Banking secrecy is slipping away

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MANY wealthy people in France have traditionally taken advantage of Swiss banking secrecy to hide some of their money from the French taxman - but this is becoming a riskier option.

Over the last few years the country has been under pressure to conform to international banking regulation and, despite its desire to maintain its principle of banking confidentiality, it has had to relax its rules to a certain extent.

There have also been scandals involving data on account holders being stolen.
Last year, the French government got its hands on a disc containing details of 24,000 Swiss bank account holders with private bank HSBC Holdings in Geneva - information stolen by a former employee.

Switzerland protested about stolen data being used by tax authorities, as it was illegally obtained. France returned the disc to Switzerland and agreed not to use the information to request further details from Switzerland.

However, it may pursue French tax offenders based on information in the stolen data.

The German government similarly got hold of stolen information this year.

While there is controversy over the ethics of governments purchasing such data, the willingness of some of them to do so further weakens Switzerland's former solidness as a financial centre where banking secrecy was thought to be impenetrable.

As Switzerland hosts over a quarter of the world's offshore privately held wealth it is not surprising that other governments anxious for tax revenues are determined to put an end to its secrecy.

According to accountants KPMG, around 80% of capital held by European clients is undeclared, amounting to hundreds of billions of euros.

In March last year, in the lead up to the April G20 summit, tax havens were threatened with sanctions if they did not co-operate.

Switzerland quickly agreed to comply with the Organisation for Economic Co-Operation and Development's (OECD) internationally agreed tax standard, going on to sign the requisite twelve agreements by the end of September. By March 2010 it had negotiated double taxation agreements based on the OECD standard with 18 countries.

Swiss bank UBS has been locked in a long dispute with the United States over tax evasion accusations. On March 31 this year the Swiss and US governments reached an agreement that, if it is approved by the Swiss parliament, will require the Swiss tax authority to hand over details of about 4,200 UBS account holders suspected of evading US taxes.

European governments are also determined to breach Swiss banking secrecy.

To ease the international pressure Switzerland said it no longer wants foreign undeclared assets in its bank accounts.

Determined to safeguard the future of its financial centre, the Swiss government is preparing to negotiate solutions with individual countries in order to discourage undeclared funds from being deposited in its banks.

Switzerland has proposed imposing a withholding tax raised on bank interest, dividends, capital gains and investment income.

More kinds of assets would therefore be involved than under the withholding tax that the country already levies under the 2005 European Savings Tax Directive.

This withholds tax on interest on bank accounts held by people who live in EU states who wish to take advantage of Swiss banking secrecy and not allow disclosure of their identities and interest amounts.

Switzerland returns the tax to the state where they live, without saying whose accounts it came from.

This tax is currently at a rate of 20% but will increase to 35% from July 1, 2011.

The Saving Tax Directive’s withholding tax option was only meant to be a transitional arrangement. The eventual aim was that all participating jurisdictions would agree to automatic exchange of information on interest income of the account holders and tax would be paid in their country of residence. This aim remains very much the EU’s focus for the future.

In April the Wall Street Journal reported that Swiss banks are getting stricter with European clients who could be evading tax in their home country.

All bankers at UBS, for example, have to sign statements swearing the legitimate nature of the structures clients use for holding money. It is the banks themselves which are pushing ahead with foreign tax compliance as they take steps to defend their reputation, even though it means losing clients and assets.

"We have to act and cannot just wait for a political solution," said UBS board member Markus Diethelm.

This year Swiss private bank Julius Baer will start giving every German client an account tax statement. It may extend the practice to other offshore account holders.

Switzerland has little choice but to move with the times. Ray Soudah, head of advisers to private banks Millenium Associates, said: "We are in the midst of a transformational period both culturally and operationally. Tax-compliant wealth management will become the product in Switzerland, not bank secrecy or tax haven facilities."

You do not need to bank in Switzerland for these changes to potentially affect you.

Once Switzerland changes, other financial centres will follow suit. The Isle of Man has already said that as from July 2011 it will automatically report on every bank account owned by EU residents.