

Taxation of Income from Capital in the EU

1. Introduction

In any country tax reforms are for various reasons often on the agenda, and in a rapidly changing and developing country like Croatia incentives to initiate (and relatively easily implement) minor or major tax reforms are even more pronounced. Being an EU candidate country, in changing its tax legislation, Croatia is usually looking for good practices within the EU or role models that would be worth imitating. An example of such behaviour was the recent initiative to introduce the capital gains tax. Although it was triggered by the last year's exceptionally high rates of return from the investments on Croatian capital market, the idea of taxing capital gains was underpinned by the recognition of widespread practice of taxing capital gains in the European Union.

Taxation of income from capital of individuals will certainly remain hot topic in Croatia since its tax system almost fully exempts from taxation all the interest, dividends and capital gains. With growing inequalities the requirements for equity and social justice could intensify and so would the pressures to tax the income from capital. The neighbouring country practices will surely be used as arguments in favour of taxing income from capital.

By comparing the taxation of income from capital in the EU this paper shows that, although it can be claimed that taxation of such income is widely used, there is nothing like common practice. The comparison of the situation before and after the last two waves of enlargement (e.g. in 2004 and 2008) also shows that there was also only a limited convergence of taxation of income from capital between the new and old member states.

The paper gives an overview of tax treatment of income from capital in old (EU-15) and new (EU-12) EU Member States separately, since there is an evident difference in tax treatment of income from capital between those two groups of countries.

The paper is organized as follows. After the introduction, the second section describes the major findings regarding the tax treatment of interest and dividends in the EU. The third section gives an overview of the taxation of capital gains in the EU, and the last section concludes.

2. Tax Treatment of Interest and Dividends

Tax treatment of interest in EU Member States varies to a great extent both in terms of the method of taxation and in terms of the size of the tax burden. In addition, there are also some countries treating various types of interest differently (e.g. interest on savings deposits and bonds). Dividends are also treated quite differently across the European Union, and some variations can be observed with respect to the tax treatment of dividends of special categories of companies. Dividends and interest could be understood as yields on alternative investments and therefore there is a justification for their equal tax treatment, but the identical taxation of dividends and interest is in the EU more an exception than a rule.

A brief overview of taxation of interest and dividends in EU-15 and EU-12 (see Table 1 and 2) allows us the following general observations:

- **majority of the EU-15 countries tax interest by levying a withholding tax which is considered final.** There are only four old member states (Denmark, Germany, Ireland and the UK) which tax interest exclusively by including interest in aggregate annual income and apply progressive income tax rates on income thus calculated. In other countries interest is subject to a final (and in almost all countries flat) withholding tax. However, in some countries the taxpayers can opt to file a tax return and include interest in annual aggregate income taxed at progressive rates. Those are exactly the countries that were given the transition period for the application of the EU Savings Directive and introduction of information exchange on interest payments (Austria, Belgium and Luxembourg).
- **interest is subject to final withholding tax in all EU-12 countries.** Within the EU-12 countries there is a common practice of taxing interest by a final withholding tax. Only Malta allows the possibility of including interest in aggregate annual income and its taxation at progressive rates.
- **in the EU-15, the range between the highest and lowest tax rate on interest is rather large.** Within the countries taxing interest by means of a final withholding tax, the tax rates are spread from the 10-percent rate that is applied in Greece and Luxembourg to the 30-percent rate that is applied in the Netherlands and Sweden.
- **in some EU-12 countries interest is tax exempt.** Unlike in the EU-15, there are some EU-12 countries (e.g. Bulgaria, Estonia, Latvia, Lithuania and Rumania) that allow tax exemption of all or particular types of interest.
- **the range between the highest and lowest tax rate on interest in the EU-12 is large, but the highest rate is lower than in the EU-15.** Similarly as in the EU-15, the spread between the highest and lowest rate at which interest is taxed in the EU-12 is large. The highest rate of 25 percent is applied in Latvia, but only on a

very specific category of interest. The country that applies relatively high tax on broadly defined interest is Slovenia, taxing interest at 20 percent. The lowest non-zero rate of 10 percent is applied in Bulgaria and Cyprus.

- **in seven EU-15 countries dividends are subject to a final withholding tax.** Those countries are Austria, Belgium, Italy, Netherlands, Portugal, Spain and Sweden.
- **dividends are subject to a final withholding tax in all EU-12 countries except Malta.**
- **in many old EU members tax treatment of dividends is more favourable than tax treatment of interest.** Within the countries where both interest and dividends are included in aggregate income tax and taxed at progressive rates there are some countries offering lower tax rates, deductions, tax credits or other kinds of special treatment for some or all types of dividends (e.g. Denmark, Finland, France, Germany and UK). In the group of countries applying final withholding tax dividends are taxed at lower rates than interest in Greece (zero rate) and in Italy (12.5 percent). Dividends are taxed at a higher rate than interest in Belgium and Luxembourg.
- **in general, in the EU-12 dividends are not treated more favourable than interest.** Within the EU-12 there is one country applying an explicitly higher tax rate on dividends than on interest (Cyprus) and one country applying a lower tax rate on dividends than on interest (Slovak Republic). In other countries that treat dividends differently from interest (e.g. Bulgaria, Hungary, Lithuania, Malta and Romania) it is not evident whether, in aggregate, dividends or interest enjoy preferential treatment.
- **in the EU-15 the highest tax rates on dividends and interest are the same.** Among the EU-15 countries levying a final withholding tax on dividends, the highest tax rate on dividends of 30 percent is applied in Sweden and the Netherlands.
- **in the EU-12 the highest tax rate on dividends and interest are the same, too.** The highest rate of dividends in EU-12 is applied in Hungary which taxes dividends at a 25-percent rate.
- **in some EU-12 countries dividends are exempt from tax.** There are three new EU members that do not include dividends in taxable income. Those are Estonia, Latvia and the Slovak Republic.
- **some countries tax dividends from different types of companies differently.** The grounds for differentiation are, however, not identical neither within the two groups of countries nor among them. Finland e.g. treats differently dividends below and above a certain yield ceiling as well as dividends from unlisted and listed companies, while Italy and the Netherlands treat differently dividends from qualifying participation than dividends from portfolio investors. Hungary also differentiates between dividends from listed and unlisted companies, while Lithuania makes a distinction between dividends according to the country where a distributing company is registered.
- **in most countries interest on government bonds and corporate bonds are treated equally.** The countries where interest on government bonds is, however, treated more favourably than interest on corporate bonds

are Ireland, Latvia, Lithuania and Romania. In all those countries interest on government bonds is tax exempt. There are only two countries, Italy and Spain, where short-term government bonds as a special category of government bonds are taxed at higher rates than corporate bonds but also than other categories of government bonds.

The earlier overview of taxation of income from capital compiled in 2004 (Švaljek, 2005), i.e. immediately before the last two waves of EU enlargements allows us to get an insight into the developments in taxation of this type of income. The most important findings related to the taxation of interest and dividends can be summarized as follows:

- **In most of the EU-15 countries taxation of interest and dividends remained unchanged.** In some countries that have experienced some modifications of interest and dividend taxation those modifications were not of major importance. In Finland the tax rate on interest went down from 29 to 28 percent, in Ireland it went down from 42 to 41 percent. In France the highest progressive income tax rate applied also to interest decreased from 48 to 40 percent, and in Germany it increased from 44.3 to 47.5 percent.
- **Within the EU-15 there is, however, a group of countries where tax rates on dividends and interest decreased substantially.** One can discern one group of EU-15 countries where the tax rates applied to interest and dividends have decreased substantially. Those are Portugal where the rate for both interest and dividends went down from 20 to 10 percent, Spain where the tax rates decreased from 45 to 18 percent, and Greece where a tax rate on interest decreased from 20 to 10 percent. France, where dividends were not subject to a final withholding tax, introduced a 24-percent rate final withholding tax on dividends which is certainly considerably lower than the average rate applied to aggregate income.
- **in EU-12 countries there were more important changes in interest and dividends taxation.** Taxation of interest and dividends has remained unchanged in Latvia, Estonia and the Slovak Republic¹.
- **in the EU-12 the direction of the changes in taxation of interest and dividends is rather ambiguous.** There is a number of EU-12 countries where the tax rate on dividends and interest went down, like e.g. Bulgaria, Czech Republic, Slovenia and Hungary². However, there are also some countries where an increase in tax rates can be observed e.g. Romania, where the tax rate on dividend increased from 1 to 16 percent, or Slovenia where the tax rate on interest went up from 0 to 20 percent.

¹ Some of the new member states were, however, not included in the overview for 2004.

² In Hungary and Bulgaria only tax rates on dividends have decreased

2. Tax Treatment of Capital Gains

As for the taxation of capital gains in the EU, common features are even harder to recognize than in the case of taxation of interest or dividends. It can be easily noticed that the bases for capital gains taxation differ considerably. If one puts property in three large groups: immovable property, financial assets and other movable property, it seems that the gains from the disposal of financial assets build a taxable base in most countries whereas the gains from the disposal of immovable property is taxed only once predefined conditions are met. The gains from the sale of other movable property are in most countries not subject to any tax on capital gains. However, there are many special cases and exceptional treatments that are not easy to generalize (see Table 3 and Table 4).

The most striking features of taxation of capital gains in EU are as follows:

- **in the EU-15 most countries capital gains are subject to a final withholding tax at flat rates.** In most countries there is either a final withholding tax on capital gains or a final withholding tax on a corresponding family of income (e.g. income from capital, income from investment etc.). Only Austria, Denmark, Germany, Luxembourg and the United Kingdom include capital gains in total taxable income subject to progressive rates.
- **in all the EU-12 except Malta capital gains are subject to flat tax rates.** The EU-12 countries tax capital gains separately or include it in aggregate income. Irrespective of taxation method, since many EU-12 countries apply a flat income tax rate, capital gains are not subject to progressive income tax rate in any country but only in Malta in some special cases.
- **most EU countries differentiate between short-term and long-term capital gains.** However, there is a group of countries (Denmark, Finland, Ireland, Italy, Netherlands and Sweden within the EU-15 and Bulgaria and Cyprus within the EU-12) where the capital gains taxation is the same irrespective of the holding period. Some countries tax only the gains which are considered speculative (Austria, Belgium, Luxembourg).
- **in both the EU-15 and the EU-12 there are several countries where capital gains are generally exempt.** Those are Austria, Belgium, Germany, Greece and the Netherlands within the EU-15 and Bulgaria, Cyprus, Latvia, Malta and Slovak Republic within the EU-12. There are also many other countries where there are a number of exemptions from capital gains taxation or where a favourable treatment of gains from sale of specific property is applied.
- **the tax rates at which capital gains are taxed differ largely in the EU-15.** The tax rates on capital gains spread from 0 to 33 percent which is applied in Belgium.

- **in EU-12 countries tax rates on capital gains are less spread than in the EU-15.** The tax rates at which capital gains are taxed in the EU-12 range from 10 percent in Bulgaria to 25 percent in Hungary and Latvia.

A comparison of tax treatment of capital gains in 2004 and 2008 shows that many countries changed somewhat the way capital gains are taxed, but major reforms did not take place in many countries. The EU-15 countries that have experienced important changes in capital gains taxation are Portugal and Spain. In both countries rates at which capital gains are generally taxed decreased considerably – from 40 to 10 and 21 percent in Portugal and from 45 to 18 percent in Spain.

Significant lowering of the capital gains tax rate was more widespread within the new EU members. Among ten new members for which the data for 2004 are available five have relaxed the tax treatment of capital gains. Those are Bulgaria (decrease from 29 to 0 and 19 percent), Czech Republic (decrease from 32 to 0 and 15 percent), Estonia (decrease from 26 to 21 percent), Hungary (decrease from 20 and 45 to 25 percent) and Slovenia (cut in tax rate from 50 to 20 percent). The only country that raised the tax rate on capital gains is Romania that, beside the previously-applied 1-percent rate introduced a 19-percent rate for gains from sale of a specific type of shares.

4. Conclusion

This paper tries to make an international comparison of taxation of interest from capital in the EU. An international comparison in this area of taxation is almost impossible since the definition of interest, dividends and capital gains that are subject to taxation varies from country to country. Therefore, the findings of such comparison should be taken with a due caution.

Taxation of income from capital within the EU is rather complex and there are significant differences in taxing income from interest, dividends and capital gains among the EU countries. It is obvious that the taxation of income from capital in many countries is becoming detached from taxation of earned income, and taxation by withholding which is considered final is more and more common. Also, various types of income from capital are in most countries not treated in a unique way since there are special rules for taxing income from interest, dividends and capital gains and there are also many variants of tax treatment even within one source of income.

Although there is almost no feature shared by all countries in taxing income from capital, it is evident that the taxation of that income source in the EU-15 is different than in the EU-12. Generally, tax rules governing taxation of income from capital in the EU-12 are simpler, and the tax burden is lower. One can find various

reasons for different approaches in taxing income from capital in old member states, and new ones which are, except for Malta and Cyprus, Central and Eastern European transition countries. First of all, the new member states have recently designed totally new tax systems and used their historical chance to establish these systems according to principles of transparency, simplicity and neutrality. Secondly, one of the main aims while designing the tax systems in new member countries was to incorporate the tax system in the overall economic framework which should make those countries attractive for both domestic and international investors thereby enhancing growth of those economies. Finally, most new member states have had relatively underdeveloped financial institutions and financial markets which called for the favourable treatment of income from capital.

Even though one might expect that taxation in the EU-15 would move towards greater simplicity and a lower tax burden over time, in order to remain competitive with taxation in the EU-12, there are no clear signs that such a development is starting to happen. By the same token, there might be efforts in the future to introduce some level of harmonization of taxation of income from capital within the EU, as was the case when the EU Savings Directive was introduced. However, it seems that this area of taxation will remain under the discretion of national tax authorities and be governed by national policy objectives for a very long period of time.

Literature:

1. IBFD, 2008a, *Europe - Private Investment Income*, IBFD, Amsterdam. (www.ibfd.org assessed on July 28).
2. IBFD, 2008b, *Europe - Individual Taxation*, IBFD, Amsterdam (www.ibfd.org assessed on July 28).
3. Švaljek, Sandra, 2005, The Tax Treatment of Capital Income: European Union and Countries in Transition, *Croatian Economic Survey*, No. 8, pp. 107 – 129.
4. *Narodne novine*, Zakon o porezu na dohodak (Income Tax Act), NN 177/04, 73/08.

Table 1: Tax Treatment of Interest and Dividends in EU-15 in 2008

	Tax rate residents	Note on interest taxation	Dividend tax rate	Note on dividends taxation
Austria	25%	<ul style="list-style-type: none"> ▪ interest is subject to a flat and final withholding tax, but the taxpayer may apply for assessment of such income at normal or reduced rates if these rates were lower than the final withholding tax rate ▪ the top personal income tax rate is 50% 	25%	<ul style="list-style-type: none"> ▪ dividends and other similar distributions are subject to a flat and final withholding tax, but the taxpayer may apply for assessment of such income at reduced rate (one half of the average tax rate applicable to the taxpayer's total income) if this rate was lower than the final withholding tax rate ▪ the top personal income tax rate is 50%
Belgium	15%	<ul style="list-style-type: none"> ▪ interest is subject to withholding tax at 15% which is final unless the taxpayer opts to file the tax return ▪ the first EUR 1,660 of interest on a «normal» bank deposit is tax exempt ▪ interest that has been subject to the withholding tax at 15% rate may be included in the income tax return ▪ income tax is imposed at progressive rates up to 50% plus up to 8.5% municipal surcharges 	25%	<ul style="list-style-type: none"> ▪ interest on certain state-issued loans is tax-exempt ▪ dividends are subject to final withholding tax ▪ dividends that have been subject to the withholding tax at 25% rate may be included in the income tax return ▪ income tax is imposed at progressive rates up to 50% plus up to 8.5% municipal surcharges
Denmark	max. 59%	<ul style="list-style-type: none"> ▪ interest is subject to a national income tax, a national surtax (health contribution), a municipal income tax and a church tax (members only). Excluding church tax, there is an overall maximum limit of an effective rate at 59% ▪ interest on deposits in a savings account established for the benefit of a child is exempt 	max. 45%	<ul style="list-style-type: none"> ▪ dividends are subject to a share income tax at progressive rates with the highest rate of 45%
Finland	28%	<ul style="list-style-type: none"> ▪ interest from bonds and bank deposits is subject to a final withholding tax on income from capital 	19.6-max. 38.5% (70%, at 55% max)	<ul style="list-style-type: none"> ▪ in case of dividends from quoted companies 70% of dividends are considered as income from capital and taxed at 28%, and 30% is exempt ▪ for unlisted companies dividends representing an annual yield of up to 9% are fully exempt up to EUR 90,000 per shareholder per year. For dividends exceeding EUR 90,000 and below 9%, 30% is exempt and 70% is taxed as the shareholder's income from capital. For dividends in excess of 9% yield ceiling 30% of dividend receipts is exempt, and 70% is taxed as the shareholder's earned income at progressive rates (top rate being approximately 55%)
France	max. 40 / 29%	<ul style="list-style-type: none"> ▪ fixed return investment income is normally taxable as ordinary income, but the recipient who is an individual resident taxpayer may choose to be taxed at a flat rate of 29% 	max. 24% (60%, at 40% max)	<ul style="list-style-type: none"> ▪ dividends are assessed to income tax but only 60% of their amount ▪ dividends are exempt up to EUR 1,525 ▪ resident individuals are entitled to a tax credit equal to

	Tax rate residents	Note on interest taxation	Dividend tax rate	Note on dividends taxation
		<ul style="list-style-type: none"> there are several types of interest that are exempt from income tax 		50% of the distributed amount of dividends, limited to EUR 115
Germany	max. 47.5%	<ul style="list-style-type: none"> interest is subject to income tax and solidarity surcharge in some cases, the withholding tax is imposed, and the tax withheld is credited against the income tax assessed at the end of the year 	max. 23.7 / max. 47.5%	<ul style="list-style-type: none"> only one half of the dividends received is taxable income and the other half is exempt from income tax (classical system with half-income method) some dividend receipts do not qualify for the application of the half-income system (dividends received by banks, financial services institutions and other finance houses which are either sole proprietorships or partnerships)
Greece	10%	<ul style="list-style-type: none"> 10% withholding tax is final 20% withholding tax is levied only on interest on loans and is credited against the recipient's income 	0%	<ul style="list-style-type: none"> dividends are exempt from income tax
Ireland	max. 41%	<ul style="list-style-type: none"> interest from domestic sources is normally paid subject to the withholding of income tax at the standard rate, and the income tax withheld is credited against the final assessment interest payment made to "a relevant deposit taker" in respect of "relevant deposits" are made with the retention at source (Deposit Interest Retention Tax – DIRT).. Tax is withheld at a special fixed rate of 20%. 	max. 41%	<ul style="list-style-type: none"> dividends from Irish resident companies are generally taxable by way of a withholding tax and the individual receiving the dividend is entitled to credit the withholding tax against his income tax liability for the tax year
Italy	12.5 / 27%	<ul style="list-style-type: none"> interest is subject to a final withholding tax 27% rate applies to interest on current accounts with the bank and post offices and interest on corporate bonds with a maturity of less than 18 months interest on government bonds and corporate bonds with a maturity of at least 18 months is subject to a final withholding tax of 12.5% 	12.5%	<ul style="list-style-type: none"> dividends in general are subject to a final 12.5% tax dividends from qualifying participations are exempt for 60% of their amount, and the remaining 40% of the dividends is taxable at the ordinary progressive income tax rate (top rate being 43%)
Luxembourg	10 / max. 38.95%	<ul style="list-style-type: none"> interest is subject to a final withholding tax of 10% if paid by a paying agent established in Luxembourg to beneficial owners resident in Luxembourg if the taxpayer is a Luxembourg resident, income excluded from the 10% final withholding tax is taxable at progressive rates upon filing the annual tax return, top rate being 38.95% 	19.5 (50% at 38.95% max) / 38.95%	<ul style="list-style-type: none"> dividends are subject to withholding tax at 15% which is credited against the income tax liability of resident taxpayer a 50% exemption on dividends is given for dividends paid by a fully taxable Luxembourg company or a company qualifying for the EC Parent-Subsidiary Directive or a company resident in a country with which Luxembourg has concluded a tax treaty
Netherlands	30%	<ul style="list-style-type: none"> taxation is based on a 4% deemed yield on net assets which is taxed at a flat rate of 30% 	25% / 30%	<ul style="list-style-type: none"> shares and stock of portfolio shareholders are deemed to produce a yield of 4% per year on their average net annual value. This yield is taxed at fixed rate of 30% substantial shareholders (holding 5% or more) are subject

	Tax rate residents	Note on interest taxation	Dividend tax rate	Note on dividends taxation
Portugal	20%	<ul style="list-style-type: none"> interest is subject to withholding tax which is final 	20% / 21% (50% at 42% max.)	<ul style="list-style-type: none"> to tax at a rate of 25% on distributions distributions from companies with a head office in Portugal and subject to corporate income tax are subject to final withholding tax the individual can opt to include the dividends in the annual income tax return where only 50% of the dividends will be subject to taxation this option implies the obligation to include in the tax return all other investment income and to apply the progressive tax rates, top rate being 42%
Spain	18%	<ul style="list-style-type: none"> interest is subject to savings income tax at a rate of 18% short-term government bonds (treasury letters) are exempt from withholding tax but subject to individual income tax general income is taxed at progressive rates up to 43% 	18%	<ul style="list-style-type: none"> dividends are subject to savings income tax at a rate of 18% dividends up to EUR 1,500 per year are exempt from individual income tax
Sweden	30%	<ul style="list-style-type: none"> interest is taxed separately as income from capital at a flat rate of 30% 	30%	<ul style="list-style-type: none"> dividends are taxed separately as income from capital at a flat rate of 30%
United Kingdom	max. 40%	<ul style="list-style-type: none"> interest is subject to several tax exemptions interest is taxed at progressive savings income tax rates, top rate being 40% 	max. 32.5%	<ul style="list-style-type: none"> the recipient is entitled to a tax credit of 1/9 the individual's taxable income is the dividend plus the credit dividends and credit are taxed at progressive rates, highest rate being 32.5% dividends and tax credits are treated as the highest part of an individual's income

Source: IBFD (2008a), Europe - Private Investment Income, www.ibfd.org; IBFD (2008b), Europe - Individual Taxation, www.ibfd.org.

Table 2: Tax Treatment of Interest and Dividends in EU-12 and Croatia in 2008

	Tax rate residents	Note	Dividend tax rate	Note on dividends taxation
Bulgaria	0 / 10%	<ul style="list-style-type: none"> ▪ interest income is taxable by assessment at the general flat rate of 10% ▪ interest income not subject to tax includes interest and discounts on government, municipal and corporate bonds and interest accrued on deposits in commercial banks resident in Bulgaria, branches of foreign banks operating in Bulgaria and credit and savings cooperatives 	5%	<ul style="list-style-type: none"> ▪ dividends are subject to a final withholding tax
Cyprus	10%	<ul style="list-style-type: none"> ▪ interest income is exempt from income tax ▪ interest payments are subject to the defence contribution at a rate of 10% ▪ individuals with an annual income not exceeding EUR 11960 may apply for a 7% refund 	15%	<ul style="list-style-type: none"> ▪ dividends are exempt from income tax ▪ dividends are subject to the defence contribution at a rate of 15% ▪ defence contribution is also payable on deemed distributions
Czech Republic	15%	<ul style="list-style-type: none"> ▪ interest is subject to a final withholding tax ▪ the rate will be reduced to 12.5% from 1 January 2009 	15%	<ul style="list-style-type: none"> ▪ dividends are subject to a final withholding tax ▪ the rate will be reduced to 12.5% from 1 January 2009
Estonia	0%	<ul style="list-style-type: none"> ▪ interest is exempt from tax if received from credit institutions in any EEA country (EU Member States and Iceland, Liechtenstein and Norway). All other types of domestic interest are included in the taxable income which is taxed at flat rate of 21 percent 	0%	<ul style="list-style-type: none"> ▪ dividends are not included in taxable income ▪ distributing company pays a distribution tax which is a final tax levied at a rate of 21/79 (21% of the gross amount or 26.6% of gross corporate profits)
Hungary	20%	<ul style="list-style-type: none"> ▪ the law provides exhaustive list of items of income that qualify as interest subject to 20% rate ▪ interest that is not included on that list is added to the aggregate income and taxed at progressive rates – top marginal rate is 36% 	10 / 25%	<ul style="list-style-type: none"> ▪ dividends are taxed separately by way of a final withholding tax ▪ dividends paid on securities listed on the Hungarian Stock Exchange or a stock exchange of another EU Member State are taxed at a rate of 10%, while in other cases a 25% rate applies ▪ dividends that exceed 30% of the value of the equity's portion that is attributable to the individual's shareholding are taxed at 35%
Latvia	0 / 25%	<ul style="list-style-type: none"> ▪ interest from deposits and investment banks and credit institutions is exempt if the bank or the credit institution is registered in Latvia or another EU Member State. The same applies for the Latvian government and local authority bonds and mortgage bonds ▪ interest derived from other sources is taxable at the general flat rate of 25% 	0 / 25%	<ul style="list-style-type: none"> ▪ domestic dividends are exempt from tax, unless the distributing company has been entitled to the tax benefits of one of the special economic zones or free ports. In the latter case, dividends are taxable to the extent that the underlying profits have qualified for the tax benefits ▪ where dividends are taxable they are subject to withholding at a rate of 25%
Lithuania	0 / 15%	<ul style="list-style-type: none"> ▪ interest income is generally subject to a 15% tax ▪ interest on securities issued by the government or another 	15 / 24%	<ul style="list-style-type: none"> ▪ reduced rate applies if dividends are received from a Lithuanian entity or a foreign entity registered or

	Tax rate residents	Note	Dividend tax rate	Note on dividends taxation
		public authority of Lithuania or another EEA country; interest on deposits with banks and another credit institutions established in Lithuania or another EEA country; interest on savings programmes regulated by the government and interest on securities issued by a government or other public authority of Lithuania or another EEA country is exempt		organized in a foreign country included in the «white list» (all EU Member States less Bulgaria and Hungary plus 18 other countries) <ul style="list-style-type: none"> in other cases, the general flat rate applies
Malta	15 / max. 35%	<ul style="list-style-type: none"> interest paid by Maltese banks, the government of Malta and public corporations and authorities may be subject to a final withholding tax of 15% if recipient elects to receive the income without deduction interest will need to be declared in tax return and subject to income tax in the ordinary way 	max. 35%	Malta operates a full imputation system – shareholders are taxed on the gross dividend at the applicable tax rates, but are entitled to deduct the tax credit attaching to the dividend against their total tax liability
Poland	19%	<ul style="list-style-type: none"> interest is subject to final withholding tax 	19%	<ul style="list-style-type: none"> dividends are subject to a final withholding tax
Romania	0 / 16%	<ul style="list-style-type: none"> interest is subject to final withholding tax at 16% interest from current accounts / sight deposits and interest related to state securities and municipal bonds is exempt 	16%	<ul style="list-style-type: none"> dividends are subject to a final withholding tax
Slovak Republic	19%	<ul style="list-style-type: none"> interest is subject to final withholding tax 	0%	<ul style="list-style-type: none"> dividends are generally excluded from taxation dividends paid out of profits derived before 1 January 2004 are subject to a 19% final withholding tax
Slovenia	20%	<ul style="list-style-type: none"> interest is subject to final withholding tax interest on bank deposits paid by a bank situated in Slovenia or another EU Member State is taxable only for the part that exceeds EUR 1,000 per year 	20%	<ul style="list-style-type: none"> dividends are subject to a final withholding tax
Croatia	0%	<ul style="list-style-type: none"> interest is excluded from taxation 	0%	<ul style="list-style-type: none"> dividends are excluded from taxation

Source: IBFD (2008a), Europe - Private Investment Income, www.ibfd.org; IBFD (2008b), Europe - Individual Taxation, www.ibfd.org., Narodne novine, NN 177/04, 73/08.

Table 3: Tax Treatment of Capital Gains in EU-15 in 2008

	Type of taxation	Rates	Short-term / long-term gains differentiation	Threshold	Adjustment for inflation	Capital loss deduction	Roll-over relief
Austria ¹	income tax	0 / max. 25 / max. 50%	yes	no	no	yes	no
Belgium ²	separate taxation	0 / 16.5 / 33%	yes	no	no	yes	no
Denmark ³	income tax	max 45 / max. 59%	no	no	no	yes	yes
Finland	tax on income from capital	28%	no	yes	no	yes	no
France ⁴	separate taxation	27 / 29%	yes	yes	no	yes	no
Germany ⁵	income tax	max. 47.5%	yes	yes	no	yes	yes
Greece ⁶	separate taxation	0-20%	yes	no	no	yes	no
Ireland ⁷	separate taxation	20%	no	yes	yes	no	no
Italy ⁸	separate taxation	12.5%	no	no	no	no	no
Luxembourg ⁹	income tax	max. 38.95%	yes	yes	yes	yes	no
Netherlands ¹⁰	income tax (box 2)	0 / 25%	no	no	no	no	no
Portugal ¹¹	income tax (capital gains)	10 / 21%	yes	no	yes	no	no
Spain ¹²	income tax (savings income)	18%	yes	no	no	yes	yes
Sweden ¹³	income tax (income from capital)	30%	no	no	no	yes	yes
United Kingdom ¹⁴	separate (capital gains tax)	max. 40%	yes	yes	yes	yes	yes

Source: IBFD (2008a), Europe - Private Investment Income, www.ibfd.org; IBFD (2008b), Europe - Individual Taxation, www.ibfd.org.

Notes:

¹ **Austria** – capital gains are tax free, as a rule. However, capital gains may be taxed as «speculative ventures» at personal income tax progressive rates (real property that is sold within 10 years of acquisition, other property sold within a retention period of 1 year) or as «gains from the disposition of certain participations» (alienation of shares if the shareholder has held at least 1% of the shares in the corporation). The rate for the latter type of capital gain is reduced to half the average tax rate applied to the overall taxable income of the taxpayer.

² **Belgium** – capital gains are normally exempt from tax. If undeveloped property or a security qualifying as a fixed asset is sold after 5 years, capital gain is taxed at 16.5-percent rate or the applicable progressive rate, if lower. If the property is sold within 5 years the gain is taxed at 33-percent rate or the applicable progressive rate, if lower.

³ **Denmark** – capital gains from sale of immovable property are taxable as income from capital and thus taxed at progressive rates, top rate being 59%; gains on shares are taxed as income from shares at progressive rates, top rate being 45%. Capital gains on bonds are exempt from tax if a bond carries an interest rate which is equal to or higher than the minimum interest rate at the time of the issue of the bond.

⁴ **France** – gains on shares, bonds and similar securities are subject to tax at a flat rate (29%) if aggregate sale proceeds exceed EUR 25,000. A flat rate of 27% applies to capital gains realized by individual taxpayers on business assets held for more than 2 years. Capital gains from the sale of shares in companies resident in France or another EEA country benefit from a progressive exemption after a 5-year holding.

⁵ **Germany** – capital gains are normally exempt from tax. The gains on shares are taxable if they arise from the sale of shares in resident company, limited liability company or limited partnership with shares of which the shareholder owns a substantial interest (1% of company's share capital). Capital gains on shares are eligible

for the half-income system – irrespective of the size and duration of the shareholding only 50% of the capital gains is taxable, the other 50% is exempt. The gains from private disposals of movable property are taxable within 1 year of acquisition and if their total amount during the year is at least EUR 600.

⁶ **Greece** – capital gains derived from the disposal of shares of companies quoted either on the Athens Stock Exchange or on any foreign stock exchange are tax exempt. Proceeds from the sale of shares in an unquoted corporation are taxed at 5%; the gains derived from the sale of participations in general or limited partnerships or in limited liability companies are taxed at 20%. Gains from the sale of immovable property are subject to tax according to the length of time for which the property has been held (from 0 for over 25 years of ownership to 20% for less than 5 years of ownership).

⁷ **Ireland** – there are a number of exemptions from capital gains tax. The first EUR 1,270 of gains in any year is exempt. Gains arising from the disposal of government securities and securities issued by a number of state-subsidized bodies are also exempt.

⁸ **Italy** – taxable capital gains include capital gains of the sale of participations in companies and partnerships, capital gains on the sale of securities, gains on derivatives and gains on forward sales of securities, quotas of collective investment vehicles, foreign currencies and precious metals. Capital gains are not subject to individual income tax, but to a substitute tax that is levied at a rate of 12.5%.

⁹ **Luxembourg** – gains arising on the disposal of the taxpayer's private home are tax free if the taxpayer has resided there since the acquisition or at least 5 years before the sale. A transaction is speculative when immovable property is sold within 2 years from purchase, or movable property is sold after less than 6 months, or when the sale precedes the purchase. Speculation gains are taxed at the full marginal rates if they exceed EUR 500 per year.

¹⁰ **Netherlands** – Capital gains are generally not taxable. Taxable capital gains are only those resulting from substantial interest in a company (a company in which shareholder's holding exceeds 5%).

¹¹ **Portugal** – only 50% of net gain is subject to income tax with marginal rates ranging from 10.5 to 42 percent. Net capital gains derived from the sale of shares and other securities are taxed a special rate of 10%. Exemption from tax applies in respect of capital gains from transfers of buildings and shares, quotas or other equity owned by the transferor prior to 1 January 1989, and shares in joint-stock companies owned by the transferor for more than 12 months prior to the date of transfer.

¹² **Spain** – gain is reduced by the application of special percentages depending on the type of asset involved and the length of the holding period. The percentages are: 11.11% for each year exceeding 2 for immovable property, 25% for each year exceeding 2 for quoted shares and 14.28% for each year exceeding 2 for all other assets. Capital gains not deriving from transfers of assets is classified as general income and added to all other general income and taxed at progressive rates, top rate being 43 percent.

¹³ **Sweden** – only two thirds of capital gains on the disposal of private dwellings and condominiums are taxable.

¹⁴ **United Kingdom** – the percentage of the gain that is taxable depends on the number of complete years of ownership. There are generally many exemptions and reliefs for disposal of particular types or chargeable assets of two kinds: first, where any gain on disposal is exempt, and secondly, where any gain on disposal is deferred.

Table 4: Tax Treatment of Interest on Capital Gains in EU-12 and Croatia in 2008

	Type of taxation	Rates	Short-term / long-term gains differentiation	Threshold	Adjustment for inflation	Capital loss deduction	Roll-over relief
Bulgaria ¹	income tax	0 / 10%	no	no	no	yes	no
Cyprus ²	separate taxation	0 / 20%	no	yes	no	no	no
Czech Republic ³	income tax	0 / 15%	yes	no	no	yes	no
Estonia	income tax	21%	yes	no	no	yes	no
Hungary	separate taxation	25%	yes	no	no	no	no
Latvia ⁴	income tax	0 / 25%	yes	no	no	no	no
Lithuania ⁵	income tax	15%	yes	yes	no	no	no
Malta ⁶	income tax	0 / 10 / 15 / 35%	yes	no	no	yes	no
Poland ⁷	separate taxation	19%	yes	no	no	no	no
Romania ⁸	separate taxation	1 / 19%	yes	no	no	yes	no
Slovak Republic ⁹	income tax	0 / 19%	yes	yes	no	no	no
Slovenia ¹⁰	separate taxation	20%	yes	no	no	no	no
Croatia ¹¹	<i>separate taxation</i>	<i>0 / 15 / 25%</i>	<i>yes</i>	<i>no</i>	<i>yes</i>	<i>no</i>	<i>no</i>

Source: IBFD (2008a), Europe - Private Investment Income, www.ibfd.org; IBFD (2008b), Europe - Individual Taxation, www.ibfd.org., Narodne novine, NN 177/04, 73/08.

Notes:

¹ **Bulgaria** – capital gains from the sale of quoted shares through the Bulgarian Stock Exchange are exempt from tax.

² **Cyprus** – capital gains in general are not taxable. Gains on the disposal of immovable property and on shares in a company which owns such immovable property located in Cyprus are subject to a 20% capital gains tax.

³ **Czech Republic** – in 2008 aggregate income is subject to the flat income tax rate of 15% (12.5 in 2009). In case of immovable property and unquoted shares in joint-stock companies capital gains are not subject to tax after a holding period of at least 5 years, and in case of movable property and gains from other securities after a holding period of 6 months.

⁴ **Latvia** – gains on the sale of an individual's personal property are generally exempt. Income from the disposal of immovable property is taxable if the property has been owned for less than 5 years or has not been the individual's registered main residence for at least 12 months before the contract of sale or transfer has been concluded. Where capital gains are taxable they are subject to withholding at a rate of 25%. Income from the sale of shares in a company is taxable as income from the sale of immovable property if more than 50% of the company's assets consist directly or indirectly of Latvian immovable property.

⁵ **Lithuania** – gains on immovable property situated, and movable property registered in Lithuania or another EEA country are exempt if the seller has owned the property for at least 3 years. Gains on shares acquired before 1 January 1999 are exempt. Gains on other shares sold not earlier than 366 days after their acquisition are exempt if the taxpayer has not owned more than 10% of the capital of the entity.

⁶ **Malta** – tax on capital gains does not apply to immovable property that has been owned and occupied for a period of at least 3 years as transferor's own residence. Exempt capital gains include those on securities listed on the Malta Stock Exchange. Capital gains realized on the disposal of shares or units in a Maltese-licensed collective investment scheme investing more than 15% of its total investments in foreign-based securities may be subject to a final withholding tax of 10% or 15%.

⁷ **Poland** – if the immovable property has been held for a period of 5 years or longer the capital gains from the sale are not subject to tax.

⁸ **Romania** – gains from the sale of shares in listed joint-stock companies are subject to a 1% advance withholding tax which is final for shares held for 365 days or more.

⁹ **Slovak Republic** – capital gains from the sale of a personal residence or an apartment are exempt if the taxpayer has had his permanent residence in this property for at least 2 years prior to sale. Capital gains from the sale of other non-business immovable property are exempt if the period between the purchase and the resale exceeds 5 years. Capital gains derived from the sale of shares are exempt if aggregate annual gains do not exceed SKK 25,650.

¹⁰ **Slovenia** – individuals are subject to income tax on their capital only if derived from the disposal of immovable property, shares and other participation rights or investment coupons. The 20% rate is reduced by 5 percentage points per each 5 years of holding. Consequently, any gains are exempt after a 20-year holding.

¹¹ **Croatia** – capital gains in general are not taxable. A 15% rate is applied on income on receipts from distribution or option to purchase own shares of listed companies. Income on the sale of real estate is subject to a 25% rate if the real estate was not used for dwelling by taxpayers or maintained members of his/her family and if the real estate was sold within 3 years from the date of acquisition.