

***Important note:***

***The following is generic information about the EU Savings Tax Directive and does not include any tax advice. It is highly recommended that investors consult their legal/tax advisors for advice on their individual circumstances and the impact of the EU Savings Tax Directive on any OAM fund holdings.***

**What is the EU Savings Tax Directive?**

The EU Savings Tax Directive (EUSD) came into effect across the European Union (EU) and a number of other jurisdictions on 1 July 2005.

The purpose of the directive is to ensure that EU-resident individuals receiving cross-border interest-derived payments are taxed efficiently.

**What does the directive mean in practice?**

The directive is effectively an agreement between the member states of the EU to exchange with one another information about individuals who earn savings income in one EU member state but live in another.

**Where does the Directive apply?**

The Directive applies in all 27 current EU Member states. Its implementation also affects EU associated or dependent territories and a number of third countries, including: Andorra, Liechtenstein, Monaco, San Marino and Switzerland, which have undertaken to apply equivalent measures.

**What kind of interest payments does the directive target?**

The directive applies only to interest or interest-derived payments, however, the EU definition of these payments is broad and includes:

- Interest paid or credited to an account relating to debt claims of every kind
- Interest accrued or capitalised at the sale, refund or redemption of debt claims
- Income derived from interest payments distributed by a UCITS or any collective investment scheme established outside the EU
- Income realised on the sale or redemption of shares in UCITS where more than 40% of its assets are invested in debt claims
- Most other types of income (e.g. dividends on ordinary or preference shares of companies) fall outside of the EU's definition and so are outside the scope of the directive.

The directive will not be applied to interest accrued prior to 1 July 2005.

**Do OAM's funds' fall within the scope of the directive?**

OAM's Cayman domiciled offshore funds will not be affected by the directive, as they are non UCITS equivalent funds and fall outside the scope of the EUSD.

The EUSD is applicable for OAM's UK and Irish OEICS. An annual Asset Test (as at 31<sup>st</sup> December) determines if a fund is in or out of scope.

**On what basis are the above funds' affected**

Any distribution which a fund makes will incur withholding tax, where more than 15% of the fund's assets are invested in debt-claims. Where more than 40% (25% as from 1 January 2011) of the fund's assets are invested in debt-claims, redemptions as well as dividends fall in scope.

### **Does the directive affect me?**

The directive does not affect those who are resident outside of the EU, its dependent and associated territories and the third countries.

It also only applies to individuals. Legal entities, including companies, are not impacted.

### **How will the directive be implemented?**

Those jurisdictions that are adopting the directive or similar measures have agreed one of two authorised means of complying with its requirements:

- Information exchange
- Withholding tax (with information exchange as an electable alternative)

For each affected payment, the domicile of the paying agent, rather than that of the individual, is the key factor in determining which approach (information exchange or withholding tax) will be applied to a payment.

### **Information exchange**

To comply with the directive, all EU Member States, with the exception of Belgium, Luxembourg and Austria will introduce a system of automatic information exchange.

If you fall within the scope of the directive and your paying agent is domiciled in an EU Member State that has agreed to information exchange, information about you and your interest payment will be released ultimately to the tax authority in your EU country of residence.

Under the information exchange measure, your paying agent will provide its local tax authority with information that will then be forwarded to the tax authority of the country where you are resident, and may then be compared with your domestic tax returns.

### **Withholding tax**

In order to protect the privacy of its clients, a number of jurisdictions have agreed to introduce a withholding tax on interest payments that are subject to the directive. The implementation of this approach is expected to be a transitional arrangement, permitted as an alternative to information exchange until at least 2011.

Withholding tax will be charged on affected interest payments by paying agents in the following jurisdictions:

- Belgium, Luxembourg and Austria
- The majority of associated and dependent territories of the EU
- Third countries

The rate of withholding tax applied to interest payments will be as follows:

- 15% from 1 July 2005
- 20% from 1 July 2008
- 35% from 1 July 2011

All withholding tax deducted by the paying agent will be passed as a single sum to its local tax authority, which will then keep 25% of the total amount collected and pass 75% to the tax authorities of the country of residence of the individual.

Since no personal information is passed to the tax authorities, the payment of withholding tax allows individuals' confidentiality to be fully maintained.

Withholding tax will be applied as a default measure in the jurisdictions listed above. Affected individuals may have the possibility to opt for voluntary information exchange instead of paying withholding tax. It is, however, the responsibility of individuals to register this preference with their paying agents. Should this preference not be stated (and accompanied by the necessary documentation), the default measure of tax reduction will be applied by paying agents.

### **Paying agents**

The paying agent plays a key role in the implementation of the directive. It is the paying agent who has responsibility for information collection and exchange and/or for the deduction of withholding tax from interest payments.

The term 'paying agent' refers to the person or party who, in the course of its business or profession, makes interest payments to, or secures interest payments for, the immediate benefit of individuals. The paying agent will therefore be the last person or party in the payment chain before the beneficial owner.

### **Further information**

Whilst OAM client services are happy to answer queries from investors where they are able to, it is recommended that clients consult their legal/tax advisors for advice on their individual circumstances and the directive's impact on any OAM holdings they have.