Switzerland agrees to tax British and German-owned bank accounts

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Switzerland has announced it is negotiating tax agreements with both the UK and Germany that will force Swiss banks to tax at source the interest they pay to British and German clients.

The Swiss Federal Ministry of Finance said the withholding tax system supersedes any ideas that foreign tax authorities might get automatic access to Swiss banking information.

Instead, once the Swiss have passed on withholding tax receipts to the relevant foreign government, the latter will regard the accountholder as having fulfilled his tax obligations.

Where a UK or German taxpayer is suspected of secretly operating a Swiss account, the Swiss have also agreed to provide "extended administrative assistance".

This means that the foreign tax authority need only supply the client's name, and the Swiss authorities will then locate the account and disclose the details.

This goes further than the OECD information exchange protocol, which requires any such request to name the bank too. But the Swiss finance ministry insisted that it would not allow fishing expeditions: "The number of requests that can be submitted is limited and must be well founded", it said in a statement.

There is also expected to be some form of extra levy on accounts held for many years or inherited on the original holder's death, so that untaxed existing assets can be "regularised".

But the Swiss finance ministry said the withholding tax itself will not be retroactive. It also wants guarantees that the UK will not prosecute banks and their staff for past activities.

The Swiss Bankers Association supports the flat withholding tax solution, which it said would "enable Swiss banks to abide by their duty of fiduciary care for their longstanding clients".

But Andreas Kolb, partner in the Switzerland office at international law firm Eversheds, described the UK deal as "something of a one way street at the expense of Switzerland".

"One of the main goals seems to be to avoid the automatic exchange of information", said Kolb. "It would be short-sighted of Switzerland to offer such generous solutions to the problem without obtaining some kind of long-term binding guarantee that this goal will be achieved."

Yesterday Switzerland announced it had made a very similar draft agreement with Germany, incorporating the same disclosure requirements and withholding tax (though not necessarily at the same rate as the tax on UK accountholders).

A further bone of contention between Switzerland and Germany will also be resolved in the coming negotiations: namely Germany's practice of buying client bank stolen from Swiss banks. "The package includes resolving the problem of possible criminal prosecution of bank employees," said the Swiss statement.

Detailed negotiations for both agreements - including the flat withholding tax rates - will not begin until the new year.

Along with this, Switzerland and Germany signed a new double taxation treaty incorporating OECD tax information exchange provisions, and reducing the withholding taxes imposed on interest payments.

Sources

Swiss Federal Department of Finance (UK deal)

Swiss Federal Department of Finance (Germany deal)

Swiss Bankers Association (PDF)

Eversheds

Reuters

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