Questions and answers on the tax agreement with Germany and the United Kingdom

Final withholding tax

What is a final withholding tax? How does it work?

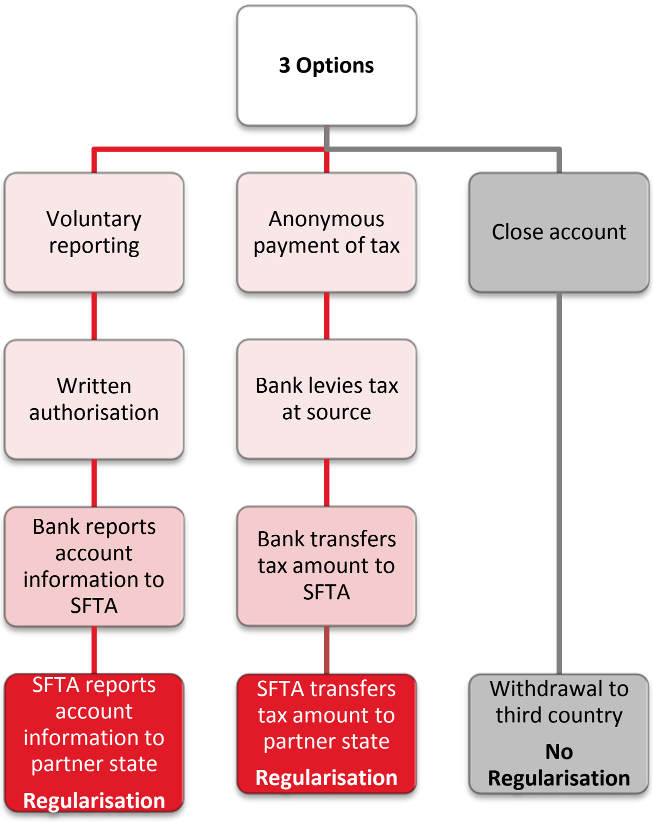
A final withholding tax is a tax which has the effect of settling all claims. It is a tax levied at source at a flat rate and transferred to the tax authority of the partner state. The specific procedure is as follows: the Swiss bank deducts a flat-rate tax sum on existing assets from German respectively British clients (past) and on investment income and capital gains (future) respectively, and forwards this sum to the Swiss Federal Tax Administration (SFTA). The SFTA then transfers the tax to the German respectively British tax authorities. Once the tax has been levied, the tax liability is deemed to have been settled – hence the term final withholding tax. With this mechanism, bank clients can protect their privacy while the foreign tax authorities receive the tax payments they are legally entitled to.

Regularisation of the past

How does the regularisation of existing banking relationships work?

Clients domiciled in Germany respectively the UK can opt for one of two different ways of regularising existing banking relationships in Switzerland (see figure on the right):

- They can pay a one-off flat-rate tax. The tax amount is determined on the basis of a formula contained in the tax agreement. In the case of Germany, this ranges from 21% to 41% of the assets, in the UK's case this ranges from 19% to 34%. Still outstanding tax arrears will be settled by the one-off taxation to regularise the past.
- They can disclose their banking relationship in Switzerland to the German respectively British authorities. Disclosure means that the customers will be subject to retrospective taxation by their tax authorities on an individual basis.



Clients who decide not to regularise their position, i.e. clients who are unwilling to accept either an anonymous payment of tax or a voluntary reporting, must close their accounts or custody accounts in Switzerland by the time the agreement comes into force. This will ensure that in future only tax-compliant assets are invested in Switzerland. The signatory states have endeavoured to set the tax rates in such a way that tax equity is preserved and that tax offences are not rewarded after the event.

How will clients be prevented from closing their accounts before the agreement enters into force so as to avoid paying tax?

Because of the free movement of capital, clients cannot be prevented from closing their accounts early. However, the agreement reduces the incentives to evade taxation:

- Clients will miss the opportunity to regularise their untaxed assets and income once and for all and in doing so to gain free legal access to their assets.
- Clients will also miss out on the advantages Switzerland offers as a financial centre (legal security, quality of

service, currency stability, geographical location etc.).

- In the agreement, Switzerland also undertakes to provide the German respectively British authorities with statistical information on the most important destination countries of clients who have terminated their bank relationships in Switzerland.

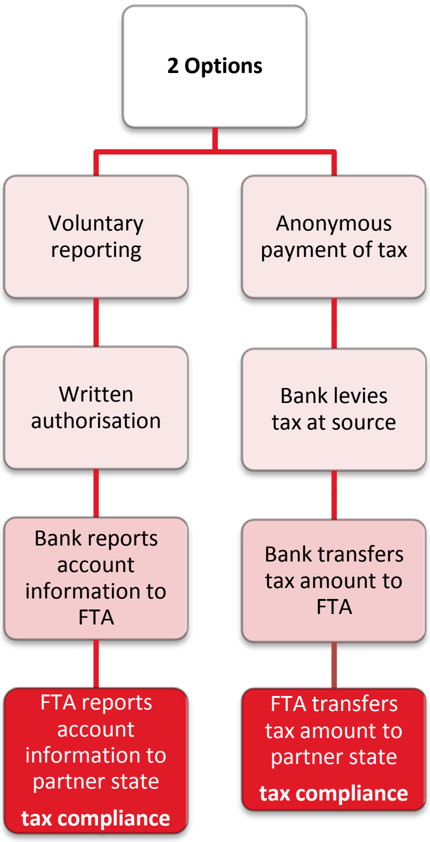
Swiss banks make an advance payment toward future tax revenues; this payment will be refunded to the banks if sufficient tax revenues are raised from clients. The prepayment amounts to CHF 2 billion in the case of Germany, CHF 500 million in the case of the UK.

Withholding tax for the future

How does the withholding tax for the future work?

After the Agreement enters into force, the client has two options (see figure). Either he makes an anonymous withholding tax payment or he reports to the German respectively British authorities. There will be no other way to open or maintain an account.

The tax rates are aligned on the tax rates of Germany and the UK so as to avoid any distortion of competition regarding taxes. For German taxpayers the uniform tax rate on investment income is 26.375% in line with the current flat-rate withholding tax in Germany (25%, plus solidarity surcharge). For taxpayers in the UK the tax rate has been set between 27% and 48%, depending on the category of capital income. In addition, in the case of inheritances, the same tax rate will be applied as in the state of origin (50% for Germany and 40% for the UK). The goal is to maintain tax fairness and not to subsequently reward tax offences.



How can implementation of the agreements be monitored?

Implementation of the agreements by the Swiss banks will be periodically monitored by the Swiss authorities. This will be achieved by means of audits contractually laid down in the tax agreements. The law provides for penal sanctions in the event of the banks acting in breach of the rules.

How can fresh untaxed funds be prevented from entering Switzerland?

It cannot be ruled out that taxpayers who have regularised their position could in due course deposit new untaxed funds in their Swiss accounts. As a safeguard, certain enquiries on the part of the German respectively British authorities will therefore be possible in which the name of the client will be required. Where the taxpayer has an account or deposit, Switzerland shall provide the number of existing accounts.

What impact will the agreement have on Swiss banking secrecy?

Protecting the privacy of the banks' clients is and will remain one of the pillars of the Swiss financial sector. The agreements respect this requirement: only tax payments will be handed over to foreign tax authorities, not names of bank clients. Banking relationships will only be disclosed with the explicit consent of the person concerned. To this end, the agreements enable appropriate and substantial taxation without abandoning protection of clients' privacy. In short, in future the privacy of honest clients only will be protected.

The two agreements

What are the differences between the two agreements?

The content of the two agreements is largely the same. The differences are due primarily to the different tax systems, and concern in particular the tax rates for future income and procedural arrangements. The UK agreement provides some special rules for resident non-domiciled persons.

What are the next steps?

The agreements require the approval of parliament in the countries involved, and should enter into force at the start of 2013. Switzerland is up to discuss this model with other interested countries.