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COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMISSION STAFF WORKING DOCUMENT

Accompanying document to the

Proposal for a

COMMISSION RECOMENDATION

on withholding tax relief procedures

SUMMARY OF THE IMPACT ASSESSMENT

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"THE ECONOMIC IMPACT OF THE COMMISSION RECOMMENDATION ON WITHHOLDING TAX RELIEF PROCEDURES AND THE FISCO PROPOSALS"

The amount of cross-border holdings within the European Union was 16.7 trillion dollars in 2006, composed of 6.4 trillion in equity securities and 10.3 trillion in debt securities. This accounts for more than 50% of the worldwide amount, both with respect to the origin and the destination of the investments.

As a general rule, Member States levy withholding taxes under domestic law on dividend and interest income, but pursuant to double tax conventions or domestic law, the tax rate for non-resident investors is often lower than that for domestic investors. Taking into account the respective amount of cross-border security holdings, the weighted average withholding tax rate for domestic investors is 14.8% for dividends and 19.7% for interest payments. The average actual statutory rate for non-domestic investors is 11% and 3%, respectively. However, procedures to reduce the withholding tax rates at source to the lower rates, or to claim refunds of tax withheld, are often so complicated and varied that non-resident investors eventually may forego the benefits to which they are entitled.

The Commission staff working document seeks to assess the economic impact of the Commission Recommendation to simplify withholding tax relief procedures, which draws upon the conclusions of the EU Clearing and Settlement Fiscal Compliance Experts' Group (FISCO) and the barriers identified by the Giovannini Group that advised the European Commission on financial market issues.

It became clear that more efficient procedures would reduce costs, not just for Member States, but also for the different actors involved such as financial intermediaries and investors.

Three main present cost drivers were identified:

- The current reclaim procedures that involve completion of various paper forms and documents. The costs related to these present reclaim procedures are assumed to account on average for 2% of the refundable amount and are estimated to a value of €1.09 billion annually.
- Foregone tax relief due to high thresholds. Many (small) investors do not actually claim their tax refunds due to the current high costs. The assumed amount of foregone tax relief is estimated at €5.47 billion annually.
- Opportunity cost due to delayed claims and payments of tax refunds. The current delayed refunding is estimated to amount to an opportunity cost of €1.84 billion annually.

Moreover, the document estimates that improved tax procedures would increase EU GDP by €3.4 billion or 0.028% per year compared to a situation where no tax relief at source or quick refund procedures are available (or more than €37 billion over a 10 year period with an assumed 2 % growth rate of real GDP).

The document further lists several positive examples of Member States (i.e. Finland, Germany, Ireland and the Netherlands) that to various degrees have already adopted some of the measures suggested in the Commission's Recommendation.

The document recognizes that the Recommendation will not eliminate "Giovannini barrier 11" totally. Nevertheless, if the Recommendation is implemented, the proposed solutions are expected to lead to improved, standardised, simplified and modernised procedures adapted to the way EU financial markets operate today. Consequently, Member States, industry, investors, tax payers and the single market as a whole stand to benefit.