

The European Union Savings Tax Directive

An historic guide

Do you have any questions?

This guide will tell you more

If you are resident in an EU Member State and earn interest on deposits or investments held in any of the jurisdictions participating in the EU Savings Tax Directive, you may need to consider how the directive will affect you.

Glossary

These are some of the terms you'll come across when reading about the EU Savings Tax Directive in this guide:

The directive

The European Union Savings Tax Directive and similar measures introduced in other jurisdictions.

The islands

Jersey, Guernsey and the Isle of Man.

Savings income

Various kinds of savings income are affected by the directive, including interest on savings accounts and deposits. More information is provided in this guide.

Retention tax

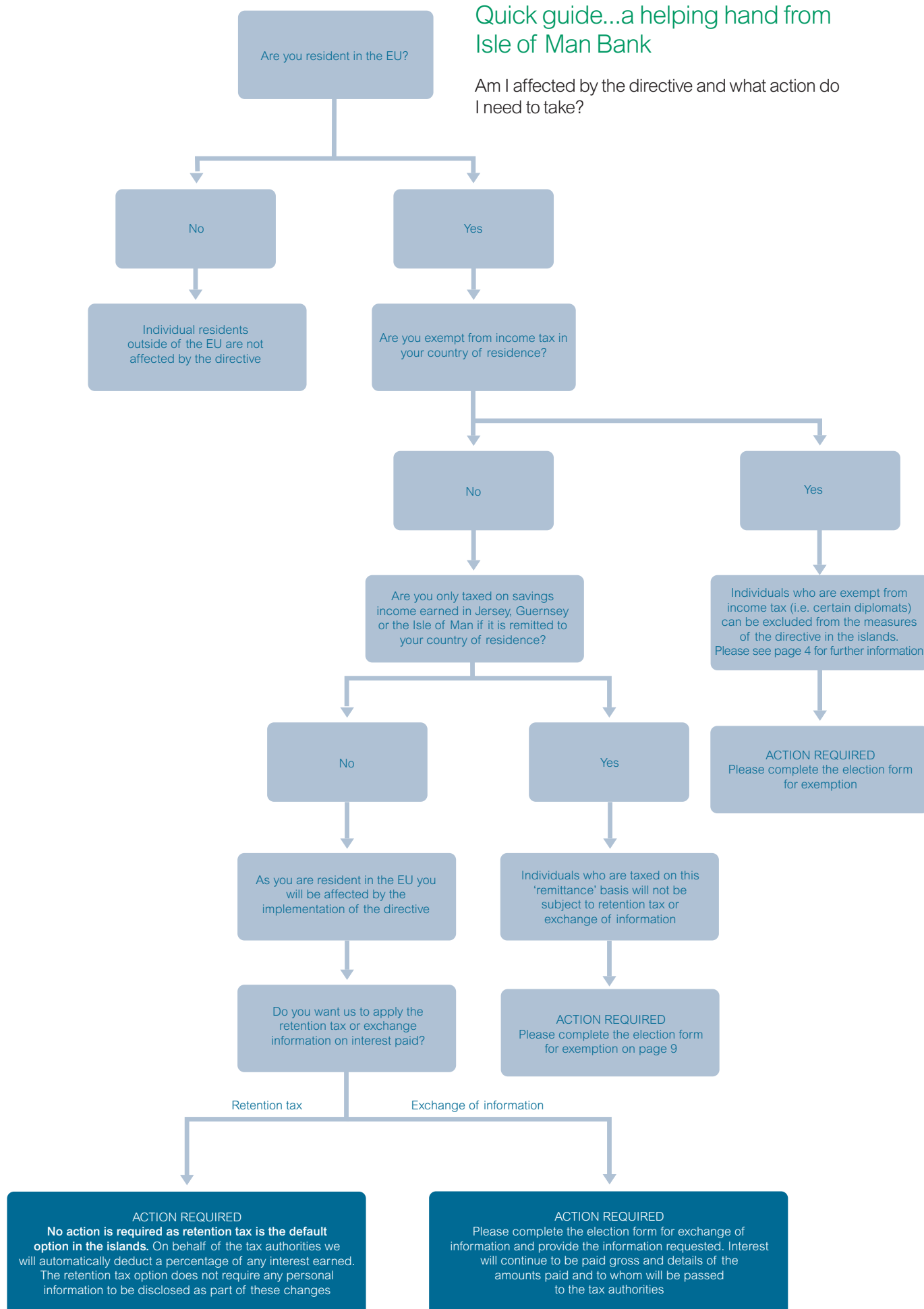
This is often referred to as 'withholding tax' and is a tax which will be deducted by financial institutions in some jurisdictions. This is an alternative to an exchange of information.

Exchange of information

This is the release of information about you and the interest paid on your savings ultimately to the tax authority in your EU country of residence. This is an alternative to retention tax and will allow us to continue to pay gross interest on savings without deducting retention tax.

Quick guide...a helping hand from Isle of Man Bank

Am I affected by the directive and what action do I need to take?



What is the European Union Savings Tax Directive?

It is an agreement between the Member States of the European Union (EU) to exchange information about customers who earn savings income in one EU Member State but live in another.

Some jurisdictions that are not part of the EU are voluntarily putting into place the same or equivalent measures. These include Switzerland, Jersey, Guernsey and the Isle of Man.

Although the long-term aim of the directive is exchange of information, there will be more flexible transitional arrangements in some places, including the islands.



What happens if I am resident in an EU Member State and earn interest from a deposit or savings account held in the islands?

You will be able to choose whether you want to pay a retention tax or ask us to exchange information on any interest earned. Alternatively, you might be excluded if you are exempt from income tax or are only taxed on this interest if it is remitted to your country of residence – see page 4.

If you prefer retention tax you need take no further action as this will apply automatically.

What are the transitional arrangements for the islands?

During the transitional period, which is expected to last until at least 2011, our customers who are resident in the EU and earn savings income in the islands will have a choice between exchange of information or paying a retention tax. Unless you specifically ask us to exchange information about you and your account, we will deduct retention tax – personal information on you and your account is not disclosed as part of these changes.



What happens if I am an EU National but do not live in an EU Member State at the moment?

As long as you live outside the EU and we have evidence to support this, savings income on your bank deposits will fall outside the scope of the directive.

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Which countries and territories are affected?

The directive covers all EU Member States. The jurisdictions which have voluntarily agreed to apply the same or equivalent measures are the UK Crown Dependencies and UK Overseas Territories, the Dependent Territories of the Netherlands, and some other 'Third Countries'.

The full list of countries covered by the directive is:

EU Member States	UK Crown Dependencies and Overseas Territories
UK	Jersey
Ireland	Guernsey
France	Isle of Man
Germany	Anguilla
Netherlands	Montserrat
Belgium	British Virgin Islands
Italy	Turks and Caicos Islands
Luxembourg	Cayman Islands
Spain	
Portugal	
Latvia	
Greece	
Austria	
Sweden	
Finland	
Denmark	
Republic of Cyprus	
Czech Republic	
Estonia	
Hungary	
Lithuania	
Malta	
Poland	
Slovakia	
Slovenia	
Bulgaria	
Romania	

Netherland Territories
Netherland Antilles
Aruba

Third Countries
Switzerland
Andorra
Liechtenstein
Monaco
San Marino

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So, does the directive affect me?

If you are resident in an EU Member State and earn 'savings income' on deposits or investments held in your own name in any of the other places on the previous page, it is likely that you will be affected by the directive. The directive does not apply to anyone who lives outside the EU.



What happens if I am an EU National but do not live in an EU Member State at the moment?

As long as you live outside the EU and have evidence to support this, savings income on your bank deposits will fall outside the scope of the directive.

What is 'savings income'?

In summary, savings income as defined by the directive means:

- interest earned on bank deposits, such as savings accounts
- interest from certain bonds and proceeds on their sale or redemption
- income from certain types of investment funds

Most other types of income – for example, dividends on ordinary or preference shares of companies, salary and pension payments – fall outside the definition and so are outside the scope of the directive.

If you'd like to know more about how savings income is defined by the directive, we'd be pleased to help.

Is anyone exempt from the directive?

The directive only applies to individuals resident in EU Member States, so if you live outside the EU you will not be affected.

Even if you live within the EU you won't be affected if you are exempt from income tax or only liable to income tax if the interest is remitted – or brought into - your country of residence. Some examples of those who might be exempt are given on the next page.

Please note that you are not exempt if you simply do not pay tax because your earnings are lower than current allowances in your country of residence.

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? What happens if I am resident in an EU Member State but I am only taxed on interest received from the islands when it is remitted to my country of residence?

If you believe you fall within this category you need to complete the election form on page 9.

A typical example of someone who is taxed on interest only if remitted to their country of residence might be someone who is in the UK on a temporary employment contract. They might choose to hold funds offshore to take advantage of current UK tax rules which mean that certain income and gains will only be subject to UK tax if they are remitted – or brought into – the UK.

? What happens if I am resident in an EU Member State but I am exempt from income tax?

If you are exempt from income tax please complete the election form on page 9.

Examples of those who might be exempt from income tax include certain diplomats and High Commissioners of Commonwealth countries. **You are not exempt if you simply do not pay tax because your earnings are lower than current allowances in your country of residence.**

Are all of my accounts affected by the directive?

If you are not exempt, any accounts that pay credit interest will be affected – for example savings accounts and fixed-term deposits. Under current guidance, returns from our structured deposit accounts opened in the Channel Islands or the Isle of Man should **not** be affected. However, please note that it is still your responsibility to declare any relevant returns to your local tax authority.

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What is the retention tax option and how will it work?

If your account is held in the islands, the deduction of retention tax from interest and other savings income earned will be the default option. **This means that if no other information is provided to us the retention tax will be applied.**

With the retention tax option no personal information is disclosed as part of these changes.

All retention tax deducted is passed as a single lump sum to the relevant local tax authority within the Islands. We set out how much of the total amount relates to customers who live in each EU Member State. The island tax authority keep 25% of the total amount collected and pass 75% to the relevant tax authorities within the EU Member States. Each Member State receives a bulk payment but does **not** receive personal details about individual customers.

Our customers with accounts in the islands will have the option to exchange information instead of paying this retention tax.

? What happens if I am resident in an EU Member State but I am a non-taxpayer in my country of residence?

By selecting the exchange of information option by completing the election form on page 11, you will be able to ensure that no tax is deducted at source. Alternatively, if you are exempt from income tax, or only taxed if interest is remitted to your country of residence, we can exclude you from the measures of the directive once you have completed the election form on page 9.

? I am a non-taxpayer but retention tax is deducted because I haven't completed an election form?

Depending on your local tax rules you might be able to reclaim some or all of the retention tax that we have deducted at source. By completing the relevant election form you will also be able to avoid retention tax being deducted in the future.

How much will the retention tax be?

The rate of retention tax applied to savings income (for example, interest on bank accounts) will be 20% from 1 July 2008 and 35% from 1 July 2011.

For example, if the balance of your account is £10,000 and you earn £300 interest a year, the retention tax due from 1 July 2008 would be 20% of this - just £60. From 1 July 2011 the 35% retention tax due would be £105 based on the previous example where you earn £300 interest a year.

? What happens if I don't want to pay a retention tax?

If you:

- opt for exchange of information, you will still receive gross interest payments. Details of these payments will ultimately be passed to your local tax authority.
- are exempt from income tax **or** not liable to income tax unless the interest is remitted to your country of residence you will **not** be subject to either retention tax or exchange of information - see page 4.

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What is the exchange of information option and how will it work?

Individuals with accounts in the islands have the option to ask us to exchange information instead of deducting the retention tax. If you choose this option, we send our local tax authority information about your identity and residence, the amount of savings income earned and the period it relates to. This information is then forwarded to the tax authority of the country where you are resident and may be compared with your domestic tax returns. By choosing this option, you will continue to receive interest without deduction of retention tax.

It should be noted that the deduction of a retention tax is the default position in the islands and that the exchange of information can only occur once you have completed the election form on page 11.

What happens if I am resident in an EU Member State but I am a non-taxpayer in my country of residence?

In selecting the exchange of information option by completing the election form on page 11, you will be able to ensure that no tax is deducted at source. Alternatively, if you are exempt from income tax, or only taxed if interest is remitted to your country of residence, we can exclude you from the measures of the directive once you have completed the election form on page 9.

How do these options fit with the data protection legislation and customer confidentiality in the islands?

All the islands have comprehensive data protection legislation and well-established common-law principles on customer confidentiality. These will not be affected by the introduction of the agreements because the 'default' position in the islands is the retention tax option, under which customer confidentiality is fully maintained. Exchange of information can only take place at the express request of individual customers and if you want to choose this option you need to complete the election form on page 11.

How will the interest earned on joint accounts be treated?

Interest earned on accounts held in two or more different names will be treated on the basis that it has been earned equally among the account holders. Each account holder will be able to choose which option they want to apply to their portion of the overall interest.

What happens if I am resident in an EU Member State and hold a joint bank account in the islands with a non-EU resident?

You can choose to pay retention tax or to exchange information on your portion of the overall interest. Your chosen option will be applied on the basis that interest is shared equally among the holders of the joint account.

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Are companies affected by the directive?

The directive only applies to payments of savings income to individuals and certain other special types of organisation. Legal entities, including companies, and certain other entities (for example Partnerships and certain Trusts) are not affected by the directive.

When did the directive come into effect?

The directive came into force on 1 July 2005.



What do I need to do next?

Please decide which option applies to you and follow the simple instructions outlined below.

Your options:

- exempt: if you are exempt please complete the election form on page 9
- pay retention tax: no action needs to be taken as this is the default position in Jersey, Guernsey and the Isle of Man
- exchange of information: please complete and return the election form on page 11 if you want us to exchange information rather than apply the retention tax

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Election form for exemption

Please **only** complete this form if:

you are not an EU resident (complete section 1 and option A)

or

you are exempt from the directive (complete section 1 and option B)

We recommend, if you are in any doubt about the EU Savings Tax Directive or its implications, you seek independent, professional advice before completing and returning this form.

Section 1

Name	<input type="text"/>	
Correspondence address line 1	<input type="text"/>	
Address line 2	<input type="text"/>	
Address line 3	<input type="text"/>	
Address line 4	<input type="text"/>	
Postcode	<input type="text"/>	<input type="text"/>
Account number	<input type="text"/>	Sort code <input type="text"/> <input type="text"/> <input type="text"/> (Please leave blank if your account has not yet been opened)

Option A

Please complete this section if you are not an EU Member State resident

I confirm my current residential address is:

Address line 1	<input type="text"/>	
Address line 2	<input type="text"/>	
Address line 3	<input type="text"/>	
Address line 4	<input type="text"/>	
Postcode	<input type="text"/>	<input type="text"/>

Please cross this box if you wish us to use the residential address above in future for mailing purposes

Please note - if you confirm that you are living outside the EU, we may subsequently be required to contact you to request additional documentation to verify your address.

Option B

Please cross the appropriate box below to confirm why you are exempt.

I am exempt from income tax in my EU country of residence

I am only taxed on interest earned in Jersey, Guernsey or Isle of Man if it is remitted (transferred) to my EU country of residence

I confirm, in signing this form, that I have read and understood the information provided in respect of the EU Savings Tax Directive. I also acknowledge the need to keep you informed of changes to my circumstances which will impact upon the way my accounts are dealt with in relation to the EU Savings Tax Directive.

Signed

Date

What to do next...

Firstly, please check that all relevant sections of this form have been completed...



Have you...

- ✓ Filled in your name and address
- ✓ Completed the 'option A' residency section if you live outside the EU
- ✓ Completed the 'option B' section if you are exempt
- ✓ Signed and dated the form



Please return the completed form to:

If you are exempt from the directive or are not an EU resident, the completed form should be returned to the address below:

Isle of Man Bank Limited, 2 Athol Street, Douglas, Isle of Man, IM99 1AN.

Election form for exchange of information

I agree to exchange of information

Please **only** complete and return this form if you want to choose the **exchange of information** option instead of having **retention tax** deducted from your **savings income**. **We recommend, if you are in any doubt about the EU Savings Tax Directive or its implications, you seek independent, professional advice before completing and returning this form.**

Under this option, you will continue to receive interest without retention tax being deducted and we will pass certain information about you and your **savings income** to the tax authorities. They may subsequently compare this information with the figures included in your tax returns.

Name	<input type="text"/>	
Address line 1	<input type="text"/>	
Address line 2	<input type="text"/>	
Address line 3	<input type="text"/>	
Address line 4	<input type="text"/>	
Postcode	<input type="text"/>	<input type="text"/>
Account number	<input type="text"/>	Sort code <input type="text"/> (Please leave blank if your account has not yet been opened)
Date of birth	<input type="text" value="DD MM YY YY"/>	
Country of birth	<input type="text"/>	
Town of birth	<input type="text"/>	
Please include your Tax Identification Number (TIN) if you have one		
TIN number	<input type="text"/>	
Country issuing TIN	<input type="text"/>	

I confirm, in signing this form, that I have read and understood the information provided in respect of the EU Savings Tax Directive.

Signed

Date

What to do next...

Firstly, please check that all relevant sections of this form have been completed...



Have you...

- ✓ Filled in your name and address
- ✓ Completed the personal details requested
- ✓ Included your Tax Identification Number if you have one
- ✓ Signed and dated the form



Please return the completed form to:

If you are exempt from the directive or are not an EU resident, the completed form should be returned to the address below:

Isle of Man Bank Limited, 2 Athol Street, Douglas, Isle of Man, IM99 1AN.

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