

## Finance Finland – comments to consultation on withholding tax

Finance Finland (FFI) is the common voice of the Finnish financial sector and represents the interests of its members. We represent banks, life and non-life insurers, employee pension companies, finance houses, fund management companies and securities dealers operating in Finland.

FFI welcomes the initiative for common tax withholding system for dividends in EU. The problems with current tax withholding systems create major obstacles to international investment and have to certain extent enabled tax fraud. Harmonizing the withholding tax systems would benefit all stakeholders: The investors, public companies, custodian banks, and countries entitled to tax revenues / tax authorities in different countries.

FFI strongly supports harmonizing withholding tax procedures and especially the relief-at-source procedures. Regarding relief-at-source models, FFI sees TRACE as a realistic option to harmonize models in EU. FFI considers that the best option would be a legislative approach to harmonization, recommendations alone are not sufficient as they would most likely not be widely followed. **In order to make the process work widely, the costs and obligations for the parties paying dividends and custodian banks should be manageable. Costly and administratively difficult processes will make the custodians less likely to use the process.**

FFI wishes to emphasize that regarding relief at source -models, details are very important. The questionnaire refers to different thresholds (level of withholding tax / amount of dividend) that could be considered a risk-free payment in this sense. **According to the FFI's understanding the vast majority of dividend payments should be considered risk-free, with only a small portion of the payments actually being risky (e.g. this has been stated by the Finnish Tax Authorities). FFI underlines that a balance should be found so that the majority of payments would be entitled to relief at source (and thus the correct amount of tax would already be withheld at source with no refund process needed) and the risky payments would be directed to a refund process.**

Regarding the threshold for example if all dividend payments entitled to a withholding tax of less than 15% would be sent to a refund procedure, the outcome would be that big amount of non-risky payments would not be entitled to relief-at-source and this threshold would not serve its purpose. Widespread correct withholding tax at source means that the refund procedure can better target the genuinely risky payments.

One important point that FFI also wishes to emphasize is that the procedures must be genuinely uniform in the various countries: There can be no country specific processes, forms, different thresholds, etc. The purpose of TRACE is that one and the same procedure can be done everywhere, and if there are 27 the different versions, the outcome is not good. If, for example, there would be different euro thresholds (or different other thresholds) in different countries that determine which procedure to apply, the end result would be disastrous, and at least for individual smaller countries the process would most likely not be applied as the costs for organizing this would outweigh the potential benefit.

In the consultation, one question is whether the custodian should always have strict liability for taxes, even if all procedures have been handled correctly. This would destroy the system as no party would take responsibility for payments if the responsibility can always be realized for reasons beyond their control (and even if all the obligations have been met). There is a need for clear rules on the procedures to be followed, and if the rules are followed correctly, then tax liability should not be realized.

FFI also expresses that as it is likely that the refund procedures will still be needed to handle the so called risky cases, actions should be taken to harmonize the refund procedures too: For example, the forms and documents needed need to be harmonized. Some countries require local tax agents or tickets filled in by local custodians in the process, these should be removed. At the moment there are too many different requirements that vary for each country, and this makes the processes overly difficult. Here again, the details should be taken into account so that if the EU e.g. harmonizes the form on which a refund is sought, then also the other documentation and attachments needed need to be harmonized as well.