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U.K., Swiss to Discuss Tax on Offshore Bank Accounts

By Warren Giles - Oct 25, 2010 5:31 PM GMT+0200

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U.K. nationals held 59.6 billion Swiss francs (\$61.5 billion) in undeclared assets in Swiss banks, Thorne estimated last year, with another 24.5 billion francs in declared assets. Photographer: Adrian Moser/Bloomberg

The U.K. and Germany plan to negotiate withholding taxes with Switzerland that will raise revenue from offshore Swiss bank accounts while keeping client identities secret.

The talks, starting early next year, will cover improved access for Swiss financial products to the U.K. market and the “regularization” of undeclared assets held by British citizens in Swiss banks, according to the Swiss Finance Ministry in Bern.

Swiss banks proposed a withholding tax on the interest, dividends, capital gains and investment income earned by foreign citizens with offshore accounts to deflect attacks on the country’s secrecy laws. While that would generate revenue for treasuries in the U.K. and Germany, the tax may persuade some cross-border European clients to repatriate their money.

“Everyone wants revenue and Germany has been taking the lead in trying to stitch up a deal while the U.K. is just desperate for money,” said [Peter Thorne](#), a banking analyst at Helvea SA in London. “But over the next few years it’s probably going to get harder for the Swiss to attract new assets from Europeans as people compare the costs of banking locally.”

Swiss Finance Minister [Hans-Rudolf Merz](#) signed a commitment to negotiate a tax deal after meeting U.K. Chancellor [George Osborne](#) in London. A similar agreement will be signed on Oct. 28 with Germany, the Swiss said.

‘Breakthrough’

“This is a breakthrough, reason has prevailed,” said [Franco Taisch](#), a professor of business law at the University of Lucerne. “Switzerland and its counterparts have struck a balance between taxpayers’ right to privacy and states’ right to tax their citizens.”

Under the outline for negotiations, the two governments agreed to find a solution for existing untaxed assets in Swiss accounts, and improve market access in the U.K. with “measures to decriminalize banks and their staff.” The withholding tax on future investment income will be set “as close as possible to local tax rates,” Merz told reporters in London.

To prevent clients avoiding the withholding tax, Switzerland will offer U.K. authorities assistance in tracing tax evaders based on the name of a client, “but not necessarily the name of the bank,” the finance ministry said. The number of requests will be “limited and must be well founded,” it said.

‘Important Step’

U.K. nationals held 59.6 billion Swiss francs (\$61.5 billion) in undeclared assets in Swiss banks, Thorne estimated last year, with another 24.5 billion francs in declared assets. Germans are the biggest cross-border customers of Swiss banks with about 280.6 billion francs of assets, of which an estimated 69 percent is undeclared, according to Helvea.

“The fact that we’re announcing that two major countries are ready to enter formal negotiations

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is an important step toward a final solution,” Patrick Odier, chairman of the Swiss Bankers Association, which represents more than 300 banks including UBS AG and Credit Suisse Group AG, said in an interview. “I wouldn’t be astonished if others were interested.”

Only 16 percent of the 863 billion francs held in Swiss banks by European nationals were declared, according to Helvea.

The U.K.’s HM Revenue and Customs said last December that withholding taxes don’t meet Organization for Economic Cooperation and Development standards for transparency because client identities remain secret.

Undeclared Assets

German Finance Minister [Wolfgang Schaeuble](#) said in August that a withholding tax would be part of an agreement with Switzerland that would also cover tracking down tax evaders.

The Swiss wealth management industry was shaken on March 13, 2009, when the government agreed to work with countries investigating tax evasion to avoid being blacklisted as a tax haven by the OECD.

Switzerland has initialed or signed almost 30 tax treaties over the past 19 months, including one with the U.K., to implement international standards and help track down tax evaders.

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