

European Union Savings Directive

1. The Directive

- The European Union Savings Directive 2003/48/EC ("the Directive") aims to ensure that savings income in the form of interest payments generated in a EU member state in favour of individuals or residual entities being resident of another EU member state are effectively taxed in accordance with the fiscal laws of their state of residence.
- The ultimate aim of the Directive is to ensure exchange of information between member states and such exchange will already apply in 22 EU member states as of the date of entry into force of the Directive, being the 1st of July 2005.

For a transitional period, Luxembourg (along with Belgium and Austria) will apply a withholding tax on interest income by default.

This transitional period will last at least nine years and will only end from the date of entry into force of agreements with third countries providing for the exchange of information upon request.

2. Who is in the scope of the Directive?

The Directive considers that a beneficial owner is any individual being resident of a EU member state who receives savings income in the form of interest payments from institutions situated in other member states.

Some entities qualified as residual entities are also considered to be taxable by the Directive. A residual entity is defined by the Directive as an entity which is not:

- a legal person,
- taxed on its profits under the general arrangements for business taxation,
- an Undertaking for Collective Investment in Transferable Securities (UCITS) recognised in accordance with Directive 85/611/CE,
- an elective UCITS (residual entity which has been given a certificate by its domestic tax authorities allowing it to be treated as a UCITS).

Individuals are considered as the beneficial owners by default, except if they can provide evidence that they only act on behalf of the ultimate beneficial owner.

A beneficial owner who claims to be resident in a third country outside the EU, but who presents a passport or identity card issued by a EU member state, is deemed to be resident of that member state in the absence of a tax certificate issued by this third country.

3. Which countries are in the scope of the Directive?

The following overviews mention the jurisdictions committed to the exchange of information and those committed to withholding tax:

- **Exchange of information jurisdictions:**

Anguilla, Finland, Italy, Portugal, Aruba, France, Latvia, Slovakia, Cayman Islands, Germany, Lithuania, Slovenia, Cyprus, Gibraltar, Malta, Spain, Czech Republic, Greece, Montserrat, Sweden, Denmark, Hungary, The Netherlands, United Kingdom, Estonia, Ireland, Poland, United States.

- **Withholding tax jurisdictions:**

Andorra, Guernsey, Luxembourg, Switzerland, Austria, Isle of Man, Monaco, Belgium, Jersey, Netherlands Antilles, Turks and Caicos Islands, British Virgin Islands, Liechtenstein, San Marino.

4. Which events will lead to interest income taxation for investment fund shareholders?

- a. Dividend payments in funds invested in at least 15% in debt-claims.
Fiscal basis: interest income earned in the dividend amount.
- b. Share redemption (along with transfers and mergers) in funds directly or indirectly invested at more than 40% in debt-claims (25% from January 1st 2011)
Fiscal basis: interest income earned in the redemption amount.

If you have invested in such funds, your interest income will be subject to the Directive's provisions.

5. Which options are available for beneficial owners?

The three following options are authorized by Luxembourg Law until the end of the transitional period.

- a. **Withholding tax on taxable interest income earned in relation to dividends or redemptions' payments (default).**

Withholding tax rates amount to:

- 15% on interest income during the first three years starting July 1st 2005,
- 20% from 2008 to 2011,
- 35% from 2011 until the end of the transitional period.

For a transitional period, Luxembourg (along with Belgium and Austria) will apply a withholding tax on interest income by default.

By choosing this option, the beneficial owner authorizes Citibank Luxembourg to directly withhold the tax amount from his redemption and dividend payments, when applicable.

- b. **Exchange of information:** if the beneficial owner duly authorizes the Paying Agent to transmit information regarding his identity and earned interest income to the Luxembourg fiscal authority who will in turn pass on such information to the tax authorities of the Beneficial Owner's country of residence, no withholding tax will be applied by the Luxembourg Paying Agent.
- c. **Certificate of disclosure:** this certificate is issued upon request of the beneficial owner by its domestic tax authorities and is valid for three years. No withholding tax or exchange of information will be applied by the Luxembourg Paying Agent

If you would like to opt for b or c, send an email at ifm@ikano.lu or call us at +352 26 44 22 327. We will then send you the proper forms. As it is the law of the Paying Agent's domicile that will apply, Citibank Luxembourg will collect the information detailed in the EU Savings Directive beneficial owner form (the "Form") and apply the option chosen by the beneficial owner (as detailed in point 5) in accordance with Luxembourg Legislation.

6. What is a Paying Agent?

The Paying Agent is the last economic operator that instructs or secures the payment of interest income to the immediate benefit of the beneficial owners.

Citibank Luxembourg is considered as a Paying Agent for the Ikano Funds as per the terms of the Directive when it instructs the payment of redemptions (or dividends) directly on the bank accounts of the beneficial owners as long as they are fiscally domiciled in another EU member state.

7. Fiscal information

For additional information on the implications of the European Savings Directive, we advise you to contact your fiscal advisor.