. This amount is taxed at the rate of 30%. The assumed yield is calculated according to the average economic value of capital and assets, minus outstanding debts in any one year (to arrive at the 'yield assessment base').

Capital and assets include:

• shares and savings deposits

• land and property (other than the principal residence)

• other (moveable) property not in personal use

The current “wealth tax” (vermogensbelasting) is abolished.

b) The Dutch taxation system per products

Table 2 - Structure of Dutch saving

Savings (billion dfl)	1999	2000
Savings deposits at beginning of period	269,3	293,7
Savings deposits at end of period	287,2	293,6
Of which in :		
Savings accounts	245,3	232,7
Deposits with savings handling	41,9	60,9
Number of accounts (mln)	25,1	25,3
Savings (in dfl) per :		
Account	11 461	11 611
Capita	18 066	18 466

Source : Statistics Netherlands, 1999

Employee savings and profit-sharing schemes

Employers and employees may agree to set up employee savings schemes in which a certain maximum amount of the salary is exempt from tax and social security contributions. Employers in the private sector can set up profit-sharing schemes to provide a tax advantage for both employers and employees.

Profit-sharing / share option scheme

The employee may receive a profit share of maximum dfl 1,706 tax free. The employer pays 20% wage tax, unless the amount is deposited in a savings account in the name of the employee, in which case it is fiscally considered as a salary saving. Instead of bonus, the employer may grant a option on shares in the company. This option is also tax free to the limit of dfl 1,706.

Employee savings schemes

Since 1 January 1994 new rules apply which exempt employers from paying tax and social security contributions on each employee's salary to a maximum of nlg 2,894. This is applicable to salaries based on: - premium savings schemes, or - salary savings schemes (including blocked profit-sharing schemes and share option schemes in the private sector).

- Premium savings schemes

In premium savings schemes the employer withholds an agreed amount from the employee's net salary and deposits this in a premium savings account. The employer can then award the employee a savings premium of up to 100% of the amount withheld, to a maximum of nlg 1,158. Under certain conditions no tax and social security contributions need to be paid on this savings premium. This scheme also includes the condition that the money remains in deposit for at least four years, and that premature withdrawals are permitted only under certain circumstances.

- Salary savings scheme

In salary savings schemes the employer withholds an agreed amount not exceeding nlg 1,736 of the employee's gross salary and deposits this in a savings account blocked for at least four years. When the sum is paid out it is not liable to tax or social security contributions. However, the employer is required to pay 10% salaries tax on the exempted amount. Under certain conditions premature withdrawals are permitted. The employer pays 10% wage tax on the amount deposited.

Table 3 : Corporate employee savings facilities

	1994	1995	1996	1997	1998
Changes in employee savings accounts (million dfl)					
Savings deposits at beginning of year	.	2,271	6,081	9,134	11,758
Deposits	.	4,520	4,163	4,607	4,679
Unblocked	.	863	1,339	2,306	1,797
Repayment					888
Added interest	.	153	229	257	300
Net deposits (Savings)	2,271	3,810	3,053	2,558	2,295
Savings deposits at end of year	2,271	6,081	9,134	11,692	14,053
Of which:					
Salary savings scheme	.	3,655	6,013	8,072	9,455
Premium savings scheme	.	2,225	2,914	3,407	3,407
Profit-sharing / share option // scheme	.	201	207	214	209
Number of accounts x 1,000 Total	1,944	2,727	3,215	3,690	4,066
Of which:					
Salary savings scheme	.	1,720	2,230	2,641	2,641
Premium savings scheme	.	873	901	970	1,111
Profit-sharing / share option scheme	.	133	84	79	68
Maximum savings amount					
Salary savings scheme	1,541	1,580	1,615	1,638	1,670
Premium savings scheme	1,027	1,053	1,077	1,093	1,114
Profit-sharing scheme	1,541	1,580	1,615	1,638	1,670
Share option scheme	1,541	1,580	1,615	1,638	1,670

The figures are based on annual reports from all banks in the Netherlands. There are no exact figures about these kind of savings schemes at life insurance companies. In 1995, around 250 thousand accounts were opened with life insurance companies. This was about 8% of the total market.

The existing rules applying to employee savings schemes and premium savings schemes will be maintained under the new system at nlg 1,736 (E 788) for employee savings schemes and nlg 1,158 (E 525) for premium savings schemes. The possibility of withdrawing employee savings scheme deposits tax-free within four years is to be extended. This will allow you to withdraw employee savings schemes deposits tax-free for the purposes of starting your own business, to finance a sabbatical or a course of study.

Net income from capital

Net income from capital is comprised of all income from movable and immovable property and rights not related to goods. Only the yield from property and rights is taxable; the increase in the value of the assets is exempted. There is no capital gains tax

in the Netherlands. Income from capital includes income from life annuities and other periodic payments resulting from either a lump-sum payment or the payment of premiums. These payments are liable to tax over the amount that the payments and the payments received in the past exceed the total premiums or lump sum paid under the policy.

Interest and dividends received by private investors from designated credit or investment institutions which mainly participate in environmental projects are exempt from income tax. Income from stocks and shares includes cash dividends, stock dividends and bonuses. The final payment to the shareholder following the liquidation of a corporation is regarded as a dividend if it exceeds the average amount paid on the shares concerned. Notional dividends from foreign investment corporations and funds are income from assets, and are taxed accordingly. In principle the income from the latter is set at 6% of the market value of the shares.

The corporation paying the dividend withholds dividend tax at a rate of 25% and pays the tax to the Tax Department. Shareholders are liable for income tax on the gross dividend they receive. An amount of this dividend is exempted from income tax, nlg 1,000 for single persons and nlg 2,000 for married persons. For non-residents the dividend tax levied on a dividend is in principle a final levy. Tax conventions generally provide for a lower rate than the 25% mentioned above.

Capital gains associate with bonds and share cession

Income, including capital gains or losses, from a substantial holding in a corporation is subject to income tax and is taxed at a rate of 25% insofar as this income exceeds the first two tax brackets. A taxpayer is regarded as having a substantial holding in a corporation if he or she, either alone or with his or her spouse, holds directly or indirectly 5% of the issued capital. If the corporation has issued different classes of shares, a substantial holding also exists if the taxpayer, either alone or with his or her spouse, holds more than 5% of the issued capital of a particular class of shares. If the taxpayer holds a substantial interest in a corporation, jouissance rights and debt-claims issued by that corporation and held directly or indirectly by the taxpayer, either alone or with his or her spouse, are regarded as forming part of the substantial holding.

Interest derived from debt-claims forming part of a substantial holding is taxed at the normal rate of income tax. Dividends and capital gains derived from the alienation of shares or from the redemption of debt- claims are taxed at a proportional rate of 25% in the income tax, insofar as this income exceeds the first two tax brackets. In case of a capital loss 25% of that loss may be offset against the tax which would otherwise be due. For this purpose an arrangement similar to that for the offsetting of losses is applicable. In case of emigration of the taxpayer the substantial holding is deemed to be alienated. However, the tax due will not be collected as long as the substantial holding is not disposed of. After the elapse of 10 years the remainder of the tax levied because of the deemed alienation at the time of emigration, is pardoned.

For non-residents the income from the substantial holding is only subject to tax in case of a substantial holding in a corporation which is a resident in the Netherlands. With respect to non-residents a corporation is also deemed to be a resident of the Netherlands if it was resident in the Netherlands for at least five years during the last ten years. With respect to non-residents the substantial holding is deemed to have been alienated in case of the transfer of the place of effective management of the corporation from the Netherlands to elsewhere.

Life insurance

Three taxes on legal transactions are levied in the Netherlands: these are transfer tax, insurance tax and capital duty. Transfer tax is levied on the acquisition of property located in the Netherlands. The rate is 6% of the market value of the property. Insurance tax is levied on insurance premiums at a rate of 7%. The following types of insurance are exempted from insurance tax : life insurance, accident insurance, invalidity insurance, disablement insurance, medical insurance, unemployment insurance and transport insurance. Capital duty is levied when capital is contributed to companies located in the Netherlands when the capital is comprised of shares. The rate is 0.9% and the tax due is calculated on the value contributed (assets less liabilities), or on the nominal value of the shares, whichever is higher. In certain circumstances an exemption is made for mergers or reorganizations.

Not all life assurance premiums are deductible. Life assurance premiums on policies related to life-time annuities for disabled children and grandchildren (over the age of majority) and on periodical payments and benefits relating to disability, illness or accident will continue to be deductible. Deduction of premiums for a terminable retirement annuity, a surviving dependent's annuity and a bridging annuity is restricted to a basic deduction of no more than nlg 2,204 (E 1,000) and only in the event of a demonstrable pension provision shortfall. The maximum amount applies to individuals only and is not transferable.

Alongside your aow and any other pension provisions made, the new tax system allows you to build up a pension provision of 70% of your final salary at 65. Within these limits, there is scope for deducting premiums for a terminable retirement annuity, surviving dependent's annuity and a bridging annuity.

The extra scope for tax deductible premiums on individual pension provisions is made up of an annual margin and a reserve regulation. The annual margin gives you the opportunity to compensate the pension shortfall in the actual year in question, while the reserve regulation compensates the pension shortfalls which have arisen if you have failed to take full advantage of the annual margin in previous years.

The amount of your annual margin and reserve regulation is worked out on the basis of your premium calculation base, up to a maximum of nlg 282,609 (E 128,242). This premium calculation is made up of the sum of the following income elements:

. profit from business activities

. taxable income

. taxable gains from other employment

. taxable periodical payments and benefits

less the aow (state pension) threshold of nlg 21,062 (E 9,558). This threshold is applied because the amount of your state pension has to be taken into account when your pension is calculated.

Premiums for life assurance policies to make up a pension shortfall in the year in question are deductible up to the annual margin. To qualify for the annual margin, you must be under 65 on 1 January of the year in question. The annual margin is 17% of your premium calculation base less the amount that you have already built up in that year in respect of your professional pension and fiscal old-age reserve (a fiscal arrangement for the self-employed).

In order to make up previous pension shortfalls, there is the option to make up the annual margin that has not been used (reserve regulation). The maximum reserve regulation available is 17% of your premium calculation base up to a maximum of nlg 12,149 (E 5,513). The maximum amount for tax payers aged over 55 at the start of the calendar year is nlg 24,001 (E 10,891).

The reserve regulation means that if you have deducted less premiums in one year than the annual margin amount allowed for that year, you can still use the non-deducted amount at a later stage. The non-deducted annual margin can be reserved for a maximum of 7 years.

Portugal

Until the mid 1980s Portugal had an archaic taxation system, reflecting its overall poor economic development. Portugal's entry into the European Common Market in 1986 led to major reforms on indirect taxation, in particular with the introduction of the Value-Added Tax. In 1989 there was another major reform, redesigning direct taxes. This reform created with a tax on household income (the IRS) and a tax on the income of firms (the IRC). These taxes replaced a set of schedular taxes on labor income, capital gains, capital income, commercial firm income, industrial firm income, etc.

Since 1989 there have been many changes in the income tax legislation but no fundamental systemic change. Major changes were the 1999 change of the personal income tax from taxable income deductions to tax liability credits for most types of tax benefits and the 2000 change that substantially increases the taxation of capital gains.

Unfortunately, any analysis of the tax treatment of savings in Portugal is bound to be incomplete because there is a lack of statistical data, both concerning the households and how they behave and allocate their assets across savings instruments and also concerning the tax revenues raised from taxing savings and the fiscal expenditures generated by the many situations of tax benefits to savings. For that reason this explanation will concentrate mostly on the tax rules now in place and little on quantifying the current state of affairs in the area of savings taxation.

a) Savings and the Main aspects of the Portuguese taxation system

Historically the Portuguese savings rate used to be one of the highest in Europe. However, it has been on a downward trend. The most recent aggregate figures available are displayed on Table 1.

Table 1 - Savings Rates in Portugal

Type of Savings	1994	1995	1996	1997	1998	1999
Aggregate savings rate, % of GDP	20.4	20.1	20.4	19.5	19.1	17.8
Private savings rate, % of GDP	23.3	22.5	20.1	18.4	17.6	16.0
- Household savings rate, % of Disposable Income	14.4	9.7	10.3	12.7	11.9	9.6
- Corporate savings rate, % of GDP	12.4	15.4	12.6	8.8	8.2	5.7

Source Bank of Portugal, Annual Reports (1996), (1997), (1998) and (1999).

The downward trend has recently became a matter for national concern. Since the late 1990s the low rate of household saving has been acknowledged as a major policy problem and there is a perception that for the first time in recent history there is a serious problem with the degree of indebtedness of the households.

However, since the 1989 reform the Portuguese system of income taxation tries to apply the basic precepts of taxation of income using as guide the Haig-Simons income concept of income as accrual of wealth. That leads to the general rule that savings returns must be taxed. In practice there are numerous tax benefits to many savings instruments, in particular to those products that were created by tax law.

The Portuguese tax system relies extensively on withholding taxes at final or dispensatory rates when it comes to savings. Interest from deposits is subject to a withholding tax at a rate of 20%. The autonomous taxation is not mandatory. In theory, taxpayers in brackets with marginal tax rates under 20% are free to include the interest in their taxable income declared on the annual tax return and to also include the withholding tax so as to get credit for that payment. In practice that almost never happens, either because taxpayers ignore that possibility or because taxpayers are happy to minimize income declared in their tax returns even when it is presumably not to their advantage.[3]

The interest from Bonds is also taxed at a withholding dispensatory rate of 20%. In principle, unless otherwise mentioned the same 20% final withholding rate applies to any interest income going to non-residents.

[3] There are governmental benefits that are subject to means testing based on income tax returns such as University tuition or the minimum guaranteed income, so it may be rational to avoid inclusion of interest income in one's tax return.

The major tax affecting savings products, i.e. taxes relevant at the household level is the ***Personal Income Tax (IRS)*** that is levied on the yearly amount of income. There are no allowances or deductions for income from savings, exceptions being the case of pensions and a recently introduced allowance for capital-gains.

Other taxes may also be relevant depending on the specific savings instrument we look at. For example, the **Substitute Gift and Inheritance Tax** applies to income from securities such as dividends from shares. The tax rate is equal to 5% of the interest or dividends.

One piece of legislation that is particularly important is the ***Statute of Tax Benefits***. The statute is part of the 1989 reform of direct taxation and it created most of the tax preferences now in place.

Two substantial revisions of the Personal Income tax took place in the years 1999-2000. The first was that many tax benefits to savings instruments that took the form of a deduction against taxable income were turned into credits against tax liability. The second revision decreased slightly marginal tax rates applied to taxable income but it increased taxation on some savings instruments, in particular those whose returns come mostly in the form of capital gains.

Table 2 presents the actual marginal rates of income tax for the income brackets of the Portuguese system.

Table 2. Marginal rates of income taxation before and after the year 2000 reform

Lower Limit of Taxable Income Bracket *(in Euros) 2000*	0	3641	5731	14166	32826	-
Marginal rate in 2000 (%)	14	15	25	35	40	-
Lower Limit of Taxable Income Bracket *(in Euros) 2001*	0	3990	6035	14964	34417	49880
Marginal rate in 2001 (%)	12	14	24	34	38	40

Source : Ministry of Finance, Government Budget for 2000 and Government Budget for 2001.
Note : In the Portuguese income tax there are deductions for different sources of income such as earnings and pensions. Taxable income is in excess of these deductions.

The relationship between Banks and financial intermediaries and the Tax System is about to increase. Up until the end of 2000 banks were mostly responsible for the withholding final taxation of interest on deposits, a task that was relatively simple given

its dispensatory nature of taxation and the fact that the rate was the same for all taxpayers. However, the Government now wants to use bank information to fight tax evasion and so it has weakened banking secrecy laws so as to make banking information available to tax administration officials.

b) The Portuguese taxation system and some representative products

We have limited information concerning the way Portuguese households allocate their wealth. Table 3 presents some results that although outdated are still the only information available. The Table shows that financial assets are only 21% of the average household net wealth, and that 66% of these assets were bank deposits. This means that less than 5.6% of the households net wealth were in financial instruments other than bank deposits or cash.

Table 3. Structure of savings products in the households patrimony

Category	Assets	Mean (in Euros)	% of Financial Assets	% Households with Positive Assets
Liquidity	Money and Demand Deposits	885	7,9%	52.4%
	Other Deposits including Time Deposits	7340	65,6%	31.2%
Shares and Bonds	Bonds	145	1,3%	0.9%
	Shares and Participations	675	6,0%	1.7%
	Others assets	2146	19,2%	2.6%
Financial Assets		11192	100%	59.8%
Net Worth		53212	475,4%	87.8%

Source : Patrimony Survey, 1995 , INE, reported in Dias (1996).. *Totals in Euros at 1996 prices.*

Presumably this state of affairs has changed in more recent years. The share of non-deposit financial assets has been growing because the interest rates on bank deposits have been quite low by historical standards.

Demand and Time Deposits

Bank deposits constitute a very large share of the financial assets owned by Portuguese households. The total amount of assets in demand deposits by December 2000 was 21906 million Euros, almost 21% of GDP and the total amount of time deposits was 31463 million Euros, about 30% of GDP.

Time deposits were traditionally the primordial savings instruments for the great majority of households. Only recently did alternatives such as investment funds, life insurance, shares and bonds began to increase their importance. The interest rate on demand deposits is zero in some banks and under 1% in others. Time deposits have slightly higher nominal interest rates, leaving the real gross return rate close to zero. All interest from bank deposits is subject to a 20% withholding and dispensatory tax rate with only a few exceptions. There are no allowances or deductions for interest income.

Interest rates on time deposits in the period 1998-2000 have been in the 1,5%-2,5% range, close to but below the rate of inflation. By comparison treasury bills had a 3.4% nominal return in 1999. This has lead to a decrease in importance of bank deposits and a transfer of savings to other types of assets.

Savings Certificates

One traditional vehicle for household savings are Savings Certificates (Certificados de Aforro), which are basically Public Debt instruments that do not pay interest, are unlimited in time and accrue compound interest at an interest rate that changes over time and that is, in principle, determined by the financial market conditions. Savings Certificates are sold in small denominations (500 Escudos, 2.49 Euros) and they can be purchased in places like the Post Office. They are very liquid as they are redeemable at short notice in the same places where they are sold. Interest pays a 20% tax but all information transmitted to the investor focuses on after-tax returns. There is a 50 million Escudos (249394 Euros) upper limit on the denomination amount of certificates that a single person can hold at any point in time. The net rates of return on savings certificates for the last three years have averaged 3,4%. As for total assets involved, during the year 2000 the new issues totaled 2372 million Euros (2,3% of estimated GDP), redemptions were 1196 million Euros (1,1% of GDP) and the stock of outstanding Savings Certificates was 13672 million Euros (13% of GDP).

Income from Savings vehicles Created by Tax Law

Since the 1989 reform, tax law and the Statute of Fiscal Benefits in particular, has defined savings instruments that are the target of specific benefits. The following table is not exhaustive but it includes the most important cases.

Table 4. Characteristics of savings instruments created by tax law

Name of the product	*Taxation regime*	*Rate*	*Maximal amount of tax credit in year 2001*	*Maximal amount of deposit*
Retirement Savings Plan PPR	Tax Credit	25%	560 Euros per taxpayer	n.a.
Housing Savings Plan	Tax Credit	25%	549 Euros per household	n.a.
Shares Savings Plan PPA	Tax Credit	7,5%	196 Euros per taxpayer	n.a.
Retirees Savings Account	Interest income is tax exempt	n.a.	n.a.	9701 Euros
Emigrant Savings Account	Interest income pays tax at reduced rate	11,5%	n.a.	n.a.
Purchase of Shares in Government Privatization Plans	Tax Credit	5%	170 Euros per taxpayer	n.a.

Source: Government Budget 2001; Law 30-G from December 29, 2000. n.a. – not applicable.

In the recent past, the Statute of Tax benefits created a "Shares Savings Plan", known for their Portuguese acronym PPA. Taxpayers' contributions to these stock market investment plans were given tax benefits in the Personal Income Tax. Initially those contributions were partially deductible from taxable income, and after 1999 they generated a credit against tax liability. In 2001 the rules are that there is a credit against tax liability equal to 7,5% of the taxpayers contributions to the PPA, with a ceiling at 39300 escudos (196 Euros). By the end of 1998, total assets in PPAs were 396 million Euros, about 0.4% of GDP.

Deposits in emigrants' savings accounts have been decreasing in the last few years. At the end of 2000 they totaled 4684 million Euros (4,4% of GDP). On the other hand both Housing savings accounts and Retiree savings accounts have been growing steadily. By the endo of December 2000, Housing Savings Accounts totaled 2117 million Euros (2% of GDP) and Retiree Savings Accounts added up to 8660 million Euros (8,2% of GDP).

Dividends

Taxation of dividends differs from taxation of interest or capital gains in Portugal. First, any dividends paid are taxed at a rate of 5% under the Substitute Gift and Inheritance Tax. The dividends are also subjected to the personal income tax. The taxpayer has a choice between including dividends in taxable income and receiving a partial credit

against the corporate income tax or paying a withholding tax rate of 25% as a dispensatory tax.

The partial credit rate against the corporate income tax was 60% in the year 2000 and will be 50% in 2001. The credit is included in taxable income, so the tax relief it generates is given by TC * t_{rc} * (1- t_{irs}), where TC is the tax credit rate, t_{rc} is the corporate income tax rate (32% in 2000) and t_{irs} is the personal income tax rate applying to the bracket where the taxpayer's income lies. There are no published statistics on how many taxpayers take advantage of the tax credit, but an inquiry next to the staff of the Directorate General for Taxation revealed that number to be insignificant as almost all households with dividends choose the dispensatory regime. This result is surprising because since the mid 90s the tax minimizing strategy for all taxpayers, even in the highest bracket, is to include dividends in taxable income.

One additional tax benefit to be taken into account is that dividends from corporations listed in the Portuguese stock market are only partially taxable under the personal income tax. In the year 2000 only 60% of the dividends were taxable whereas that proportion in 2001 is 80%.

Finally, one should notice that a 25% final withholding tax rate applies to dividends or any other type of distributed profits going to non-residents.

Bonds

The income from bonds is taxed at a withholding and dispensatory rate of 20% since 1994. In theory income from bonds should also be liable to the substitute gift and inheritance tax, but in practice the government has been renewing the exemption every year. The rate of 20% also applies to non-residents.

Capital gains associated with the sale of bonds and shares

Capital gains accrued to shares owned by households are taxed by the Personal Income Tax in a special regime. Capital gains can be integrated into taxable income or they can be taxed at dispensatory rates. Before the 2000 tax law changes, short-term gains were taxed at a rate of 10% and long-term gains (over a year) were exempt. If capital gains

were integrated in taxable income they would have face higher tax rates but it could make it easier to aggregate capital gains and capital losses so as to be liable for taxes only on a net gain basis.

Starting in 2001 the rules changed substantially. Capital gains are included in general taxable income. There is still no correction for inflation but the rules are now more complex. There is an allowance of 200000 Escudos (998 Euros) whereby capital gains up to this amount are not taxed but are included in taxable income for the purpose of determining the overall tax rate that applies to the taxpayer (an exemption with progressivity). If the holding period is less than 12 months, the tax applies to 75% of the capital-gain; if the holding period is between 12 and 24 months the tax applies to 60% of the capital gain, if between 24 and 60 months the tax applies to 40% of the capital gain, and finally it applies to 30% of the capital gain for holding periods larger than 60 months.

Capital gains for other assets, including bonds, are taxable by inclusion in taxable income. However, only 50% of the net capital gains are to be included in taxable income.

Two particular cases are worth mentioning. Capital gains accruing to non-residents will be taxed at a rate of 20%. Capital gains accruing to investment funds are taxed annually at a rate of 20%.

Total assets in investment funds by December 2000 were 21558 million de Euros (20,5% of GDP). There are also real estate investment funds that ad up to 3370 million Euros (3.2% of GDP).

Life insurance

Life insurance products have tax benefits granted at the level of the Personal Income Tax. Until 1999 there were deductions to taxable for premiums of life insurance policies. From 2000 on there are tax credits at a rate of 25%. In 2001 there is a 52 Euros upper limit, per taxpayer, to this personal income tax credit.

In general, that is even for those life insurance contracts that did not benefit from the deduction mentioned in the previous paragraph, the returns to the investments in life-insurance accrue tax free and there are tax rate reductions on the final income. If the

time elapsed between payment of premiums and the redemption of capital is more than 5 years but less than 8 only 80% of the returns (difference between premiums and redemptions) will be taxed. If the time elapsed is greater than 8 years only 40% of the returns will be taxed.

Pension scheme and retirement savings

When Portugal is compared with other countries in Europe and North America it is clear that long-term savings and retirement pension plans have a small share of total saving. In this section we will make a distinction between third pillar plans (individual plans) and second pillar plans (employment based plans).

Third pillar plans have received tax benefits since the 1989 tax reform. Recognizing the need for longer-term savings, fiscal policy has provided incentives within the Personal Income Tax for taxpayers to build up individual retirement accounts, the Savings Retirement Plans know for their Portuguese acronym PPR. Starting from 2000, alternative but similar plans were introduced where the amounts saved can also be used to pay for education expenditures.

In 2001 the individual contributions to the PPR generate a 25% tax credit against tax liability, with a limit to the tax credit that is the smaller of either 5% of the income declared in the tax return or 112250 Escudos (560 Euros) per taxpayer. This limit increases by 5% for taxpayers younger than 50 and older than 35, and by 10% for taxpayers younger than 35. The returns are not taxed until the capital is cashed, something that can happen only after age 60[4] and are mandatory by age 70. The taxpayer has two options: she can redeem the accounts or she can establish a plan for regular withdraws in the manner of an annuity. If the amount in the account is cashed, the returns on capital are taxed at a 5% rate. If the taxpayer prefers regular withdraws, then the returns on capital are treated as pension income, which is included in taxable income but has a generous allowance, that in 2001 reaches a maximum of 1523000 Escudos (7597 Euros).

By the end of 1998, total assets in PPRs were 3646 million Euros, or about 3,7% of GDP.

[4] There are exceptions to this rule such as long-term unemployment or serious illness.

As for the second pillar, there are two different situations to consider. The first concerns most (but not all) workers of the banking system. These workers are not covered by Social Security (that covers in general all workers from the private sector) or by CGA (public sector workers). Other corporations have set up voluntarily pension plans of a supplementary nature, either of the defined benefit or defined contribution types. The funded defined benefit pensions plans correspond to 89% of all workers covered by pension plans in Portugal in 1998 and over 99% of the assets.

Fiscally employer contributions to these pension plans are considered a deductible cost as long as they are limited to 15% of the payroll. Employee contributions to pension plans or taxpayers joining pension plans on an individual basis are also given a tax credit in the personal Income Tax that concurs with life-insurance for the deduction already mentioned above.

In 1998 the assets in pension plans other than PPR or PPA were 10683 million Euros, about 11% of GDP.

Spain

a) Main aspects of the Spanish taxation system

In Spain, taxation of saving products is done by the personal income tax like in other countries. The 15% of the revenue of Spanish personal income tax is obtained by Autonomous Communities, but tax payers make an only tax declaration. (The tax brackets are designed for convenient delivery of tax revenue). Different categories of income are taxed by special rules: labour income, business income, capital income, and capital gains. The earning of saving products can be included in any of these categories depending on the type of asset.

Taxation is progressive, with an only tax schedule for joint and separated taxation by the following structure (including central and local tax):

Over	but not over	marginal tax rate
Ptas 0	Ptas 600.000 (E 3.606,1)	18%
600.000	2.100.000 (12.621,2)	24%
2.100.000	4.100.000 (24.641,5)	28,3%
4.100.000	6.600.000 (39.666,8)	37,2%
6.600.000	11.000.000 (66.111,3)	45%
11.000.000		48%

There are several tax allowances according to personal circumstances as number and age of children, joint or separated taxation, disability and so on.

The tax schedule is applied for deferred and not deferred income, but special discounts on computation of income are designed depending on number of years of deferral. Capital gains are accrued with the rest of taxable income when obtained in one year, and taxed a flat rate of 18% in longer periods.

b) The Spanish taxation system per products

Liquidity

Interest from bank accounts is considered income from capital and classified as ordinary income and taxed at the corresponding tax rate from the tax schedule. If duration of the asset is more than one year, the returns can be reduced in a 30%, due to the irregularity of the income. A previous payment in form of withholding is exerted at rate of 18%.

Income from state regulated products

The returns obtained by means of this kind of products have the same tax treatment exposed for liquidity, except Treasury notes, bonds and obligations that are not submitted to withholding tax, and for deposits linked to housing acquisition (housing deposits), that have special deductions.

Housing deposits are treated in tax terms as acquisition of housing. So, every amount invested in this kind of deposits can be deducted on the tax return at a rate of 15%. These deposits can be used only for housing acquisition and the maximum holding period is four years. As liquidity, a reduction of 30% is applicable for periods longer than two years.

Dividends

Dividends are also income from capital. They are submitted to corporate tax at a rate of 35% and the corresponding marginal tax rate according with taxable income of the taxpayer. There is a withholding of 18%.

For correcting the effect of double taxation of dividends there is an "imputation correction system". This method consists of computation of 140% of the delivered dividend, allowing for a discount of 40% of paid dividends on tax return. The correction of double taxation is not complete, only minorated.

Bonds

The only difference in general treatment of bonds comparing with state regulated products is the withholding tax of 18%. The difference between the maturity and acquisition price is computed as income from capital, with the possibility of 30 discount on deferral cases (tenure longer than two years).

Capital gains associated with bonds and share cession

The return obtained in transmission of shares is considered a capital gain. The value included as taxable income is the difference between the price of transmission and the value of acquisition. There is no correction for inflation effect, since capital gains for more than one year are taxed at a flat tax rate of 18%. Transmission of bonds and obligations is considered capital income, with the same treatment than liquidity but no withholding. Nevertheless, transmission of mutual funds is a capital gain, submitted also at a 1% in the corporate tax and a withholding of 18%.

Life insurance

The income perceived as beneficiary of a life insurance system is a capital income. There is no corporate tax and the taxable income is calculated as the difference between the amount perceived and the cost of the investment. Depending on the duration of the investment, there are some reductions in computing the return: a deduction of 30% for more than two years, 65% for more than five, and 75% for periods longer than eight years. There is a withholding tax of 25%.

Pension scheme

The pension schemes are one of the most favoured saving chances. The amount invested on a retirement account is deductible from labour income until 25% of the net earned income or a fixed amount of 1.200.000 (E 7.212,1) (the minor of both). This fixed amount is increasing for tax savers over 52 and disabled. When the saver is

retired, the amount perceived from the retirement account is completely taxed as labour income. The withholding tax depends on the labour income of the taxpayer, and is tabulated. Since the returns are considered income from labour, the deduction designed for this kind of income is applicable.

Sweden

a) Main aspects of the Swedish taxation system

Saving products in Sweden are taxed by the income tax, which statutes are the Municipal Income Tax and the National Income Tax. Taxable income consists of business income, employment income and income from capital. For individuals business and employment income is subject to both national and municipal income tax. The municipal income tax is levied on the total taxable income less a personal allowance -the average rate is approximately 31%-, and the national income tax is levied at the rate of 20% on taxable income exceeding SEK 232.600 (E 25.454,8) but not exceeding SEK 374.000 (E 40.928,9), and at the rate of 25% on taxable income exceeding that amount. This means that the total income tax on business and employment income is progressive, with three tax brackets. In the first bracket, only municipal tax is levied, in the second and third, brackets the national income tax is also levied. A proportional national income tax is levied on income from capital by way of a flat tax rate of 30%. No municipal tax is levied on this income.

The sum of income from employment and business less general deduction[5] constitutes assessed income. After a personal deduction has been deducted, the resulting taxable income is the base for municipal and national income taxes. The national income tax in 2000 is computed accordingly to the following table:

Taxable income SEK (Euro)	Tax rate (%)
Up to 232.600 (25.454,7)	0
232.601- 374.000 (25.454,7- 40.928,9)	20
over 374.000 (40.928,9)	25

The municipal income tax varies among municipalities between 27,31% and 35,21%.

The personal allowances modify the taxable income, and are granted as a way of adjusting the tax level on earned income. From the total sum of income of employment

[5] Premiums paid for a private pension insurance are deductible as a general deduction from earned income. For an individual, the deduction is generally limited to the highest of 5% of the taxpayer's salary (up to 20 basic amounts=8.700SEK in 2000), or half basic amount

and business less general deduction, a personal allowance is made. In 2000 it is SEK 8.700 (E 952) (24% of SEK 36.600 (E 4005,3), the basic amount for 2000). When the taxable income exceeds 1,86 of the basic amount, the allowance is gradually increased to a maximum of SEK 18.200 (E 1991,7) when the income is SEK 105.800-111.300 (E11.578,3-12.180,2). It then decreases until it is back to SEK 8.700 (E 952) on an income of SEK 205.400 (E 22.478,1).

Expenses incurred for the purpose of acquiring or maintaining a source of income are deductible, and according to that, there is a tax reduction (credit) of 25% of pension insurance premiums paid is granted. The credit may be set off against national and municipal income tax and national real estate tax.

Income taxes are primarily collected through prepayment according to the Tax Collection Law. Wages and salaries are subject to a comprehensive withholding system and businesses are required to make advance payments every second month. Certain types of income from capital are also subject to a withholding. The withholding tax is calculated according to special tables so that is as close to the final tax as possible. In other cases, a withholding tax of 30% will be imposed (interest paid by banks to resident individuals and dividends paid by limited companies to individual registered shareholders resident in Sweden).

b) The Swedish taxation system per products

Liquidity

Interest is taxed under the category of income from capital. If the deposit is derived from business activity, the income is taxable as business income. As it has been presented above, income from capital is taxed separately at a flat rate of 30%, no municipal tax is levied on this income, and the withholding rate is the same that the flat rate. There are no specific deductions for obtaining interest, but all interest that is paid is deductible for resident taxpayers. If the loan and the interest are located to a business, the interest is deductible when computing business income. All other interest is deductible from income from capital.

Income from state regulated products

There are no special rules for this type of assets, so if the return of the saving product is an income, the same rules exposed for liquidity apply. If the return is obtained as a capital gain, the general rules will be also applicable (See point 5)

Dividends

In general all dividends are taxable as income from capital, at a withholding tax of 30%. However, with effect from 1997 a limited tax exemption for dividends has been introduced. The exemption concerns dividends from limited companies that are not listed on a stock exchange. The exemption is limited to an amount equal to 70% of the official interest rate on government loans multiplied by the acquisition cost of the shares.

The rules governing taxation on business activities are generally the same for both limited companies and business activities carried on individuals. The tax rates for individuals who carry on business activities are the same as for income from employment. Limited companies, however, pay only 28% of their taxable income.

Dividends from closely held companies could, for a shareholder that actively works (or has actively worked in a previous 5-year period to a significant degree in the company) be partly taxed as employment income. If the dividend exceeds a certain percentage of the acquisition cost of the shares, the surplus is taxed as income from employment. The percentage is calculated as the interest rate for government borrowing in November preceding the income year plus 5 percentage points (5,57%+5%). The purpose is to prevent this income to be reported as profit of the company and distributed as dividends to the shareholders, since in reality is income from work. Taxation resulting from this rule is almost the same tax burden as in respect of a salary paid by the company to the shareholder.

Bonds

The return of this asset is considered income from capital. There are no special rules.

Capital gains associated with bonds and share cession

The total income from capital is subject to national income tax at a flat rate of 30%. In principle, all types of capital income are fully taxable. The fact that most of these nominal incomes, due to inflation, do not represent real income, is taken into account by the tax rate which is lower than the tax rate on the rest of income. So, there are no special rules for relief from the impact of inflation. All different types of capital income, including capital gains, are added together, and all types of deductible capital costs (included capital losses) are deducted. If the result is a total loss, the loss may be used to reduce the tax on employment and business income and the real state tax. The reduction allowed is 30% of the loss up to SEK 100.000 (E 10.943,6) and the 21% above this sum.

The amount of a capital gain is calculated as the disposal proceeds minus the acquisition cost of the asset, but there are special rules for the computation of capital gains on the disposal of shares and similar assets. Gains and losses in these cases are computed on an average-cost method. The deductible cost is the average acquisition cost for shares of the same category that the taxpayer owns.

For closely held companies where the taxpayer has been active, special rules apply. According to these rules, up to 50% of the capital gain can be taxed as income from employment.

For shares and other securities (excluding options) listed on the stock exchange there is an optional standard rule which allows the acquisition price to be computed as 20% of the sale price.
There are rules for computing gains when claims such as bonds or private claims, nominated in Swedish kronor are sold. The rules mean that the gains and losses are computed on an average-cost method, as explained for shares.

Life insurance

There is no specific treatment for this kind of assets. The law considers special treatment for capital gains derived from immovable property, condominius, shares, claims nominated in SK and foreign currency. Tax treatment for "other assets" (all not

mentioned above), are exempt as long as they do not exceed SEK 50.000 (E 5.471,8) per year. Any excess is taxable. Such gains are calculated as 25% of the sales price less cost incidental to the sale, or on the basis of actual net gains, whichever is more favourable. Losses on such assets are not deductible.

Pension scheme

Pension received in respect of prior employment, the various national pensions (including old-age, early retirement, disability and widow's pension) and pensions from private pension insurance are fully taxable. Annuities based on a sickness or accident insurance are taxed fully or partially depending on the reason of the annuity. Private annuities are taxable if they represent remuneration for work.

During the period that pension insurance premiums are paid, only 75% of the pension insurance premium is deductible from income. Nevertheless, this limitation is linked to a credit of 25% of the premium.

Pensioners are entitled to specific pension income deductions. The maximum deduction is 152,79% of a basic amount (SEK 36.600 (E 4.005,3)). The deduction is decreased by 65% of the income above the maximum deduction. For taxpayers who only enjoy the state old age pension, the practical effect of this deduction is that the state pension is not taxed.

For an individual with income from employment, the deduction is generally limited to the highest of 5% of the taxpayer's salary up to 20 basic amounts, or half a basic amounts. This means that the deduction is subject to a maximum of one basic amount computed as half basic amount plus 5% on employment income between 10 and 20 basic amounts. For an individual having no pension rights from his employment, the maximum deductible is increased, and computed as half basic amount plus 35% of the employment income, with a maximum of 10 basic amounts. (For an individual with income from a business, the same rule applies, but the 35% calculated on business income). For a person who obtains both, employment and business income, the deductible half a basic amount should be divided between the two categories.

United Kingdom

In the UK, savings income are taxed mainly at source but the rate of taxation is varying with the amount of others household income. Basic and lower rate taxpayers are taxed at 10% on their savings and investment returns. Higher rate taxpayers are taxed at 40%. Non-taxpayers, of course, are entitled to the full gross rate of interest, provided the interest in any one tax year does not cause their total taxable income to exceed their allowance. The 10p starting rate of income tax has been extended to savings income from April 1999. Over 2.5 million individuals payed up to £150 less tax. The change has particularly benefit pensioners where up to 1.5 million will gain an average of £65. The new rate has been also applied for capital gains tax from April 2000 (the existing structure for taxing dividends at 10 per cent and 32.5 per cent will remain unchanged).

a). Main aspects of the UK taxation system

With most taxable savings and investment schemes, tax is deducted from the interest at 20% - on behalf of the customer - by the company offering the scheme. In this case basic and lower rate taxpayers have nothing more to pay. Higher rate taxpayers will need to declare the interest to the Inland Revenue and pay the extra tax due (allowances and taxable bands amount are given in appendix 1.).

National Savings, however, offers a range of investments with interest that is taxable but automatically paid gross to everyone. Non-taxpayers keep all the interest, while taxpayers should declare it to the Inland Revenue and pay the tax when due.

Taxations rules differs also for three types of relief for personal savings, which are stated regulated : personal equity plans (PEP's), introduced in 1986; tax exempt special savings accounts (TESSA), introduced in 1990; and individual savings accounts (ISA), introduced in 1997.

For the last, the Government has laid down a set of voluntary standards known as CAT standards. They are designed to help investors find ISAs which offer fair Charges, easy Access and decent Terms. Common requirements for all kinds of CAT standard ISAs are the following : commitment to decent straightforward treatment of customers e.g.

using plain English; no bundling e.g. no requirement to buy another linked product, no limitation to existing customers; consistency: undertaking to keep to the benchmark standards after the product is sold.

Individuals who are resident in the United Kingdom for tax purposes are chargeable to United Kingdom tax on their total income, whether it is from United Kingdom or foreign sources. The foreign source income of certain United Kingdom resident taxpayers, however, is only taxed in the United Kingdom if it is remitted here. Individuals who are not resident in the United Kingdom for tax purposes are chargeable to United Kingdom tax only on their United Kingdom source income. In certain cases their liability may be restricted to the tax deducted at source. They are not chargeable to United Kingdom tax on their foreign source income.

b) The UK taxation system per products

Liquidity

Banks, building societies and local authorities are required to deduct income tax from the interest they pay to savers. From 6 April 1996, they have taken tax off at the lower rate of 20 %. However, people whose taxable income is covered by their tax allowances can register to receive their interest 'gross' (without tax taken off). Savers can claim tax back from the Inland Revenue and register to get their interest gross.

To give further help and encouragement to savers, the 10p rate has been extended to savings income such as bank and building society interest, since the 6 of April 1999. As a result, whether an individual has income from earnings, a pension or savings they will enjoy the benefit of the 10p rate on the first £1,500 of their income (£1,520 for 2000-01). Savings income above the limit for the starting rate but within the basic rate band will continue to be taxed at 20 per cent.

Income from state regulated savings product

This section deals with three types of relief for personal savings: personal equity plans, introduced in 1986; tax exempt special savings accounts, introduced in 1990 ; individual savings accounts, introduced in 1997. These accounts are free of income and capital gains tax. No tax is deducted beforehand, and no tax needs to be paid to the Inland Revenue. One have to mentioned also National Savings tax-free investments - Savings Certificates, Premium Bonds and Children's Bonus Bonds -.

<u>Personal Equity Plans</u>

Personal equity plans (PEPs) commenced on 1 January 1987 but were closed to new subscriptions from 6 April 1999. They were available to anyone aged 18 or over and resident and ordinarily resident in the United Kingdom (UK) for tax purposes. Investors are exempt from income tax on dividends and interest, and from capital gains tax arising on shares, bonds and units held in a plan. Originally, only shares in UK companies were eligible for direct investment via a PEP. Other European Community shares were included from 1 January 1992, and a range of corporate bonds, preference shares and convertibles from July 1995. Indirect investment via a unit or investment trust or, from August 1997, via an open ended investment company, was also permitted. The administration of the scheme is carried out by approved plan managers.

In 1987, the annual limit for investment in shares was £2,400. It was increased each year to £6,000 in 1990-91, since when there has been no further increase. Initially only a proportion of the limit could be invested in unit or investment trusts. This restriction was removed in 1992-93.

From 1 January 1992, investors were allowed to subscribe in any year to a single company PEP (SCP) investing in the shares of just one company as well as to a general PEP investing in one or more companies. The limit on investment in a SCP was £3,000. Also from January 1992, shares acquired under approved profit-sharing schemes and savings-related share option schemes could be transferred directly into a SCP up to the £3,000 limit free of capital gains tax.

No subscriptions to PEPs may be made after 5 April 1999, but savers holding PEPs will be able to continue holding them under the current rules. In line with the rules for the

new individual savings account, a 10 per cent tax credit will be paid on dividends from UK equities until 5 April 2004.

Tax Exempt Special Savings Accounts

Tax exempt special savings accounts (TESSAs) could be opened between 1 January 1991 and 5 April 1999. Anyone aged 18 or over was able to open one TESSA with an authorised bank or building society. Up to £9,000 may be saved over 5 years. Subject to that overall limit, up to £3,000 may be deposited in the first year, and up to £1,800 in each of the next 4 years. Interest and bonuses earned are tax free, provided the savings are left in the account for 5 years. No capital may be withdrawn during the 5 years without losing tax exemption. But interest may be withdrawn at any time less the equivalent of lower rate income tax at the end of 5 years, the account will automatically cease to be exempt from tax and any further interest will be taxable in the ordinary way.

Investors who held a TESSA for five years were able to open a further TESSA with the full amount of capital deposited in their first TESSA, but not the accumulated interest.

No new TESSAs could be taken out after 5 April 1999, but TESSAs taken out by 5 April 1999 are able to run their full five year course. Savers can continue subscribing to the TESSAs under the current rules and will be able to transfer their capital into the cash component of the new individual savings account when the TESSA matures.

Individual Savings Accounts

The new individual savings account (ISA) started on 6 April 1999. It provides a tax favoured environment for savings, building upon the experience of TESSAs and PEPs. The new Individual Savings Account (ISA) allows people to save free from tax, while having instant access to their savings (offering certain tax reliefs to people saving up to given limits in a given tax year in certain financial vehicles). In the first nine months since their launch in April 1999, ISAs attracted over £17 billion in new funds, nearly 40 per cent more than went into Personal Equity Plans (PEPs) and Tax-Exempt Special Savings Accounts (TESSAs) over the same period in 1998.

The ISA can include three components: cash, stocks and shares, and life insurance. The main features are: annual subscription limit of £5,000, of which no more than £1,000 can go into cash and £1,000 into life insurance; the annual limit is £7,000, of which no

more than £3,000 can go into cash and £1,000 into life insurance; the account is completely free of income and capital gains tax; there is no statutory lock-in or minimum subscription; the account is guaranteed to run tax free for at least ten years; everyone has the same opportunity to subscribe to the new savings account, irrespective of the value of their PEP and TESSA holdings; capital from maturing TESSAs can be transferred into the cash component of an ISA; neither annual subscriptions to TESSAs nor any maturing capital transferred to an ISA will count against the annual subscription limit for the new account.

Investors can save via a maxi ISA -which must offer the stocks and shares component, and can offer either or both of the other components - or up to three mini ISAs, one for each component. It is not possible to put money into both a maxi and a mini ISA in a single year. With the maxi ISA investors are only allowed a single ISA manager. With mini ISAs investors can choose a different ISA manager for each component, but the subscription limits for the components are fixed. For stocks & shares the limit is £3,000, for cash it is £3,000 in 1999/2000 and £1,000 in later years, and for life insurance it is £1,000.

Table 1. Number of ISAs, amounts subscribed to each component and average subscription per account

Numbers: thousands; Amounts: £ million

Quarter Ending		Number of accounts	Amounts subscribed				Average subscription per account £
			Stocks and shares component	Cash component	Life insurance component	All components	
5 July 1999[1]							
Mini ISAs	Stocks & shares	602	239	-	-	239	400
	Cash	1,657	-	3,706	-	3,706	2,240
	Life insurance	30	-	-	9	9	310
	Total	2,289	239	3,706	9	3,954	
Maxi ISAs		1,216	2,949	267	3	3,220	2,650
Total		3,505	3,188	3,973	13	7,174	

Source : Inland Revenue.

There is voluntary standards for **C**harges, **A**ccess and **T**erms for certain kinds of ISA. ISAs which meet these may be described in marketing and other promotional literature as CAT standard. For example, an ISA which pays a bonus in certain circumstances (such as a minimum number of transactions) will be CAT standard provided that the CAT standard terms can be available through that ISA in other circumstances. The standards are additional to the requirements in Inland Revenue regulations and the regulatory requirements about marketing. For example, all insurance ISAs must be single premium products. Similarly, there is only one set of annual limits for savings through ISAs: there is no separate limit for CAT standard ISAs.

National savings

ISAs have limits on the amount you can invest in any one tax year. One can hold National Savings' tax-free investments - Savings Certificates, Premium Bonds and Children's Bonus Bonds - on top of the amount invested in ISAs. National Savings are savings products and investments issued on behalf of the government. They come in many shapes and sizes. For example, some are designed to be attractive to particular sorts of taxpayer, some are for people seeking income, others provide growth. All National Savings products are 'deposit-based'. National Savings offers three savings accounts (ordinary, investment and Mini Cash ISA) and several fixed rate products (for instance, the returns on Savings Certificates are totally tax-free, one can invest up to £10,000 in each Issue without affecting any other tax-free investments, such as ISAs, PEPs and TESSAs, and there's no need to declare them on tax return).

Premium bonds are also issued by National Savings. Strictly speaking, they are not investments but a lottery because instead of earning interest, bonds go into a monthly draw for tax-free prizes. The prizes range from £50 up to £1 million. At the start of 2000, the chance of winning a prize with a single bond in a single draw was 1 in 22,000. Unlike other lotteries, you are only gambling with the interest you could have earned in, say, a savings account - you do not gamble with your capital. The minimum investment is £100 which buys 100 separate bonds, all with an equal chance of winning.

Dividends

The rates of tax applicable to dividends are 10 per cent for income below the basic rate limit and 32,5 per cent above it. Stocks and shares ISA are free of tax.

Bonds

Basic and lower rate taxpayers are taxed at 10% on their savings and investment returns. Higher rate taxpayers are taxed at 40%. Non-taxpayers, of course, are entitled to the full gross rate of interest, provided the interest in any one tax year does not cause their total taxable income to exceed their allowance.

The withholding tax on international bond interest has been abolished, and replaced by simpler and less burdensome requirements to provide information to the Inland Revenue. Other changes allow the Inland Revenue to improve the effectiveness of exchange of information arrangements under double taxation agreements with other countries; and allow the UK to enter into new exchange of information agreements which will help to prevent individuals and companies evading or avoiding tax. The law at present gives the Inland Revenue powers to obtain information only if needed for its own purposes or at the request of another EU Member State.

Capital gains

To 5 April 1999 capital gains are treated as the top slice of income and taxed at the appropriate income tax rates of 20%, 23% or 40%, depending on the level of total income and gains. The introduction of the 10p starting rate will see the lower rate of 20% disappear for everything but savings income. For 2000-01, gains below the starting rate limit will be taxed at 10 per cent, gains between the starting rate and basic rate limits will be taxed at 20 per cent, and above the basic rate limit at 40 per cent to the extent that the gains included in that aggregate exceed the basic rate limit. The annual exempt amount is increased to £7,200 for individuals, certain trustees, and personal representatives of the estate of a deceased person, and £3,600 for other trustees. This simplify the rules for calculating the tax liability for many capital gains taxpayers under self assessment. The complex rules for those with savings income and gains will no longer be needed.

The measure affects individuals only. It does not apply to trustees or personal representatives of the estates of deceased persons, who will continue to be taxed at 34%. The capital gains tax rate for trusts is unchanged at 34 per cent.

Pension scheme

The maximum level of earnings from which tax approved occupational and personal pension provision may be made is increased to £91,800. The cap's main effect is to set a ceiling on the contributions that can be paid to, and the benefits that can be paid by, tax approved pension schemes. It generally applies to people who contribute to a personal pension scheme, joined an occupational scheme set up since 14 March 1989, or joined any occupational scheme from 1 June 1989 which was set up before 14 March 1989.

Tax rates and allowances in UK (2000/2001)

Rates and allowances for income tax, corporation tax, capital gains tax, inheritance tax and the pension schemes earnings cap are set out below. All allowances, thresholds and limits for 2000-01 have risen in line with statutory indexation and rounding rules.

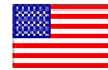
Income tax allowances	**2000-01 (£)**
Personal allowance	**4 385**
Personal allowance – age 65-74	5 790
Personal allowance – age 75 and over	6 050
Married couple's allowance – age 65 before 6 April 2000	5 185
Married couple's allowance – age 75 or more	5 255
Married couple's allowance – minimum amount	2 000
Income limit for age-related allowances	17 000
Widow's bereavement allowance	2000
Blind person's allowance	1400
Capital gains tax annual exempt amount	
Individuals etc	7200
Other trustees	3600
Inheritance tax threshold	234 000
Pension schemes earnings cap	91800

Taxable bands	**2000-01 (£)**
Starting rate 10 per cent	0-1520
Basic rate 22 per cent	1521-28 400
Higher rate 40 per cent	Over 28 400

Corporation tax profit	2000-01 (£)
Starting rate 10 per cent	0- 10 000
Marginal relief	10 001-50 000
Small companies rate 20 per cent	50 001 – 300 000
Marginal relief	300 001 – 1 500 000
Main rate 30 per cent	1 500 001 or more

The small companies' rate for 2000-01 will be 20 per cent. The main rate for 2001-02 will be 30 per cent. The main rate for 2000-01 was set at 30 per cent in the last Budget.
Marginal relief will ease the transition from the starting rate to the small companies' rate for companies with profits between £10,000 and £50,000. The fraction for calculating this marginal relief will be one fortieth. Marginal relief will also apply to companies with profits between £300,000 and £1,500,000. The fraction for calculating this marginal relief will also be one fortieth.
The starting rate and the small companies' rate do not apply to close investment holding companies

The United States of America



a) Main aspects of the USA taxation system

In USA the main tax on personal income is Federal Personal Income Tax. Elsewhere, some of the states and municipalities have their own income tax. Taxable income for jurisdictional taxes on income is usually the same than federal tax (sometimes there are minor adjustments). Federal income tax accrues all kind of income regardless the way of earning, (except for capital gains, that are taxed at special tax rates). Gains and losses have to be classified as either ordinary or capital, and also as either short or long-term. (the 28% rate of the long term gains and losses must be identified). A sale or trade of a capital[6] asset result in a capital gain or loss, and sale or trade or non capital[7] assets generate ordinary gains and losses. The long-term classification is reserved for investment held more than one year, and short term for one year or less.

Tax rates for capital gains are different to the rates presented on tax schedule. Depending on the kind of the source by which capital gain is obtained, the rates could be: 28%, 25%, 20% or 10%. The capital gains examined here will be taxed at a 20% if the regular tax rate is 28% or higher, and a 10% if the regular tax rate is 15%.

The federal income tax is a pay-as-you go tax. The tax is paid as income is earned or received during the year, and there are two ways of paying: withholding or estimated tax. Income obtained by employees is withheld by employers. Tax may also be withheld from certain other income including pensions, bonuses, comissions and gambling winnings. In each case the amount withheld is paid to the IRS in the name of the taxpayer. The other way of paying in advance is through the estimated tax. When the tax paid through withholding is not enough it is necessary to pay the estimated tax. People who are in business for themselves generally pay tax in this way, and also when receiving income such as dividends, interest, capital gains, rents and royalties.

Four different tax schedules are designed depending on personal circumstances: single, married filling jointly or qualifying widow(er), head of household and married filling

[6] Capital assets are for example: stocks or bonds held in personal account, the house owned and used, cars, metals, coins or stamps collections.
[7] Noncapital assets are, in general those used in trade or business.

separately. In any case, there are five tax brackets with the same marginal tax rates, but different income included in the bracket.

Single

Over	but not over	marginal tax rate
$0 (E 0)	$26.250 (E[8] 29.627,5)	15%
26.250	63.550 (71.726,9)	28%
63.550	132.600 (149.661,4)	31%
132.600	288.350 (325.451,5)	36%
288.350		39,6%

We would use the tax schedule presented above, since the standard taxpayer is single without children.

Married filling jointly

Over	but not over	marginal tax rate
$0	$43.850 (E 49.492,1)	15%
43.850	105.950 (119.582,4)	28%
105.950	161.450 (182.223,5)	31%
161.450	288.350 (325.451,5)	36%
288.350		39,6%

Head of household

Over	but not over	marginal tax rate
$0	$35.150 (E 39.672,7)	15%
35.150	90.800 (102.483,1)	28%
90.800	147.050 (165.970,7)	31%
147.050	288.350 (325.451,5)	36%
288.350		39,6%

Married filling separately

Over	but not over	marginal tax rate
$0	$21.925 (E 24.746,1)	15%
21.925	52.975 (59.791,2)	28%
52.975	80.725 (91.11,7)	31%
80.725	144.175 (162.725,7)	36%
144.175		39.6%

Adding up all the taxable items, taxable income is obtained. This concept is adjusted for a list of deductions that can be substituted by an itemized deduction. The gross taxable income can be reduced (among others) by saved amounts on private and government retirement accounts (IRA), alimonies, moving expenses, medical assistance payments. Once the adjusted gross taxable income is calculated, it is possible to deduct some expenses with a limitation as interest, taxes, extraordinary losses and expenses, extraordinary medical expenses.

There exists also a personal allowance, variable according to the level of income. For the cases that we consider it is no necessary to phase it out, so the constant amount is $8.700 (E 9.819,4).

b) The USA taxation system per products

Liquidity

Interest obtained from cooperative banks, credit unions, domestic building and loans associations, mutual saving banks taxable, and included as ordinary income. The amount received from money market certificates, and other deferred interest accounts are taxable interest. If the interest is paid at a fixed interval of one year or less during the term of the account, it has to be included as taxable income when actually received. OID (original issue discount) is a form of interest. It has to be reported as it accrues, whether or not the saver has received any payment from the bond issuer. A long term debt instrument such a bond, note etc, generally has OID when the instrument is issued

[8] Consider 1 dollar =1,1287 euros.

for a price that is less than its stated redemption price at maturity. The amount of OID is the difference between the principal amount and the issue price of the instrument.

The gross income can be adjusted by several deductions, and one of them is the existing for all interest paid or accrued within the taxable year of indebtness. There are no specific deductions for this type of income.

Income from state regulated products

Interest on US obligations as US Treasury bills, notes and bonds, issued by an agency or instrumentality of the United States is taxable for federal income tax purposes, but is exempt from all state and local income taxes. Treasury bills generally have a 13-week maturity period. They are issued at a discount in denominations of $10.000 (E 11.286,7) and additional multiplies of $1.000 (E 1.128,7). The difference between the discounted price paid and the face value received is interest income.

Treasury notes have maturity periods from 1 to 10 years. Maturity periods for Treasury bonds are longer than 10 years. Both of them pay interest every 6 months that have to be reported for the year paid.

Generally, interest on obligations used to finance government operations is not taxable if the obligations are issued by a state, the District of Columbia, a possession of the United States, or any of their political subdivisions. This includes interest of certain obligations issued after 1982 by an Indian tribal government treated as a state. (Interest on arbitrage bonds issued by state or local government after October 9, 1969, and interest on private activity bonds, is taxable).

Dividends

Dividends are considered ordinary income (no capital gains), and this category includes also the amounts received from **money market funds** (no reported as interest). Ordinary dividends are the most common type of distribution from a corporate, and are ordinary income.

There are rules which limit the amount of losses and tax credits from passive activities: losses from passive activities can be used only to offset income from active activities,

but no wages or portfolio income (any gross income from interest, dividends that is not derived in the ordinary course of a trade or business). Investment income is generally not subject to regular withholding.

In case of dividends delivered by companies subject to corporate tax, a double taxation has to be considered on dividends. The tax rate on corporations -according with the level of taxable income- are the following:

15% if taxable income <=$50.000 (E 56.433,4)
25% for taxable income between 50.000 and $75.000 (E 84.650,1)
34% for taxable income between 75.000 and $10.000.000 (E 11.286.681,7)
35% for taxable income over $10.000.000

We would consider a 34% corporate tax rate in calculations of marginal taxation.

Bonds

Interest on saving bonds can be earned in one of two ways (except for US saving bonds[9], that is exempt from state and local taxes). On some bonds, interest is paid at stated intervals by interest checks or coupons. Other bonds are issued at discount and pay all interest at redemption or maturity. The interest of the latter is the difference between the amount paid for the bond and its redemption or maturity value. When the cash basis criterion is applied, interest is reported when received. When accrual basis criterion is applied, interest must be reported each year as it accrues. It can not be postponed reporting interest until received or the bonds mature.

The amortizable bond premium shall be the amount of the bond premium attributable to such year.

Capital gains associated with bonds and share cession

The capital gain distributions (also called capital gain dividends) paid during the year have to be reported as long-term capital gains regardless of how long the stock in the regulated investment company or mutual fund has been owned. Those distributions that

are not derived in the ordinary course of a trade or business are treated as portfolio income and are not considered as income from a passive activity. In addition to the amounts received, it can be reported the amount that the investment company or mutual fund credited as capital gain even though not actually received. Any tax paid for the undistributed capital gains can generate a credit.

Life insurance

Income from life insurance assets in which the employer is the provider, are considered earned income (as wage and salary). Generally, the cost of up to $50.000 (E 56.433,4) of group-term life insurance coverage provided for employer is not included as income. However, the cost of insurance has to be included if is more than $50.000 (E 56.433,4), and reduced by the amount paid towards the purchase of the insurance. When the employee pay any part of the cost of insurance, the entire payment reduces dollar per dollar the amount that the employer would otherwise include as income for employee. However, the deduction is not allowed for payments for coverage in a different tax year, or payments not taxed because of exemptions (disability, the only beneficiary is a charitable organisation, the employer is the beneficiary). The entire cost of group-term life insurance protection provided by the employer through a qualified employees' trust, is taxed.

If the group term life insurance policy includes permanent benefits, such as paid-up or cash surrender value, it has to be included in the income as wages: the cost of the permanent benefits minus the amount paid for them. If accidental or other death benefits from a policy that does not provide general death benefits are received (travel insurance), these benefits are not included as group-term life insurance coverage.

Pension scheme

Generally the amounts paid in a pension plan can not be excluded from income through payroll deductions.

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[9] Due to the Educational Saving Bond Program, it is possible to exclude from income all or part of the interest received on the redemption of qualified US saving bonds during the year if the taxpayer has qualified higher educational expenses during the same year

In case of federal employees, it is possible to choose to make contributions from the salary to the Federal Thrift Saving Fund. These contributions are not included in income for income tax purposes. However, the salary before contributions is taken and used for purposes of figuring social security and Medicaid taxes and benefits. Payments received later from the fund are taxable as a distribution from a qualified pension or annuity plan.

The employer's contributions to a qualified person plan are not included in income at the time contributed.

When the employee perceives pensions or annuities is taxed depending on the cost previously assumed. When the employee does not pay any part of the cost and the employer did not withhold part of the cost of the contract during the time working, the amounts received each year are fully taxable. When a part of the cost of the annuity has been paid it is not included as taxable. The amount included can be calculated by a special rule called "Simplified General Rule".

General withholding for the annuities is 20%.

If the retirement plan is deferred, tax is not paid until the distribution from the fund is received.

When savings are allocated on an IRA (Individual Retirement Arrangement), the interest obtained is generally not taxable on a Roth IRA or education IRA. Interest on a traditional IRA is tax deferrred (not included until the withdrawals from the IRA are done)

Part II. International comparison

In this second step, we will a standard framework for comparison of effective marginal tax rates on savings products faced by individual taxpayers. Effective marginal tax rates (EMTR) provide a synthetic measure of fiscal pressure in every country and for every savings products. For the computations, we consider standard levels of household income for only single taxpayers in order to have meaningful comparisons. The reference taxpayer gross labour income for each country is the benchmark calculated by OECD, known as APW (average production worker). We compute EMTR for three levels of incomes (one APW, two APW and four APW). We adopt a 2 % inflation hypothesis and a 5 % nominal return.

The first part presents the methodology to compute the effective marginal tax rate. The second part gives the results per product for every country and per country for every product.

Standards for the computation of marginal tax rates

Some methodological problems

The main objective of this section is to provide a standard comparison of marginal taxation on saving products faced by European taxpayers. To that end, it is necessary to define a standard level of income. A first idea is to chose a set of representative households. For instance, we could cross three family size (single, couple without children, couple with two children) and three income level (one, two or three European median income). It gives nine categories for seven savings products in twelve countries, *i.e*. 756 effective marginal tax rates to be compared. To avoid this overflow of statistical results, we decided to concentrate our analysis on single households : the effect of household composition on savings products taxation is thus left outside of the report.

Due to substantial differences among the average level of incomes in European countries, the median European incomes have a completely different position in each country's income distribution. Median European income is clearly above average in Portugal and under in Luxembourg. The alternative would be to index the incomes to each country's income distribution, but then the results would be messy because no two identical absolute incomes are being compared. An other way is to use absolute income but allow for a wider range of incomes, including a level of income below median european income. That would make progressivity measures more meaningful.

An other point is that we need to be careful not only about the level but also about the income sources. The point is not only the definition of the assets portfolio in the median taxpayer wealth, but also the division of income between financial and human capital, let alone transfers from government, pensions and the like.

Methodological choices

Considering these methodological problems, we made the following choices. It is first supposed that gross taxable income to which saving returns accrue, comes from labour income. Gross labour income for each country taxpayer is standard, as calculated by OECD, and known as APW (average production worker). For each country, we compute effective marginal tax rates for three income levels : one APW, two time APW and four time APW. We only consider for calculations single taxpayers, nevertheless details on tax treatment for families, and consideration of dependants are provided in the first part of this report. The most recent levels of gross income published are for 1998, and given in appendix I.

As we will see, marginal tax rates depend on nominal returns and expected inflation rate. They equal one minus the ratio of real return after taxes on real return before taxes. When nominal returns are given, more inflation leads to more marginal tax rates. We took a 2% inflation hypothesis for all countries and a 5 % nominal return (thus, we are reasoning *ceteris paribus*). Simulation exercises can be easily done with others hypothesis (for instance, we can compute the EMTR with current nominal rates and inflation rates, given in appendix III and V).

Most of the saving products generate annual returns, but when the owning period is a relevant variable, terms from one to five years has been compared for capital gains on certain assets, and periods of investment of 10, 15, 20 and 25 years for pensions and insurance. Therefore, we gave results only for a duration fixed at one or ten year, depending the family of savings asset. For pension and insurance, we compare different options of investment and perception. For calculations, we consider that premiums paid are constant until the pension return, defined as a 15 years constant income. The withholding effect, when the advanced tax payments are calculated in an accurate way, is irrelevant. This is the case here, since the tax revenue paid in advance is quite close to the final payment.

We always assume that whatever the duration of investment, the point of reference is the end of the year of the investment. This means that in most cases, the amount of taxes has to be discounted in order to compare all the options.

Under these hypothesis, we can compute the effective marginal tax rates related to a savings product and *ceteris paribus*. We can also compute marginal tax rates for a portfolio as a whole. Every tax rate will be affected by a variation in the portfolio amount or structure.

Effective marginal tax rates : concepts and methodology

The concept of effective marginal tax rate tries to offer a measure of the marginal distortion that the fiscal system introduces on an asset market and its substitutes. In practice, when the EMTR is equal to 0,3, it means that taxes take away 30 % of real return. The EMTR can be also negative : if it is equal to – 0,3, it means that taxes add 30 % on the real return.

A previous concept : the tax wedge

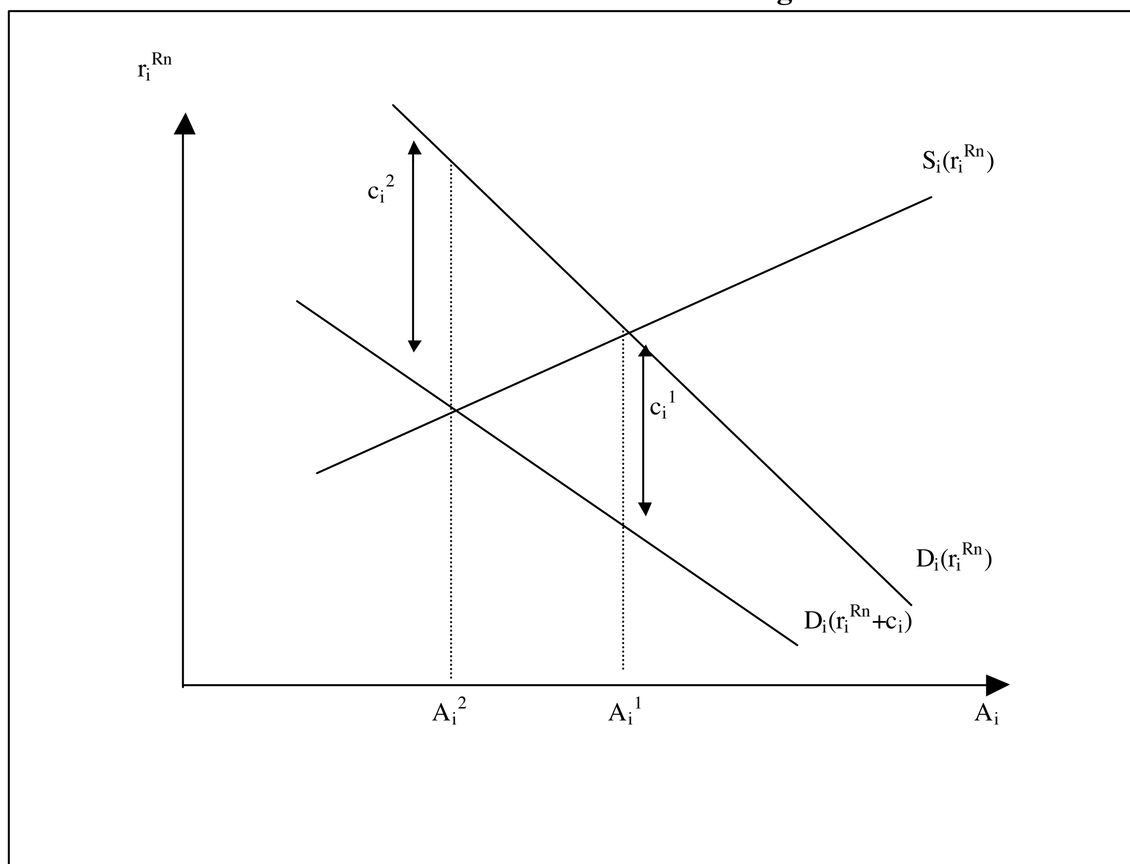
For the calculation of marginal tax rates, is necessary to define a previous concept, the tax wedge. The tax wedge for asset i, c_i, is the difference between the real gross return $r^{Rb}{}_i$, and the real return net of taxes, $r^{Rn}{}_i$:

$$c_i = r_i^{Rb} - r_i^{Rn} \qquad i = 1,2,...I \qquad (I)$$

where I is the number of assets. This tax wedge represents the annual effective taxation born by the saver when investing an additional income unit on the asset.

Figure AI.1

Alternative definitions of tax wedge



The same asset can be taxed in the margin differently due to progressivity in the tariff (or personal circumstances or other reasons), so it is necessary to define the tax wedge for each saver and for each asset. Calling the gross nominal return of asset i as $r^{Nb}{}_i$, the expected inflation rate as π, and the marginal effective taxation on nominal return of asset i for saver h as t_i^h, h (h: 1, 2,..., H), we have:

$$c_i^h = (r_i^{Nb} - \pi) - [r_i^{Nb} (1 - t_i^h) - \pi] = t_i^h r_i^{Nb}$$

$$t_i^h = f(m^h ,\pi ,\psi_i^h ,r) \qquad (II)$$

where m^h is the legal marginal tax rate of saver h, ψ_i^h refers to fiscal parameter different to marginal tax rate that affect taxation saver h, $(1-t_i^h)r^{Nb}=r^{Nn}$ is the nominal net return, and r is a discount rate used by the saver as a measure of opportunity net nominal cost of the best alternative investment. We obviate risk, and supose that there are alternative investment not paying taxes. Elsewhere, al the assets studied are suposed to generate the same rate of return $r=r^{Nb}$.

The effective marginal tax rate

The effective marginal tax rate is the relation between the tax wedge and the real return before paying taxes:

$$\tau_i^h = \frac{c_i^h}{r^{Nb} - \pi} \qquad (III)$$

An example could illustrate the concept of marginal tax rate. Let A and B be two similar assets, and the saver has to choose to invest an additional income unit in one of them. They both return a 5% nominal before paying taxes. If expected inflation is 1%, the real gross rate of return will be 4%. Let us suppose that the fiscal regime applicable for each one is different: asset A pays taxes according to the marginal tax rate of the saver, while asset B enjoys a reduction of 40%. If the legal marginal tax rate is 30%, the tax wedges will be 1,5% for asset A and 0,9% for asset B. The marginal effective tax rates are

37,5% y 22,5%, respectively. These percentages represent the proportion of the return levied by fiscal system.

$\tau_i^h = \dfrac{c_i^h}{r^{Nb} - \pi}$ $\qquad c_i^h = (r_i^{Nb} - \pi) - [r_i^{Nb}(1 - t_i^h) - \pi] = t_i^h r_i^{Nb}$	
c^A=0,05·0,3=0,015	c^B=0,05·0,3·(1-0,4)=0,009
$\tau^A = \dfrac{0{,}015}{0{,}04} = 0{,}375 \rightarrow 37{,}5\%$	$\tau^B = \dfrac{0{,}009}{0{,}04} = 0{,}225 \rightarrow 22{,}5\%$

Deferred and advanced payment of taxes

One of the most frequent reasons of diversity in fiscal treatment is the existence of deferred an advanced payments of taxes. In order to make comparable fiscal treatment of assets that pay taxes in different moments, we need a method of homogenization. It would be reasonable to take into account that the method has to:

- Express comparable amounts in the same moment of reference; and,
- Afford equivalent annual effective rates regardless the effective deferment period.

For example, if the legal marginal tax rate for asset A would not be required until one year later, the saver would enjoy a free credit, since he could invest the amount of the tax and get a 5% of the 30% (28,6%). Paying a 30% of the today return in a year is financially equivalent to pay 28,6%[10] today. On the contrary, if there are withholding taxes to pay, the equivalent rate at the end of the first year would be 31,5%. Paying in advance, is the saver who concedes a credit to the Government. Generally, if the return is obtained at the end of period 1, and the payment of the taxes is made at the end of period *N*, The equivalent marginal tax rate will be:

$$t_e = m^*(1+r)^{1-N} \qquad (IV)$$

[10] The actual value or 30% paid in a year is 30%/(1+0,05)=28,57%.

Being m^* the marginal tax rate applicable.

Equivalent annualized rate

Expression (*IV*) is applicable for computing marginal tax rates when the return or capital gain is obtained once. But usually capital returns are obtained in a progressive way in the time. In these cases obtaining the effective marginal tax rate is more complicated. In order to compare the deferred taxation of an asset that generates cumulated returns with another asset taxed annually, we have to distribute in some way the paid taxes on an annual base. The most satisfactory way is to calculate the equivalent annualized rate that is the hypothetical constant rate that applied on the return or capital gain cumulated each period, would generate a flow of tax payments whose actual value would equals the effective tax payments under the deferral scheme. Let us suppose that an asset generates an annual capital gain at a rate r^{Nb}. T_R is the actual value at the end of the first period of taxes paid in N. The cumulated capital gain in any period n would be $(1+r^{Nb})^n-(1+r^{Nb})^{n-1}$, that is, r^{Nb} for the first period, $r^{Nb}(1+r^{Nb})$ for the second and $r^{Nb}(1+r^{Nb})^{N-1}$ for period N. If t_e is the hypothetical tax rate that would apply on cumulated capital gains on each period, the actual value of the flow of tax payments under $r^{Nb}=r$, assumption, is:

$$T_A = t_e r^{Nb} + t_e \frac{r^{Nb}(1+r^{Nb})}{1+r} + \ldots + t_e \frac{r^{Nb}(1+r^{Nb})^{N-1}}{(1+r)^{N-1}} = t_e rN \qquad (V)$$

The annual equivalent rate would be the one that makes equal this value to the taxes effectively paid, T_R:

$$t_e = \frac{T_R}{rN} \qquad (VI)$$

For example let us suppose the case of an asset that annually cumulates a capital gain of r^{Nb}. After N years the capital gain is obtained and taxed at rate $m*$. The actual value at the end of the first year of paid taxes on the capital gain will be:

$$T_R = \frac{m*\left\lfloor (1+r^{Nb})^N - 1 \right\rfloor}{(1+r)^{N-1}} \qquad (VII)$$

If the marginal tax rate is 30%, the annual return is 5% and deferral period is 10 years, we get an equivalent effective annual rate of 24,3%.

Effective marginal tax rate applied on savings products

1. Liquidity

The net of tax nominal return of a deposit contracted at the beginning of the year is:

$$r^{Nn} = \left\lfloor 1 - w - (m - w)(1 + r)^{-L} \right\rfloor r^{Nb} \qquad (1)$$

w is the percentage of withholding payment of the tax (in (1) this withholding tax is a pre-payment of income tax).

m is the marginal tax rate of the saver

L is the period measured in years between the date of return getting and the date of payment/devolution of taxes.

The effective marginal tax rate is:

$$\tau = \frac{\left\lfloor w + (m - w)(1 + r)^{-L} \right\rfloor r}{r - \pi} \qquad (2)$$

2. Not withheld assets

Since $w=0$, the tax wedge is:

$$c = m(1 + r)^{-L} r \qquad (3)$$

So, there is a financial advantage comparing with retained assets. We calculate marginal taxation regardless the effect of withholding taxes, and assuming that there is not a deferral period between obtaining the returns of the investment and payment of taxes. In this case, the distinction between (2) and (3) has no sense, and since $w=0$ and $L=0$, (2) is quite more simple:

$$\tau = \frac{mr}{r - \pi} \qquad (2)$$

There is sometimes a special treatment for regulated products with a deduction on income tax rate. For instance, in the Spanish case, there is a deduction of 15% (d=0,15) for housing accounts. The expression for liquidity in that case will be as presented in (2´)

$$\tau = \frac{mr(1-d)}{r-\pi} \qquad (2´)$$

We have just shown the case a holding period of one year, but usually, these housing deposits are used longer as a way of making an advanced saving for housing acquisition, and considering tax advantages are maintained for four years. In that case, the expression of marginal tax rate is (2´´)

$$T_R = m\lfloor(1-p)\lfloor(1+r)^N - 1\rfloor\rfloor(1+r)^{-N+1} - d\lfloor(1+r)^N - 1\rfloor(1+r)^{-N+1}$$

$$T_A = t_e rN \qquad T_A = T_R$$

$$\tau = \frac{t_e\, r}{r-\pi} \qquad (2´´)$$

Being p the reduction of 30% for N>2, and d, the 15% specific deduction for housing deposits.

3. Shares

ϕ: proportion of the profit that is distributed

t_b and t_g are the corporate tax rate on dividends and capital gains respectively.

Then, the net of tax return is:

$$r^{Nn} = \lfloor\phi(1-t_b) + (1-\phi)(1-t_g)\rfloor r^{Nb} \qquad (4)$$

And the marginal tax rate is:

$$\tau = \frac{\lfloor \phi t_b + (1-\phi)t_g \rfloor r}{r-\pi} \qquad (5)$$

If $\phi=1$, taxation on shares depend only on taxation of dividends.

3.1. Dividends

$$t_b = t_s + (1-t_s)\left[m(1+k)-k\right] \qquad (6)$$

(k depends on the system for correction of double taxation, and equals 0 in Sweden and USA, and 0.4 in Spain, o,5 in France, etc.).

There are a special kind of dividends in Sweden, with a reduction on the return of 70% (p=0,7) on personal income tax. In that case the relevant rate is the same that presented in (6), but the return will be included multiplied by (1-p).

3.2. Capital gains

$$t_g = t_s + (1-t_s)m \qquad (7)$$

Being m the relevant rate following the tax rules applicable in each country.

4. Selling of bonds and obligations (Government debt)

$$T_R = \lfloor (1+r)^N - 1 \rfloor \cdot a \cdot (1+r)^{-N+1} \qquad (8)$$

There are different ways of correction of inflation on capital gains. In (8) we do not consider actualisation of values of acquisition, nor to correct the value of the capital

gain, since usually capital gains are taxed at a different tax rate, a, that is less than the corresponding by tax schedule.

Then, the effective marginal tax rate is given with the (2'') formula :

$$\tau = \frac{T_R}{N(r - \pi)}$$

5. Investment Funds (IncomeTax plus Corporate Tax)

For these assets, we have two elements one refers to personal tax, and the other, to personal tax. Personal tax is paid at the moment N, while corporate tax is paid yearly. Income taxation is obtained from three factors: the value of capital gain (corrected or not), tax rate applicable (*a*), and a factor of discount. Corporate tax is paid yearly on a different return, since *r* cumulates at a rate $(1+r(1-t_s))$, and the discount is always *r*.

The effective discounted amount of taxes paid at the end of **period *N*** is:

$$T_R = \left\{ \left[1 + r(1 - t_s) \right]^N - 1 \right\} \cdot a \cdot (1 + r)^{-N+1} + \\ + (1 + r)\left[1 - \left[1 + r(1 - t_s) \right]^N (1 + r)^{-N} \right] \quad (9)$$

where

$$t_s r + t_s r[1+r(1-t_s)]/(1+r) + .. + t_s r[1+r(1-t_s)]^{N-1}/(1+r)^{N-1} = (1+r)[1-[1+r(1-t_s)]^N(1+r)^{-N}].$$

is the total amount paid of corporate tax (paid every year).

6. Insurance assets

Generally insurance assets are taxable for the difference between the perceived amount minus the premium invested, and that difference depends on how much the taxpayer has invested. We assume[11] that taxpayer invests at a constant rate during 10, 15, 20, or 25 years and receives the return as a constant income until death. The amount of this difference conveniently discounted at the moment of reference (end of the beginning of the investment) is:

[11] We assume the same for pension schemes.

$$Amount\ perceived - premiums = \left[\frac{(1+r)\left[(1+r)^N - 1\right]}{r} - N \right](1+r)^{-N+1}$$

$$T_R = (1-b)m\left[\frac{(1+r)\left[(1+r)^N - 1\right]}{r} - N \right](1+r)^{-N+1} \qquad (10)$$

$$b = bonus\ depending\ on\ N$$

In (10), m refers to the applicable tax rate, and b represents the possibility of a reduction in computing the return (as in the Spanish case, with reductions up to 75% (b=0,75))

7. Pension Funds

Computation of effective marginal tax rates on pension funds is not an easy matter since there are several ways of making the investment. We mean that the saver can invest the whole capital once, or in several times, in a constant or variable way, and also there are different ways of getting the return: as a capital, as a constant income until death or a fixed date. As we presented in (*V*) and (*VI*), for comparing assets with different duration, we need to calculate an annualised equivalent rate (calculated from T_A=T_R). We ought to remind this for all the assets whose duration is longer than one year.

Pension schemes are generally treated differently to insurance plans in case of survival. The most common case is to allow the premiums paid to be deductible from computation of income, and to tax the total amount perceived at the retirement moment. We need to know the discounted total amount of the premiums and the cumulated final capital that allow to obtain a constant income until death, but this time, in a separated way. It is important to remember that every premium can generate a deduction in personal tax, but the premiums are paid in different moments, so, the total premiums do not sum N as in case of insurance.

$$Total\ accrual = \frac{(1+r)\left[(1+r)^{N}-1\right]}{r}(1+r)^{-N+1}$$

$$Total\ premiums = \frac{1-(1+r)^{-N}}{r}(1+r)$$

Knowing this, it is easy to obtain the total amount of taxes, given by T_R.

$$T_R = m\left[\frac{(1+r)\left[(1+r)^{N}-1\right]}{r}(1+r)^{-N+1}\right] - m\left[\frac{1-(1+r)^{-N}}{r}(1+r)\right] \quad (11)$$

In expression (11) a general case is presented (like the US case), but every country has some peculiarities. Sweden tax system computes only a 75% of premiums, but allows for a deduction of 25% of them on the tax return, so we can calculate TR as showed in (11´)

$$T_R = m\cdot\left[\frac{(1+r)\left[(1+r)^{N}-1\right]}{r}(1+r)^{-N+1}\right] -$$

$$- m\cdot 0{,}75\left[\frac{1-(1+r)^{-N}}{r}(1+r)\right] - 0{,}25\cdot\left[\frac{1-(1+r)^{-N}}{r}(1+r)\right] \quad (11')$$

The Spanish case is also peculiar, because only the 60% of the accrued capital is considered as income, so, with (11´´) we know the total amount of marginal tax paid.

$$T_R = m\cdot 0{,}6\cdot\left[\frac{(1+r)\left[(1+r)^{N}-1\right]}{r}(1+r)^{-N+1}\right] - m\left[\frac{1-(1+r)^{-N}}{r}(1+r)\right] \quad (11'')$$

In all cases, we assume that the tax rate applicable on retirement is the same than the active period. If not, we would have to define a different m for computing the reductions and the taxation of the accrual.

A generic formula is given with (11'''), where m_1 is the rate of taxes applicable on the accrual, m_2 the current rate of income tax for computing the reduction when premiums are deductible, d_1 the share of accrual which are taxed, d_2 the share of premium which are deductible of income tax and d_3 the amount of the tax credit given by premiums.

$$T_R = m_1 \cdot d_1 \cdot \left[\frac{(1+r)\left[(1+r)^N - 1\right]}{r}(1+r)^{-N+1} \right] - \left(d_2 m_2 + d_3\right)\left[\frac{1-(1+r)^{-N}}{r}(1+r) \right] \quad (11''')$$

Empirical results

We present in this section the results for twelve countries and seven families of savings products : liquidity (demand and time deposit) ; dividends; bonds; short term capital gains ; long term capital gains ; life insurance and individual pension scheme. We do not compute effective marginal tax rates for state regulated savings products because most of them are free of taxes and they do not exist in all countries. We do not compute also EMTR for non resident, because i) taxations rates frequently depend on bilateral agreements which complicate the comparison (for twelve countries, there are potentially 131 taxation regimes for every products !); and ii) following the future European directive (see the details of the directive project in appendix IV), a global agreement will be substituted to the different bilateral agreements in the next few months.

Our computation include local taxes when these taxes are related to savings incomes. A problem with local taxes is that we generally do not have an unique rate for the whole national territory. We then take either an average ratio (31 % in Sweden, 4,5 % in Belgium), or a local ratio (for the US we took the 3 % tax rate in Detroit, Michigan).

We also include social contributions when these taxes affect the savings products returns. In France, as we saw, these taxes represent 10 % of the income from savings products (CSG + CRDS + "Prelèvement social de 2 %"). In Belgium, the "contribution complémentaire de crise" is 3 %.

For several savings products, we find negative EMTR. In this case, there is a fiscal incentive to buy those products. For example, an EMTR equal to – 0,5 means that taxation adds 50 % on the real return of this product. On the other hand, an EMTR equal to 1 doesn't mean that there is no incentive to buy this product. The exact meaning is that taxation takes all the real return of the product, *i.e.* this asset has a net return equal to the inflation rate. When the EMTR is more than one, taxation gives a net nominal return which is less than the inflation rate.

To present the results, we will give in a first part an overview of the EMTR per product for every country and per country for every product. In a second part we will precise product by product the countries ranking.

Overview of the results

Table 1 contains a synthetic view of the main results. Countries are ranked according to their EMTR arithmetic average for the seven sets of products. Products are ranked according to their EMTR average per country. We also compute the European average by products to compare it with the US EMTR.

Table 1. An overview of Effective marginal tax rates averages

country\products	Dividends	ST Capital gains	Liquidity	Bonds	LT Capital gains	Life insurance	Pension scheme	EMTR Average
Sweden	1,14	1,02	0,97	1,02	1,02	0,18	-1,13	**0,60**
Denmark	0,42	0,98	0,71	0,71	0,42	0,12	0,13	**0,50**
Germany	0,89	0,68	0,61	0,68	0,09	-0,36	0,11	**0,39**
Netherlands	0,69	0,48	0,48	0,50	0,00	-0,21	-0,03	**0,27**
Belgium	0,54	0,68	0,38	0,38	0,13	-0,30	-0,21	**0,23**
Spain	0,49	0,38	0,40	0,38	0,29	0,02	-0,53	**0,20**
UK	0,48	0,32	0,33	0,33	0,32	0,04	-0,44	**0,20**
Luxembourg	0,49	0,65	0,65	0,33	0,02	0,06	-0,88	**0,19**
France	0,61	0,43	0,42	0,42	0,43	0,02	-1,36	**0,14**
Italy	0,28	0,21	0,45	0,21	0,21	0,06	-0,74	**0,10**
Portugal	0,36	0,16	0,33	0,33	0,00	-1,45	-1,47	**-0,25**
European average	**0,58**	**0,54**	**0,52**	**0,48**	**0,26**	**-0,17**	**-0,59**	0,23
USA	*0,76*	*0,21*	*0,29*	*0,17*	*0,21*	*0,05*	*0,05*	***0,25***

Two groups of assets

This table highlights two groups of assets. On the right side of the table, we have the less taxed savings products, which correspond with long term assets (pension schemes, life insurance contracts and long term capital gains). On the right side, shorter term savings products are more taxed everywhere.

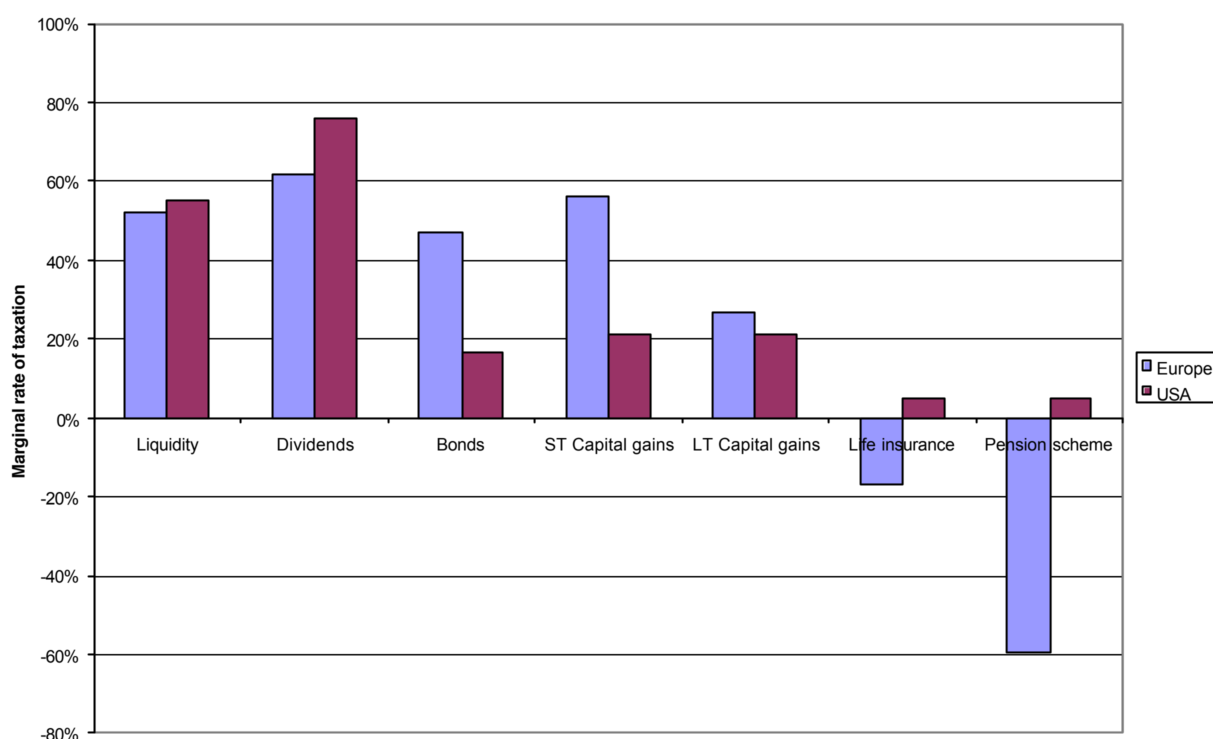
In every country, pension schemes and life insurance contracts are the less taxed savings products. The European EMTR average is negative for these two products meaning a net fiscal incentive for consumers.

The most taxed savings products differs among countries, but it is either dividends (in Portugal, Sweden, Spain, USA, France, Netherlands, Germany and UK) or short term capital gains (Denmark, Belgium and Luxembourg).

Even if the global average of EMTR is closed on both sides of the Atlantic, one can notice two main differences between the US and Europe in this products ranking. First, the relative advantage given to long term products is less important in the US than in Europe (see graph 1). There is no fiscal premium given to pension scheme and insurance life contracts in the US, there is a negative EMTR for these products in Europe. Globally, the spread of EMTR average per products is larger in Europe than in the US.

Second, the difference between dividends and capital gains taxation is higher in the US than in Europe. Comparing to European countries, US taxation is heavy for dividends but light for capital gains. In Europe, there is less variance among "short term" savings products.

Graph 1. Effective marginal tax rates per products in Europe and the US

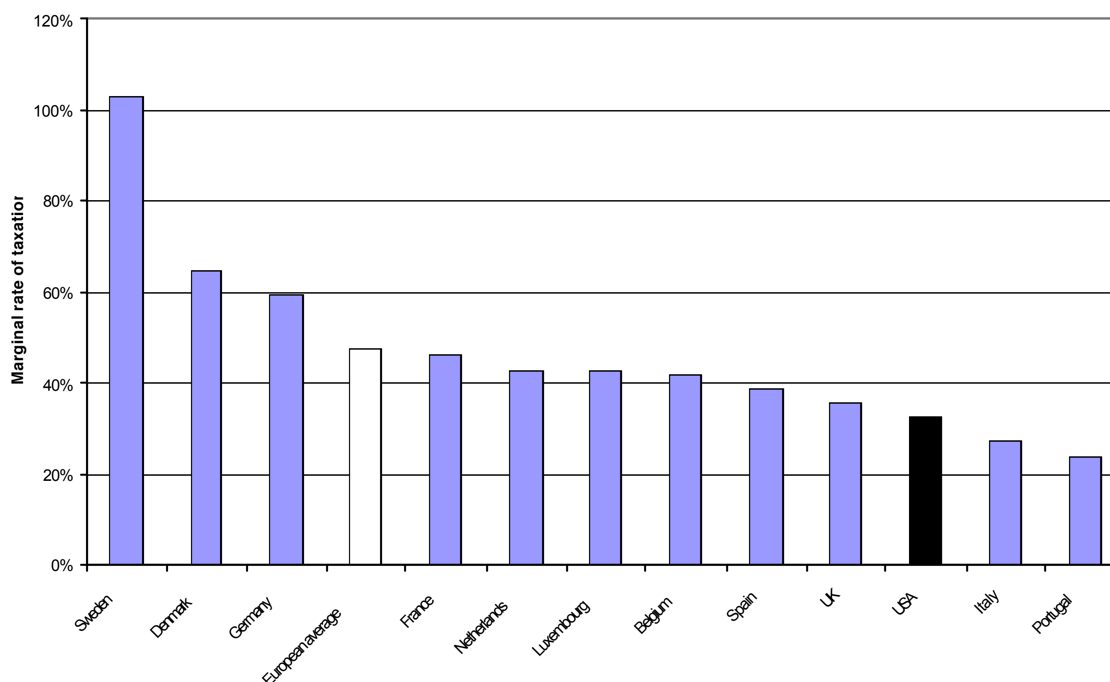


Four groups of countries

One can easily distinguish four groups of countries in our sample (see table 1). Unsurprisingly, the distinction is geographical : north European countries (including

Germany); central European countries, south European countries, and another group with UK and the US. This ranking appears clearly on graph 2, where we have computed average EMTR in every country excluding life insurance contract and pension scheme.

Graph 2. Average EMTR per countries (excluding LIC and PS)



- Northern European countries (Sweden, Denmark and Germany) show the highest effective marginal tax rates. The average for these three countries is 76 %, but 103 % in Sweden, essentially due to the heavy rate of local taxes (31 %).

- Center European countries set is composed by France, The Netherlands, Luxembourg and Belgium. The average EMTR of this group is 43 %, closed to the European average.

- Southern European countries have the lowest effective marginal tax rates. The average of Spain, Italy and Portugal is 0,29 (always without LIC and PS).

- Finally, UK is closed to the United States with a 34 % EMTR average for the two of them.

We will now use and qualify this classification for the presentation of our results product by product.

Results per products

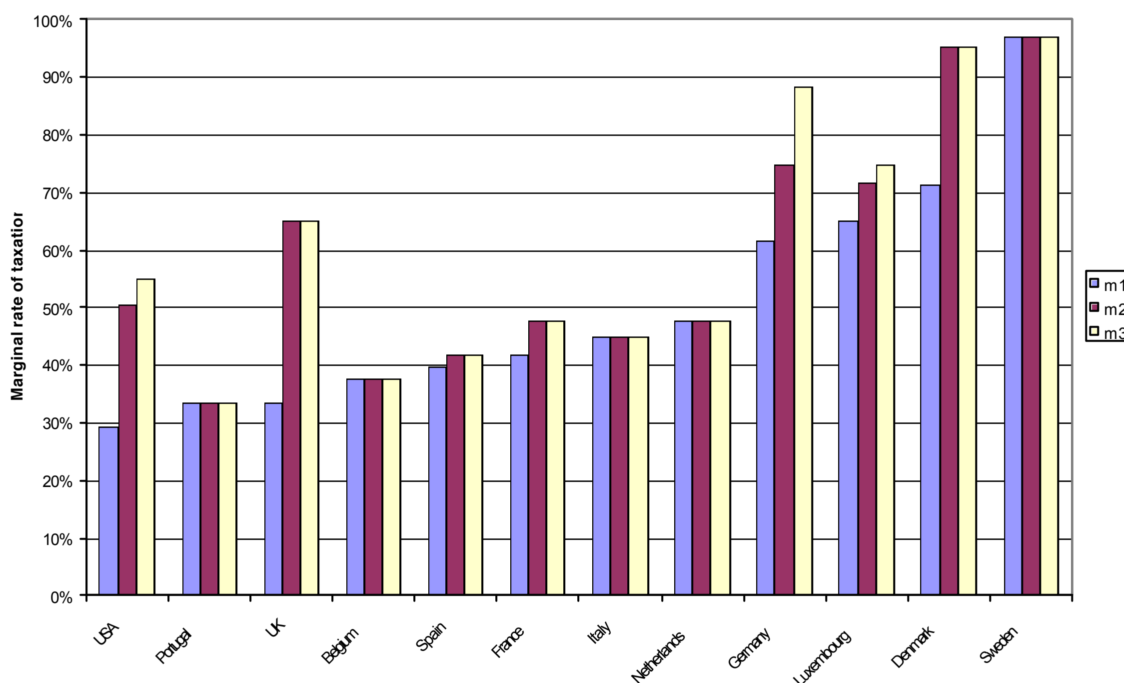
As already mentioned, we computed effective marginal tax rates for three income levels in every country : one Average Product Worker, two APW and four APW. We will note the corresponding EMTR m_1, m_2 and m_3. The first rate m_1 correspond to the effective marginal tax rate applied on savers with an income closed to one APW. Then, the spread between m_1, m_2 and m_3 gives an index of savings incomes taxation progressivity. We will use this index in the tables bellow, with three EMTR for every product in every country.

Liquidity

We defined Liquidity as the interest paid on demand and time deposit when tenure is less than one year. The EMTR is 50,2 % in Europe and 29 % in the US. Differences among European countries are the less pronounced for this kind of asset. The highest taxation rates can be found in North of Europe (Sweden : 97 % and Denmark : 71 %) and Portugal and UK are on the opposite side with 33 % for both. Things are different for m_3 : richer household are more taxed in UK and the US than in several European countries. Spain, France, Italy and the Netherlands lie an intermediate position.

As one can see in graph 3, the progressivity of taxation is stronger at the two top ends of the EMTR distribution. In the middle of the distribution, the liquidity EMTR doesn't vary with household income. Savings income taxation is mainly done through income tax in UK and the US but in Germany, Luxembourg and Denmark. Others countries are characterized by a mixed system with variable rates depending on household income and fixed rates (at source or under the income tax); the variable rates doesn't apply for demand or time deposit interest. As a consequence, there is no clear relationship between the taxation level and our progressivity index.

Graph 3. Liquidity EMTR per countries



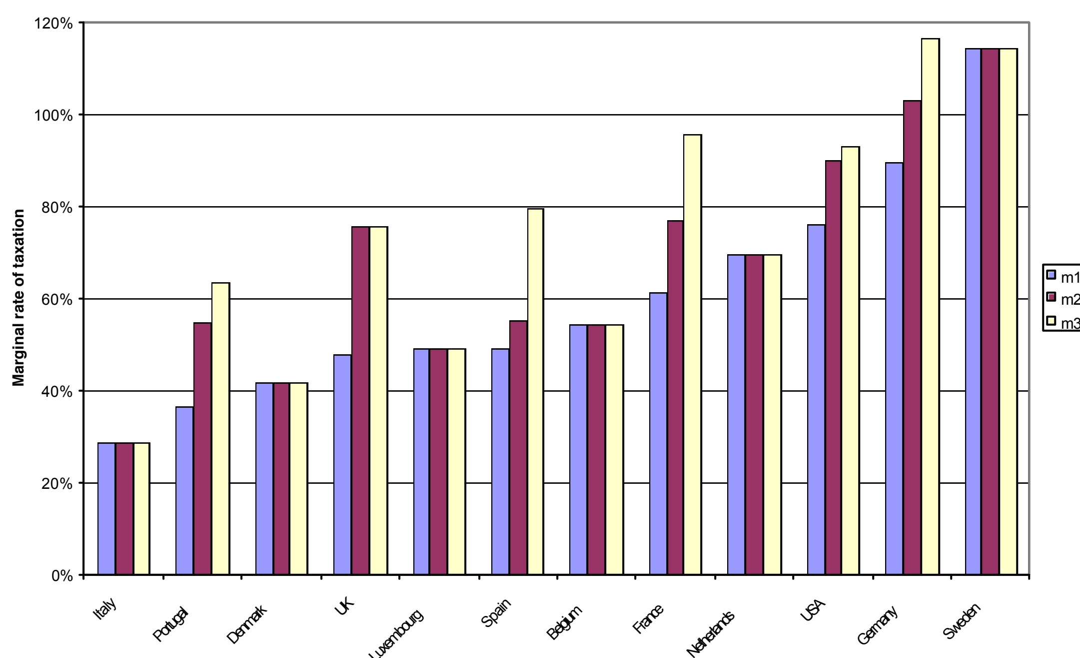
EMTR computation doesn't take into account the lump sum allowances that exists in several countries for liquidities (we are reasoning at the margin). For instance, the allowance amount is 1363 Euros in Belgium, 3120 Euro in Germany and 6693 Euros in Luxembourg. Off course, if the interest received by the saver are under these limits, the EMTR fall off course to zero.

Dividends

For the computation of dividends we took into account the double taxation problem. The EMTR for dividends includes corporate taxes; this explain partially why we found the highest taxation rates for this kind of assets. But as we adopted the same common methodology for all countries, it cannot explain the differences between countries. The average EMTR for dividends in Europe is 61,9 % for one APW and 72 % for four APW. In the US, the same indicators are 15 points higher. Clearly, the ranking of countries differs from what we found for liquidity: the US goes to the top of the distribution and the Denmark falls to the bottom (see graph 4).

One can notice again that there is no clear relationship between the progressivity index and taxation levels. Considering m_2 or m_3 leads to push France and Spain up to the top of distribution, and UK and Portugal to the middle.

Graph 4. Dividends EMTR per countries



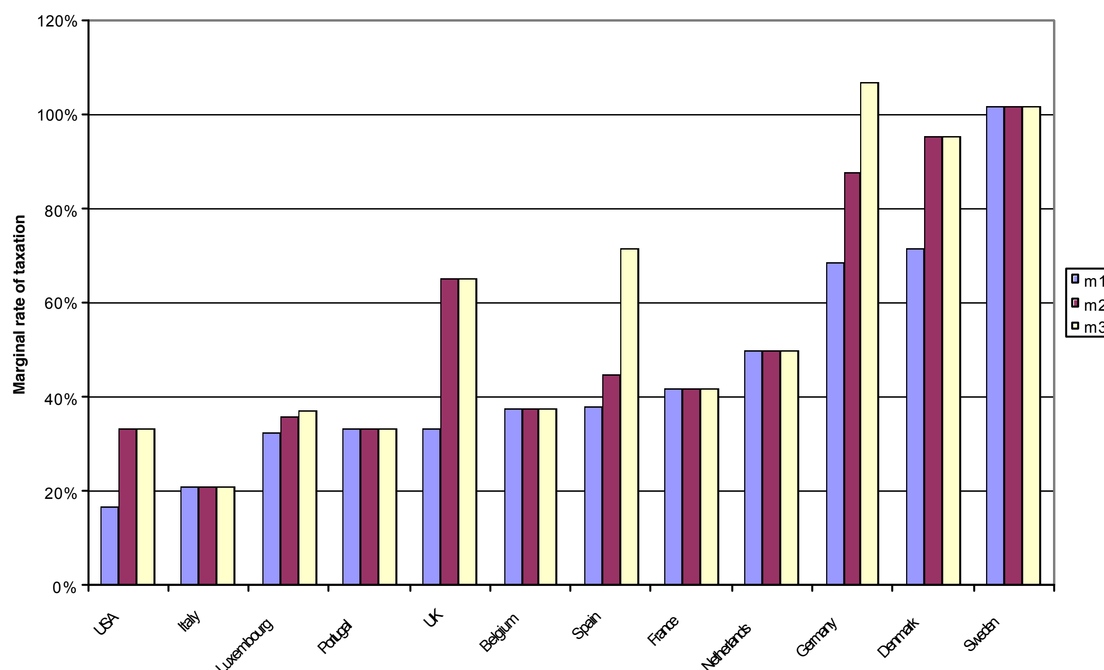
One have to mention again that lump sum allowances are not taken into account in our computation. If there is no allowance in Belgium, Denmark, Italy, UK and France (where it has been suppressed in 2000) this is not the case in other countries where the allowance amount is very variable. When we compute EMTR for dividends, we implicitely consider an amount of savings greater upper than allowances.

Interest on bonds

We analysed interest on bonds with a two years or more tenure. Under this hypothesis, the average effective marginal tax rate is 48,1 % in the eleven European countries covered (17 % in the US). Graph 5 gives the distribution on EMTR among countries. As we already saw for others products, northern countries have the highest rate of taxation and the US the lowest one.

Again, there no clear relationship between tax progressivity and tax level. If we consider either m_2 or m_3, the US support one of the lowest taxation regime for bonds; UK and Spain switch to high tax level countries and Germany takes the upper position in the ranking (with m_3).

Graph 5. Bonds EMTR per countries



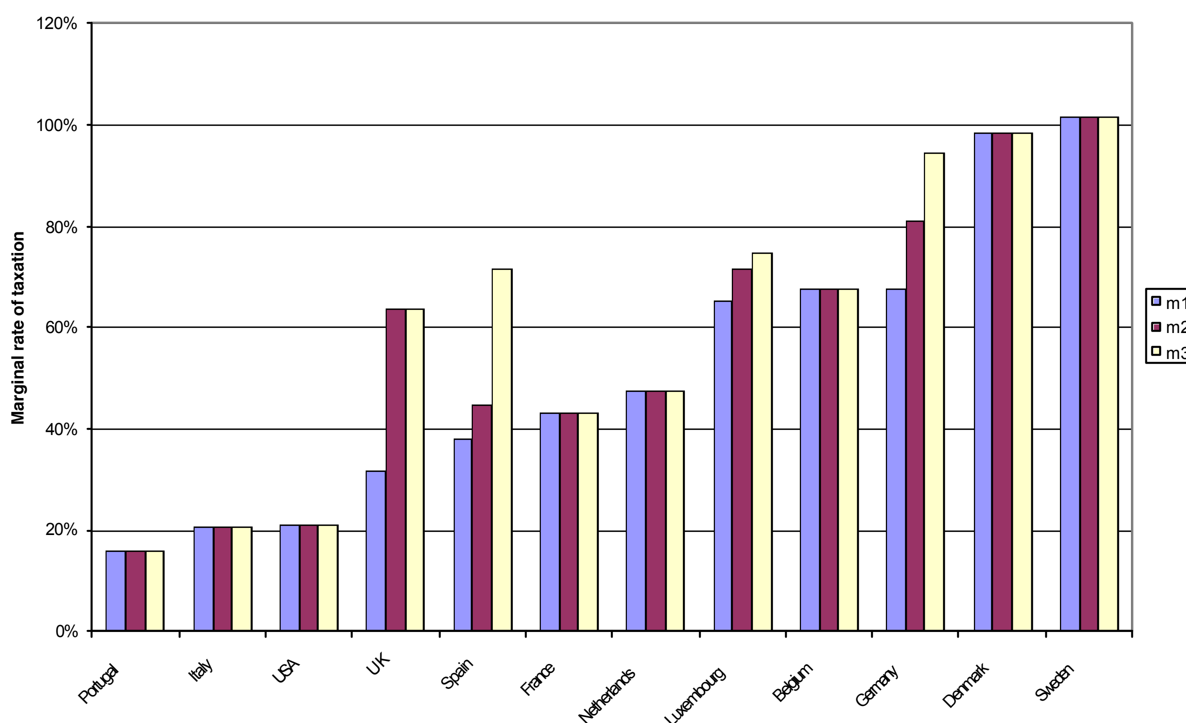
Short term capital gains

In many countries, a special taxation regime exists for speculative bonds and share session. But definitions of speculation vary widely across countries. We study the case of a bond or share sale within less than one year tenure.

With 54,4 %, the average European EMTR is very closed to the average one, except when one consider m_2 and m_3 (UK and Spain are joining the top of the distribution). Graph 6 shows a clear opposition between North Europe (including Germany) on the first hand, and South Europe , US and the UK on the other hand. Benelux and France are closed to the European mean.

Again, one can notice that the progressivity index doesn't show any clear relationship with the taxation level of short term capital gains.

Graph 6. Short term capital gains EMTR per countries

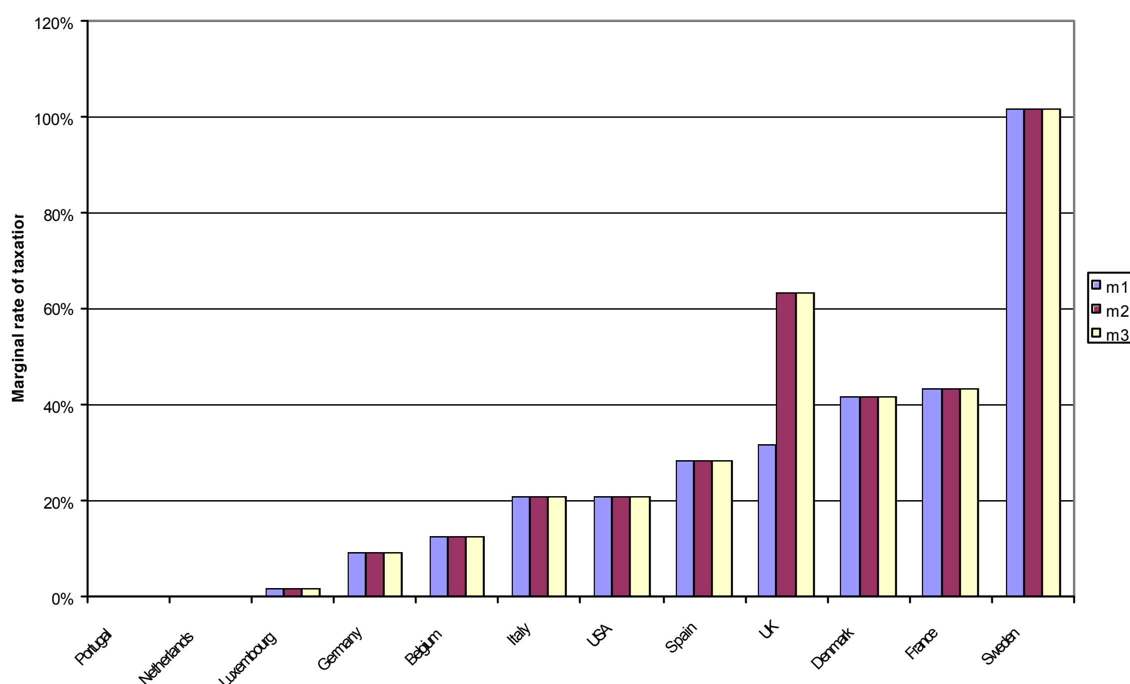


Long term capital gains

The picture becomes completely different when one consider capital gains within more than one year tenure (see graph 7). Moreover, the EMTR average for these assets (26,4 %) is half of short term capital gains but the variance is double among European countries. This show the complete lack of common European view concerning the taxation of long term capital gains. For this family of taxes our geographical typology is clearly inconsistent.

For several countries, non speculative capital gains has to be free of taxes. It is the case of south countries like Portugal, central countries like Luxembourg or the Netherlands, or northern countries, like Germany (we saw that the German taxation regime for savings income was on the top of the distribution for the other products). France was around the median European EMTR for the other products and goes to the top with the long term capital gains. UK was at the bottom and goes to the middle. The only country which remains at the same position is Sweden, always at the top of our list when we include local taxation.

Graph 7. Long term capital gains EMTR per countries



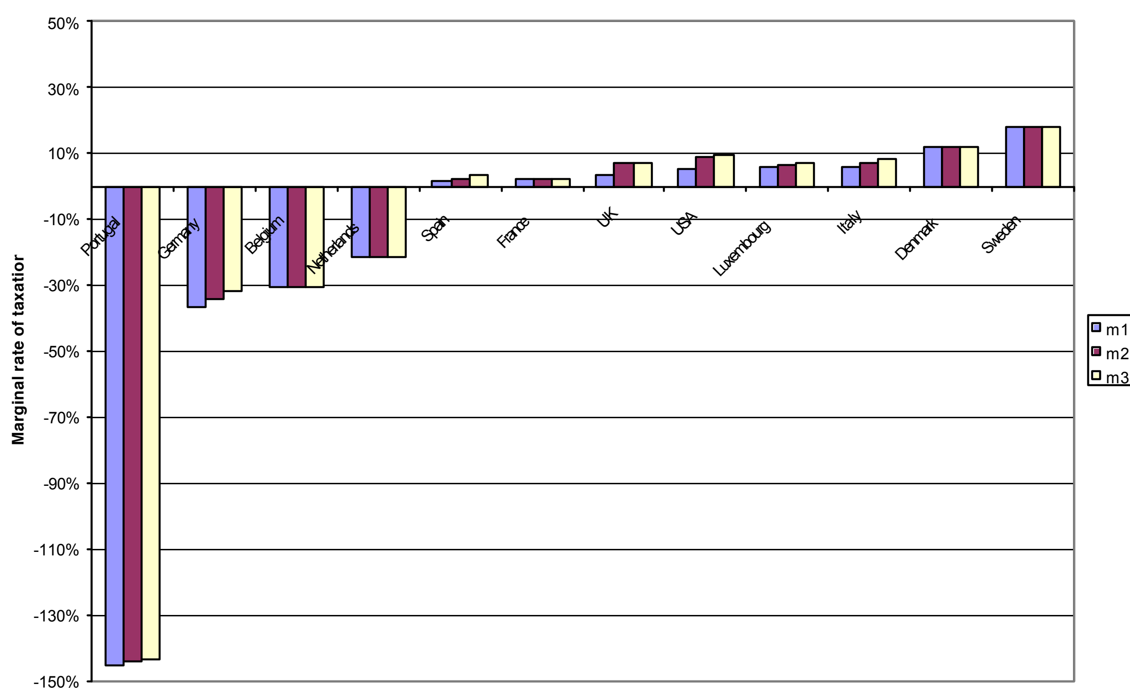
Even if the ranking becomes chaotic with long term capital gains, there is a common fact that appears for all countries that we have to noticed. Except UK, all countries does not use there progressivity taxation scale. All the m_i are equal in each country.

Life insurance contracts

For the two last products, we need to introduced the duration of contract in our computation. We consider the case of a life insurance contract within a ten years tenure.

Graph 8 give the EMTR results. The European average is –16,7 %, meaning a fiscal incentive to buy these contracts (taxation rules adds 16,7 % to the real return of these contracts). Four countries gives fiscal incentives : Portugal, Germany, Belgium and the Netherlands. The others give very weak disincentives. One have to mention that US and UK are now in the middle of the distribution. Sweden keeps the same top rank.

Graph 8. Insurance life contracts EMTR per countries



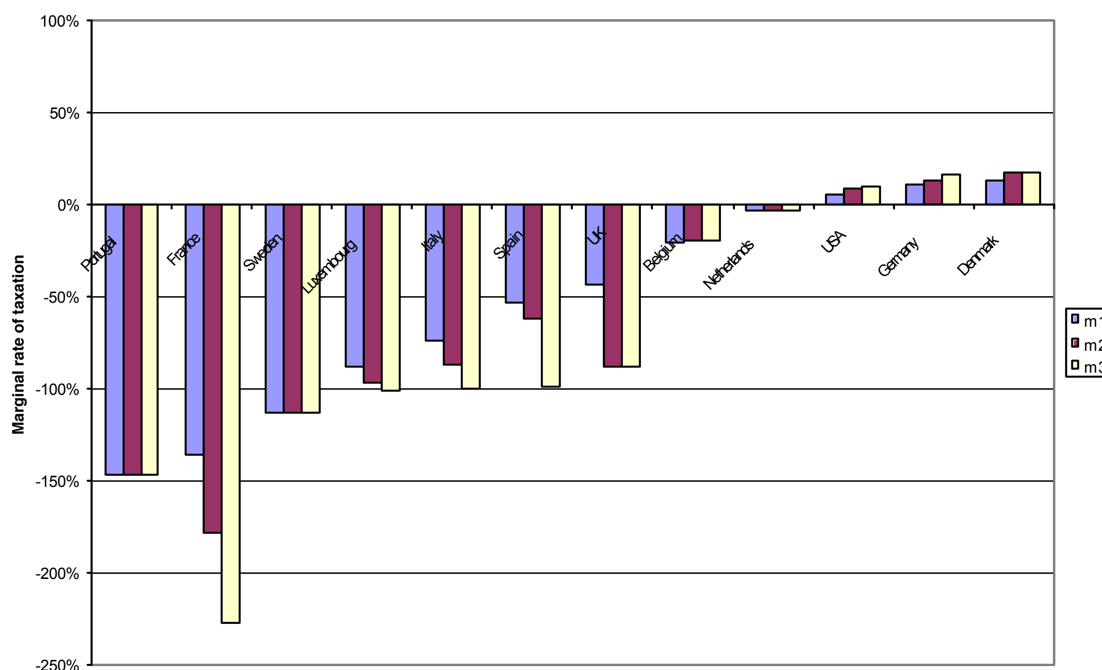
Insurance life products EMTR analysis leads to the same conclusions than the one we got for long term capital gains. First, we do not find a geographical typology of countries, except for the two opposite countries of the distribution, Portugal and Sweden and France, at the center. The other countries have another rank. Second, taking into account progressivity doesn't affect the new country ranking. The EMTRs are not strongly affected if we take m_2 or m_3 as benchmark.

Pensions schemes

Pensions schemes analyzed here belongs to individual plans under what we call the third pillar. We consider again the case of a contract within a tenure of ten years. As the capital amount is perceived at the retirement, we compute an annual equivalent rate as show in the methodological part. Under these assumptions, we obtain a European average of –0,6, meaning that fiscal regimes adds 60 % on the real return of this kind of product. All the countries covered offer strong fiscal incentives to pension scheme, except US, Germany and Denmark.

We get here a completely new ranking, far from the geographical one or the others we got with long term capital gains or life insurance contracts (see graph 9). Sweden switch to the bottom of the distribution, US to the top and UK to the middle.

Graph 9. Pension scheme EMTR per countries



Note that this new ranking is affected by the income index. One can first notice that m_1, m_2 and m_3 differ highly among countries. When EMTR is negative, one can also mentioned that higher income leads to lower EMTR (see France for instance). As far as pension scheme is concerned, taxation rules give a more important incentive to the richer than to the poorer in negative EMTR countries. The reason stays in the fact that premiums are deductible of the income tax which is progressive (a same amount of premium, says one Euro, leads to more deduction for higher income than for lower ones).

Conclusion

European taxation systems for savings products are complex and unstable. They have been affected by many reforms everywhere during the nineties, with both parametric adjustments and systemic changes. Clearly, these reforms did not introduced convergence of taxation regimes. At the beginning of 2001, differences among countries within a same family of savings products are huge and differences among products within countries also very important. There is a lack of common European view concerning the taxation of savings products. This explain why it is an hard task to find consistency in the existing European taxation systems.

In order to analyze such systems, we computed effective marginal tax rate on seven savings products families in eleven European countries and the US as benchmark. To make these computations, we considered the case of a single household with a labour income around the Average Product Worker in each country (and also closed to 2 APW and 4 APW). We took into account the whole taxation, including central and local taxes, and social contributions when they are applied. On this basis, we got the following conclusions.

- It is impossible to establish a fixed ranking of taxation pressure per countries, because the results depend mainly on the type of asset considered. Even if Sweden appears to be the most taxing country, since marginal tax rate are systematically the higher, we found that it is not the case for pension schemes, where Sweden gives stronger fiscal incentives than several others countries, including the US.

- Even if one take nominal return and inflation rate equal everywhere, the rate of return net of taxes is varying considerably between and within countries. It is true that we compare different periods of tenancy, but for the same period –says, one year - we found strong differences.

- In fact, it is important to distinguish two sets of savings products among countries. The less taxed correspond to long term assets (pension schemes, life insurance contracts and long term capital gains) The European EMTR average is

negative for pension schemes and life insurance contracts meaning a net fiscal incentive for consumers. The most taxed savings products correspond to short term assets but differ among countries : dividends (in Portugal, Sweden, Spain, USA, France, Netherlands, Germany and UK) and short term capital gains (Denmark, Belgium and Luxembourg).

- It is necessary also to distinguish four groups of countries in the sample studied. Northern European countries (Sweden, Denmark and Germany) show the highest effective marginal tax rates with a 76 % average for the three countries (excluding life insurance contract and Pension scheme). Central European countries (France, The Netherlands, Luxembourg and Belgium) with an average EMTR of 43 %, closed to the European mean. Southern European countries show the lowest effective marginal tax rates (with an average of 0,29). UK is closed to the United States with a 34 % EMTR average for the two of them.

- When local taxation in included, Sweden becomes a country with a very strong taxation, since the options with double taxation (personal and corporate tax) lead to marginal tax rates above 100%. But Sweden is the country with highest marginal tax rates even without considering local taxation.

- This classification is globally consistent for most short term savings products (liquidity, dividends, bonds and short term capital gains), but not for long term products. There is a clear lack of a common European view for these products and especially for long term capital gains.

- One can notice two main differences between US and Europe in this products ranking. First, the relative advantage given to long term products is less important in US than in Europe. There is no fiscal premium given to pension scheme and insurance life contracts in the US, there is a negative EMTR for these products in Europe. USA is the country that shows the least range of marginal tax rates among assets; so taxation system is thus designed in a more neutral way than in Europe. Second, the difference between dividends and capital gains taxation is higher in the US than in Europe. Comparing to European countries, US taxation is heavy for dividends but light for capital

gains. In Europe, there is less variance among "short term" (meaning more neutrality) savings products.

- There is a clear lack of consistency in the use of taxation progressivity. There is no clear relationship between taxation level and our progressivity index for any savings products. Moreover, progressivity is used for different products in different countries. It doesn't applied to long term capital gains (except in UK) but to pension scheme. When EMTRs are negative, *i.e.* when a fiscal incentive is given to savers, progressivity leads to more deductions for higher incomes than for lower ones (this is the case for five European countries with pensions schemes).

- As a concluding remark, this work highlights that it would a mistake to believe that the most simple are the tax rules, the more homogeneous is the taxation. For example, Swedish tax system, quite simple and without any exemptions, could seem more able to tax in an uniform way, but it does not. On the other hand, USA has a lot of exemptions but achieve a higher degree of neutrality.

Appendix I – Earnings in countries covered by the study

Income tax plus employee social securitycontributions[1] (as % of gross wage), 1998				
Country[2]	Income tax	Social security contributions	Total payment[3]	Gross wage earnings[4]
Belgium	28	14	42	30376
Denmark	34	10	43	32053
France	14	13	27	20307
Germany	21	21	42	29626
Italy	20	9	29	23981
Luxembourg	12	13	25	27304
Netherlands	7	27	34	27788
Portugal	7	11	18	11235
Spain	14	6	20	18696
Sweden	27	7	34	22377
United Kingdom	17	8	25	26616
United States	18	8	26	29076

1. Single individual at the income level of the average production worker.
2. Countries ranked by decreasing gross wage earnings.
3. Due to rounding total may differ one percentage point from aggregate of columns for income tax and social security contributions.
4. Dollars with equal purchasing power.

Source : OECD (http://www.oecd.org//daf/fa/stats/wages.htm)

Appendix II – Conversion rates

All currencies quoted against the euro (base currency)

Belgium	1 EUR = 40.3399 BEF
Denmark	= 7.4658 DKK
France	= 6.55957 FRF
Germany	= 1.95583 DEM
Italy	= 1936.27 ITL
Luxembourg	= 40.3399 LUF
Netherlands	= 2.20371 NLG
Portugal	= 200.482 PTE
Spain	= 166.386 ESP
Sweden	= 9.2393 SEK
United Kingdom	= 0.6257 GBP

For EMU members, these are the rates published in the Official Journal L 359 31.12.1998 + L167 7.7.2000). For non members (Sweden, UK and Denmark), these are the Euro Foreign Exchange reference rates as at 22 March 2001 (= 0.8889 US Dollar).

Appendix III – Consumer Prices

Country	Consumer Prices Index 12-month rate of change (since jan 2001)
Belgium	2.3
Denmark	2.4
France	1.2
Germany	2.4
Italy	3
Luxembourg	2.9
Netherlands	4.2
Portugal	4.4
Spain	3.7
Sweden	1.6
United Kingdom	2.7
United States	3.5

Appendix IV
Proposal for a Council Directive to ensure a minimum of effective taxation of savings income in the form of interest payments within the Community

Proposal for a Council Directive to ensure a minimum of effective taxation of savings income in the form of interest payments within the Community (98/C 212/09) COM(1998) 295 final - 98/0193(CNS)

(Submitted by the Commission on 4 June 1998)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 100 thereof,

Having regard to the proposal from the Commission,

Having regard to the opinion of the European Parliament,

Having regard to the opinion of the Economic and Social Committee,

(1) Whereas Council Directive 88/361/EEC of 24 June 1988 for the implementation of Article 67 of the Treaty (1) has allowed the complete liberalization of capital movements, including direct investment, taking place in the Community between residents of Member States since 1 July 1990; whereas the free movement of capital has, since 1 January 1994, been enshrined in Articles 73b to 73g of the Treaty;

(2) Whereas savings income, in the form of interest payments, from direct investment is taxable income for residents of all Member States;

(3) Whereas, by virtue of Article 73d(1) of the Treaty, Member States have the right to apply the relevant provisions of their tax law which distinguish between taxpayers who are not in the same situation with regard to their place of residence or with regard to the place where their capital is invested, and to take all requisite measures to prevent infringements of national law and regulations, in particular in the field of taxation;

(4) Whereas, in accordance with Article 73d(3) of the Treaty, the provisions of Member States' national tax law designed to counter abuse or fraud should not constitute a means of arbitrary discrimination or a disguised restriction on the free movement of capital and payments as established by Article 73b of the Treaty;

(5) Whereas, in the absence of any coordination of national systems for the taxation of savings, particularly as far as the treatment of interest received in each Member State by non-residents is concerned, residents of Member States are currently able to avoid any form of taxation on interest they receive in a Member State other than the one in which they are resident;

(6) Whereas this scope for tax avoidance is creating, in capital movements between Member States, economic distortions which are incompatible with the existence of the internal market;

(7) Whereas, at the Ecofin Council meeting of 1 December 1997 concerning taxation policy (2), the Council in its conclusions relating to the taxation of savings approved the objective of guaranteeing a minimum of effective taxation of savings income within the Community and

preventing undesirable distortions of competition; whereas to that end it agreed on a certain number of points which form the basis for this Directive;

(8) Whereas, in accordance with the principles of subsidiarity and proportionality set out in Article 3b of the Treaty, the objective of this Directive, which is that of the effective taxation of savings income within the Community, cannot be sufficiently realized by the Member States and can therefore be better achieved by the Community; whereas this Directive, as a first step towards such an objective, limits itself to the minimum required and does not go beyond what is necessary to achieve this objective, inasmuch as it applies only to interest paid by a paying agent established in one Member State to individuals who are resident in another Member State;

(9) Whereas, in the same way, the scope of this Directive should be limited to interest from the investment of capital; whereas the problems relating to the taxation of pensions and insurance benefits will consequently be the subject of separate consideration leading, where appropriate, to specific legislative initiatives;

(10) Whereas the objective pursued can be achieved thanks to the coexistence model, whereby Member States would choose either to operate a withholding tax on interest paid in their territory to non-residents (withholding-tax system) or to allow the Member State of residence for tax purposes of the beneficial owner of the interest to tax that interest through the communication of relevant information by the Member State of the paying agent (information system);

(11) Whereas, in the interests of legal certainty and transparency, Member States should be required to apply one and the same system to all interest paid within their territory to non-residents for tax purposes;

(12) Whereas, when opting for one of the two systems envisaged by this Directive, Member States should take the necessary measures to enable paying agents established within their territory to carry out the tasks required by this Directive;

(13) Whereas it should be specified that, when interest is not paid directly to the beneficial owner by the debtor of the capital which produces the interest, the paying agent of the Member State responsible for carrying out the tasks envisaged above is the economic operator responsible for the payment of interest for the immediate benefit of the beneficial owner;

(14) Whereas 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 and indirect taxation (3), as last amended by the Act of Accession of Austria, Finland and Sweden already allows Member States some opportunity for securing appropriate taxation through a procedure for exchange of information;

(15) Whereas the automatic provision of appropriate information between Member States on the interest payments covered by this Directive constitutes a conditio sine qua non for the establishment of an information system; whereas it should be stipulated that Member States applying that system cannot rely on the right to limit the exchange of information referred to in Article 8 of Directive 77/799/EEC;

(16) Whereas it is important to ensure that Member States having opted for the withholding-tax system apply that withholding tax at a minimum effective rate, and to ensure that withholding tax is charged only in the Community;

(17) Whereas when interest is paid by a paying agent established in a Member State which has opted for the withholding-tax system, the beneficial owner of the interest should, where he is

resident for tax purposes in another Member State, be allowed the possibility of presenting a certificate to the paying agent so that the latter does not withhold tax;

(18) Whereas, to that end, the competent authorities of the Member States should be required to provide such a certificate within a reasonable period of time;

(19) Whereas the objective of allowing the effective taxation of interest paid between two or more Member States places a corresponding obligation on Member States to eliminate any double taxation of that interest;

(20) Whereas, where a withholding tax has been applied to interest, the Member State of residence for tax purposes of the beneficial owner should take account of that withholding tax up to the level of the tax due in its territory on such interest; whereas any difference should be reimbursed by the Member State where the paying agent is established;

(21) Whereas the same principle should be applied with regard to interest from certain collective investment undertakings; whereas it would be advisable to provide suitable procedures to ensure the elimination of all double taxation borne by the interest concerned;

(22) Whereas the Council, in its conclusions of 1 December 1997 regarding the taxation of savings, emphasized the need to preserve the competitiveness of European financial markets, and stated that the basic principles of any Directive on the subject should be adopted as widely as possible; whereas, to this end, the Community must enter into negotiations with its main third country commercial partners, either on a bilateral or on a multilateral basis, in order to ensure the effective taxation of income from savings covered by this Directive which is paid to residents for tax purposes of the Member States by paying agents established in such third countries;

(23) Whereas provision should be made for a review of the situation by the Council, on the basis of a report by the Commission, three years after the date by which Member States are required to transpose the Directive, with the aim of determining to what extent further progress would be conceivable in order to ensure better effective taxation of savings income,

HAS ADOPTED THIS DIRECTIVE:

Article 1

Aim

1. Member States shall take the necessary measures to allow a minimum of effective taxation of interest paid to individuals who have their residence for tax purposes in a Member State other than the one where payment is made by a paying agent.

2. Member States shall take the necessary measures to ensure that the tasks necessary for the implementation of this Directive are carried out by the paying agent paying the interest established within their territory, irrespective of the place of establishment of the entity which is the debtor of the capital producing the interest.

Article 2

Coexistence model

1. Member States shall opt either for the transmission of information to the Member State of residence for tax purposes of the beneficial owner of the payment (hereinafter referred to as the 'information system`) or for the levy of a withholding tax (hereinafter referred to as the 'withholding-tax system`) in accordance with the rules set out in Articles 7 and 8.

2. Each Member State shall apply one and the same system to all interest payments made by a paying agent established within its territory to individuals who are resident for tax purposes in other Member States.

Article 3

General definitions

For the purpose of this Directive:

(a) 'beneficial owner` means any individual who receives an interest payment for his own benefit;

(b) 'paying agent` means any economic operator who is responsible for the payment of interest for the immediate benefit of the beneficial owner, whether he be the debtor of the capital which produces the interest itself or the operator charged with the payment of interest by the debtor or by the beneficial owner, in cases where the economic operator is established within the Community outside the Member State in which the beneficial owner is resident for tax purposes;

(c) Where there is a difficulty between two or more Member States in determining the 'residence for tax purposes` of a beneficial owner, the following criteria shall apply:

(i) the beneficial owner is deemed to be a resident of the Member State where he has his permanent home; if he has a permanent home in several Member States, he is deemed to be a resident of the Member State with which his economic and personal links are closest (centre of vital interests);

(ii) if the Member State where the beneficial owner has his centre of vital interests cannot be established, or he does not have a permanent home in any Member State, he is deemed to be a resident of the Member State where he usually resides;

(iii) if the beneficiary usually resides in several Member States or if he does not usually reside in any Member State, he is deemed to be a resident of the Member State of his nationality;

(iv) in the event of difficulty in determining the residence for tax purposes of a beneficial owner between two or more Member States on the basis of the criteria set out in points (i), (ii) and (iii), the Member States concerned shall agree, within a reasonable period of time, on a single place of residence;

(d) the 'competent authority` of a Member State means one of the authorities referred to in Article 1(5) of Directive 77/799/EEC.

Article 4

Identification of beneficial owners

Each Member State shall, within its territory, adopt and ensure the application of the procedures necessary to allow the paying agent to identify the beneficial owners and their place of residence for tax purposes for the purpose of Article 1.

Article 5

Definition of interest

For the purposes of this Directive, 'interest` means:

(a) income from debt-claims of any kind, whether or not secured by mortgage and whether or not carrying a right to participate in the debtor's profits, and in particular income from public debt securities or bonds, including premiums and prizes attaching to the latter. Penalty charges for late payment shall not be regarded as interest;

(b) the increase in value of debt-claims in respect of which the income, by contract, consists, wholly or partly, of that increase in value, irrespective of the nature of that increase. The interest to be taken into consideration in such circumstances is the difference, paid by the paying agent on redemption, between the capital reimbursed and the issue price of the corresponding securities;

(c) income distributed by undertakings for collective investment in transferable securities within the meaning of Council Directive 85/611/EEC (4) which invest directly or indirectly more than 50 % of their assets in debt-claims or corresponding securities;

(d) the difference between the redemption price of units in undertakings referred to in point (c) and the issue price of those units or, if the units are purchased by the beneficial owner after issue, the purchase price.

Article 6

Territorial scope

This Directive shall apply to interest paid by a paying agent established within the territory to which the Treaty applies by virtue of Article 227 thereof.

Article 7

Information system

1. The Member State of the paying agent shall, where it has opted for the information system, communicate to the Member State in which the beneficial owner of the interest is resident for tax purposes the information referred to in paragraph 2 which is necessary to establish the amount of the beneficial owner's income tax liability with regard to that other Member State.

2. The information transmitted by the competent authorities of the first Member State to those of the second Member State shall include at least the amount of interest paid, the date of payment, and the identity of, and residence declared by, the beneficial owner of the payment.

3. The provision of information shall be automatic and shall take place at least once a year, within six months of the end of the preceding calendar year, for all interest payments made during that calendar year.

4. Article 8 of Directive 77/799/EEC shall not apply to the information to be provided pursuant to this Directive.

Article 8

Withholding-tax system

1. Where the Member State of the paying agent has opted for the withholding-tax system, it shall apply a withholding tax at a minimum rate of 20 % to interest paid by that paying agent to the beneficial owner. No other withholding tax shall be levied within the Community on interest paid to beneficial owners.

2. The withholding tax shall not be levied where the beneficial owner concerned presents to the paying agent a certificate drawn up in his name by the competent authority of the Member State in which he is resident for tax purposes, in accordance with the provisions of Article 9, attesting that the beneficial owner has informed that authority of the interest to be received. Where the amount of interest paid exceeds the amount mentioned in the certificate, withholding tax shall be deducted from the difference between the two amounts.

3. This Directive shall not prevent Member States which have opted for the withholding-tax system from also providing information in accordance with national provisions or bilateral agreements with other Member States.

Article 9

Issue of certificates

The competent authorities of each Member State shall issue a certificate based on the information provided to them by their residents for tax purposes who are the beneficial owners of interest to be paid by a paying agent. The certificate shall indicate the identity of the beneficial owner and of the paying agent, the amount of the interest to be received and the date of payment. This certificate shall be issued to any beneficial owner who has requested it, within two months following such request.

Article 10

Elimination of double taxation

1. Member States shall take the necessary measures to eliminate all double taxation on the interest covered by this Directive.

2. If interest received by a beneficial owner has incurred withholding tax in the Member State of the paying agent, the Member State of residence for tax purposes of the beneficial owner shall grant him a tax credit equal to the amount of the tax withheld up to the amount of tax due on such interest in its territory. Where the amount of tax withheld in the Member State of the paying agent is higher than the tax credit granted to the beneficial owner by his Member State of residence for tax purposes, the Member State of the paying agent shall reimburse the difference directly to the beneficial owner.

3. As far as payments of interest within the meaning of Article 5(c) and (d) are concerned:

(a) where the Member State of the paying agent has opted for the information system, the Member State of residence for tax purposes of the beneficial owner shall grant him, up to the amount of tax due on such interest in its territory, a tax credit equal to the effective level of taxation incurred by the collective investment undertakings on the income corresponding to the interest paid to the beneficial owner;

(b) where the Member State of the paying agent has opted for the withholding-tax system, the paying agent shall reduce the withholding tax provided for by Article 8 by the effective level of taxation incurred by the collective investment undertakings on the income corresponding to the interest paid to the beneficial owner. In that event the Member State of residence for tax purposes of the beneficial owner shall grant him a tax credit which covers the entire taxation effectively borne by the interest, up to the amount of tax due in its territory on such interest.

4. If a withholding tax has already been deducted, without there being any possibility of its being refunded, in a third country from interest paid via a paying agent established in a Member State to a beneficial owner resident for tax purposes in another Member State, the Member State of the paying agent shall, where it has opted for the withholding-tax system, reduce the amount of the withholding tax on that interest by the amount of tax which has already been withheld.

Article 11

Negotiations with third countries

The Community shall enter into negotiations with its main third-country commercial partners either on a bilateral or on a multilateral basis, in order to ensure the effective taxation of income from savings covered by this Directive which is paid to residents for tax purposes of the Member States by paying agents established in such third countries.

Article 12

Transposal

1. Member States shall adopt and publish no later than 31 December 1999 the laws, regulations and administrative provisions necessary to comply with this Directive. They shall forthwith inform the Commission thereof.

They shall apply the provisions from 1 January 2001.

When Member States adopt the provisions as envisaged in the first subparagraph, these shall contain a reference to this Directive or shall be accompanied by such reference at the time of their official publication. The procedure for making such reference shall be adopted by Member States.

2. Member States shall communicate to the Commission the texts of the main provisions of national law which they adopt in the field covered by this Directive. In that communication they shall provide a correlation table showing the national provisions which exist or are introduced in respect of each Article of this Directive. Member States shall also provide the details of their competent authority.

Article 13

Review

The Commission shall report to the Council on the operation of this Directive before 1 January 2004. On the basis of that report, the Commission shall, where appropriate, propose to the Council any amendments to the Directive that prove necessary in order to ensure better effective taxation of savings income and to remove undesirable distortions of competition.

Article 14

Entry into force

This Directive shall enter into force on the twentieth day following that of its publication in the Official Journal of the European Communities.

Article 15

This Directive is addressed to the Member States.

(1) OJ L 178, 8.7.1988, s. 5.

(2) OJ C 2, 6.1.1998, p. 1.

(3) OJ L 336, 27.12.1977, p. 15.

(4) OJ L 375, 31.12.1985, p. 3.

ANNEX

DECISION OF THE REPRESENTATIVES OF THE GOVERNMENTS OF THE MEMBER STATES, MEETING WITHIN THE COUNCIL of . . . on the taxation of savings

THE REPRESENTATIVES OF THE GOVERNMENTS OF THE MEMBER STATES, MEETING WITHIN THE COUNCIL,

CONFIRMING that, in order to take account of the necessity to preserve the competitivity of financial markets in a global context, it is advisable that the elements agreed in the text on taxation of savings in the conclusions of the Ecofin Council of 1 December 1997 be adopted as widely as possible;

RECALLING that the proposal for the Directive presented by the Commission on 20 May 1998 to ensure a minimum of effective taxation within the Community of savings income in the form of interest is based on such elements;

CONFIRMING the agreement reached in the Ecofin Council of 1 December 1997 on the fact that the Member States should undertake, at the same time as discussions are taking place on this Directive, to promote the adoption of measures equivalent to those of the Directive and third countries as well as in their dependent or associated territories or the territories in which the Member States have particular responsibilities or fiscal prerogatives, which do not fall within the scope of the Directive,

ADOPT THE FOLLOWING DECISION:

Article 1

Member States undertake, in accordance with their own and the Community's respective competences, at the same time as discussions are taking place on the proposal for a Directive presented by the Commission on 20 May 1998 to ensure a minimum effective taxation within the Community of savings income in the form of interest, to promote the adoption in third countries of equivalent measures relating to payments of interest to Community residents.

Article 2

Member States which have dependent or associated territories or which have special responsibilities or taxation prerogatives in respect of other territories are committed to taking

appropriate measures, where appropriate within the framework of their constitutional arrangements, to ensure that provisions concerning interest payments to Community residents, equivalent to those contained in the Directive once adopted, may be applied in those territories.

Appendix V – Interest Rates (2000)

(percentages per annum – average of period value)

Money market interest rates

Euro Area			United States
1- month deposit	3 – month deposit	12 – month deposit	3 – month deposit
4.24	4.4	4.78	6.53

Source : ECB, Monthly Bulletin, March 2001 (table3.1).

Government bond Yields

Euro Area			United States
3 years	5 years	10 years	10 years
5.03	5.19	5.44	6.03

Source : ECB, Monthly Bulletin, March 2001 (table 3.2).

Retail bank interest rates

Euro Area – Deposit interest rates with agreed maturity		
Up to 1 year	Up to 2 years	Over 2 years
3.45	3.44	4.52

Source : ECB, Monthly Bulletin, March 2001 (table 3.4).

Interest rates in non EMU members

	Denmark	United Kingdom	Sweden
3 – month interest rate	5	6.19	4.07
Long-term government bond yield	5.64	5.33	5.37

Source : ECB, Monthly Bulletin, March 2001 (table 11).

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