TAXES - DOUBLE TAXATION

Tax payments on financial income

Double taxation

Within the context of a securities portfolio, the income (for example, dividends and bond interest) may often be subject to deductions in the source State. Consequently, a phenomenon of double taxation of the same income, or so-called "Juridical double taxation", could occur both in the source State as well as in the recipient's State of residence.

For the purposes of calculating the total tax burden, therefore, the manner in which the State of residence of the income recipient decreases taxation, to the point of completely (or almost completely) eliminating double taxation, becomes a relevant factor.

Given the above, in order to avoid the occurrence of the international double taxation phenomenon, the various States have reciprocally stipulated international conventions against double taxation that regulate the taxing power between such States, and specify how taxation of the income received by non-residents should take place for each of the two States concerned.

By enacting Conventions as an instrument against double taxation, the States have tried to avoid cases where it is necessary to tax income both in the country where it was produced and in the country of residence of the recipient taxpayer.

How to eliminate double taxation: an example for Italy and Switzerland

Generally, the most common methods of eliminating double taxation can be summarized as follows:

- The tax credit method for taxes paid abroad;
- The exemption method for income subject to taxation abroad.

As an example, some additional information is summarized with reference to Italy and Switzerland. In particular, with reference to financial income, both countries essentially adopt the foreign tax credit method, which, nevertheless, cannot exceed:

- The amount of national taxes applicable to foreign income (otherwise the State of residence would actually refund foreign taxes to the taxpayer);
- The amount of withholding provided for by the Convention against double taxation (DTA).

SWITZERLAND

Switzerland uses the tax credit method (so-called "global tax calculation") only in application of a DTA in force with the source State and only for certain types of income, in particular interest, dividends, and royalties, which are subject to withholding tax.
For the rest, it uses the exemption method subject to rate progression to avoid double taxation phenomena.

In the absence of a DTA, the taxpayer cannot apply the global tax calculation. In this case, taxes cannot be deducted from taxes, but can only be reduced or deducted from the tax basis.
With reference to the deadlines for submission of the refund application for the withholdings made in excess with respect to the ones established by convention, said deadlines are to be checked on a case-by-case basis because they vary from country to country.

ITALY

Italy generally uses the tax credit method to reduce or eliminate double taxation. However, the tax credit is due only in the event that the foreign income has contributed to establish the total income.

In practice, when income is taxed in the source State, the State of residence taxes this income again, but allows the taxpayer to deduct taxes paid abroad on that same income from national taxes due.

The credit mechanism for foreign taxes is not, on the other hand, applicable in the presence of income subject to withholding tax, substitute tax, or substitute tax made by said taxpayer at the time of filing the tax return. This means that for this type of income (including bond interest and dividends among others), withholdings incurred abroad cannot be credited against Italian taxes.

If the tax withholding made abroad exceeds that established by conventions, the taxpayer may proceed to request the refund of the exceeding amount of taxes paid with respect to the amount envisaged by the DTA.
For dividends received through the intervention of an Italian financial intermediary, there is no doubt that the withholding tax must be applied to the amount received, or that the dividend be reduced by the withholding tax, namely, the so-called "net frontier" dividend. In reference to interest (and dividends received without the intervention of an Italian financial intermediary), the amount to be taxed is determined gross of withholding taxes incurred abroad;

Veco Advisory SA offers this refund service to customers domiciled both in Switzerland and abroad. The Veco Advisory SA specialists will analyze the investment portfolio in order to evaluate, on a case-by-case basis, whether the refund procedure is worthwhile, in which case they will handle all the complex and time-consuming applications in order to request a tax refund on behalf of such customers.

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