



European Savings Directive Explained

*for EU customers of HSBC Bank International
with accounts in the Channel Islands and the Isle of Man*



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Introduction

If you live in a European Union member state and hold savings or investments in another EU member state or dependent territory, you are highly likely to be affected by tax legislation arising from the European Savings Directive (ESD) which came into force on 1 July 2005.

ESD also applies if you are EU resident and have savings in certain third countries, such as Switzerland, Liechtenstein, San Marino, Monaco and Andorra.

This booklet is a guide to how ESD is applied in the Channel Islands and the Isle of Man (the islands). It explains how ESD is likely to affect EU resident customers with bank accounts or investments with HSBC Bank International Limited in the islands.

Which countries are affected?

You are likely to be affected by the tax legislation if you are resident in any of the 27 EU member states and hold savings or investments in another EU member state, dependent territory or third country. For example:

- ▶ If you live in an EU member state and save or invest in another EU member state, you are likely to be affected by ESD
- ▶ If you live in an EU member state and save or invest in a dependent territory

of another EU member state, you are likely to be affected by ESD

Currently, the EU member states are:

Austria	Germany	Poland
Belgium	Greece	Portugal
Bulgaria	Hungary	Republic of Ireland
Cyprus	Italy	Romania
Czech Republic	Latvia	Slovakia
Denmark	Lithuania	Slovenia
Estonia	Luxembourg	Spain
Finland	Malta	Sweden
France	Netherlands	UK

If you live in any of the above countries and hold savings or investments with us, please read this guide carefully.

Contact us

Once you have had a chance to review this booklet, if you would like to discuss the rules or how they could affect your accounts or investments, please call International Direct Banking on +44 1534 616000. Alternatively, if you are an internet banking customer you can send us a secure message through our internet banking service, or you can e-mail us at **offshore@hsbc.com**.

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About the European Savings Directive

What is ESD?

ESD is part of a larger package of EU measures implemented to eliminate harmful tax competition within the EU and help create a genuine EU single market.

ESD is an agreement between the member countries of the European Union to automatically exchange information with one another about customers who earn bank interest and/or investment income in one EU country but reside in another. This information exchange is known as Reporting.

Alternatively, there is the option in some countries for tax to be deducted at source from bank interest and investment income applied to EU residents' accounts. This is known in the islands as the Retention Tax option.

Why does ESD apply to the Channel Islands and the Isle of Man?

As they are not part of the EU, the Channel Islands and the Isle of Man are not subject to EU fiscal legislation. However, the islands are dependent territories of the UK and, while they are determined to defend their autonomy and uphold their principles of tax neutrality and data privacy, they have agreed to adopt elements of ESD.

Together with other financial centres such as Switzerland, Andorra, Monaco, San Marino and Liechtenstein, the islands have negotiated a variation to ESD, which means that, rather than imposing Reporting, they will also offer a Retention Tax alternative.

The islands' authorities have also made it clear that the implementation of this new policy is conditional upon an at least equivalent policy being introduced, not only across the EU but also in third countries, such as Switzerland. The clear intention is that anyone choosing the islands as a home for their savings or investments, will not be disadvantaged in any way.

Retention Tax alternative

For EU residents, Retention Tax can be deducted at source from bank interest and investment income. Tax was deducted at a rate of 15% initially rising to 20% on 1 July 2008 and 35% on 1 July 2011.

The Retention Tax option is available to all HSBC Bank International Limited customers resident in the EU and will automatically be applied to your affected accounts unless you indicate you would prefer the Reporting option. Further details on the Retention Tax and Reporting options and guidance on what to do are outlined later in this guide.

Who is affected?

Any EU resident (that means anyone whose current or permanent home address is in an EU country), who has savings or investments in the EU or its members' dependent territories (the Channel Islands and the Isle of Man are UK dependent territories) is likely to be affected.

What does this mean for HSBC Bank International customers?

The policy means that if you are resident in the EU and you earn interest or investment fund income from an account with us in the Channel Islands or the Isle of Man, you will either have your interest disclosed to the tax authority in the country where you live or a tax imposed on your interest or investment fund income.

How do I know if I am resident in the EU?

While your residency status will depend upon the tax rules in the country(ies) you live in, as a general guide, you are resident in an EU member state if your current or permanent home address is in one of the countries listed on page 2. Your accounts with HSBC Bank International Limited will be affected by ESD if our records show that your home address is in the EU.

Are all accounts and services affected?

No. The rules are quite complex but relate specifically to the payment of all credit interest (ie: when the bank pays you) and *certain* investment funds income. Please see the table on page 6 for more details.

What is investment fund income?

Investment fund income relates principally to dividend payments, but may also include proceeds from the sale (redemption) of shares or units, depending on the investment instruments held within the fund. Please call International Direct Banking if you are in any doubt about the treatment of your investments with us.

What about non HSBC Group investment products?

If you hold any non HSBC Group investment products, we would expect the provider, to contact you with details on how these rules may affect those investments. If you purchased these investments through one of our financial planning managers, however, we may be able to assist. Please call International Direct Banking. Alternatively, you may wish to approach the product provider directly.

Which accounts are affected?

In common with all financial institutions based in the islands, all HSBC Bank International accounts which earn credit interest (ie the bank pays you) are affected.

Funds where the aim is to generate income are likely to be affected.

Certain investments are not affected

- ▶ Insurance policies, life policies (eg with profit funds) and pensions
- ▶ Shares that you hold directly
- ▶ Pure equity funds are unlikely to be affected because their primary objective is to achieve capital growth

The table below summarises both the affected and unaffected accounts in our range.

Please note that this information is based on our current understanding of the impact on our customers of ESD legislation and practice. The accuracy or completeness of this guidance cannot be guaranteed. The legislation or practice may be subject to change.

Impact of ESD on HSBC Bank International Limited Accounts

	Affected by ESD	Unaffected by ESD	Notes
Bank Accounts	All interest bearing current accounts All savings accounts All notice accounts All fixed term deposit accounts	Mortgages Credit Cards Charge Cards Loans	
Investments	HSBC International Sterling Income Fund HSBC Advantage (this fund offers the Reporting option only. Reporting is triggered when you sell your shares)	HSBC InvestDirect International (online sharedealing service) HSBC International Capital Secured Growth Funds HSBC International Stock Market Linked Term Account HSBC International Structured Notes HSBC International Investment Funds HSBC International Select Fund HSBC Global Investment Funds and HSBC Asset Management Investment Funds (Freedom range)	It is anticipated that these investment funds will not be affected, provided your contract note and confirmation of ownership have been issued by HSBC Fund Administration (Jersey) Limited or HSBC Funds Nominee (Jersey) Limited. Please check with us if you are unsure.

Who is affected?

You are included within the scope of ESD if you are:

- ▶ an individual or sole trader whose residential address (ie: your current or permanent home address) is in an EU member state

You are excluded from ESD, as applied in the Channel Islands or the Isle of Man, if:

- ▶ you are a Channel Islands or Isle of Man resident
- ▶ you are a resident in the UK but are not domiciled there and are prepared to follow certain restrictions (please see page 8)
- ▶ you are an unincorporated association or society eg: a charity
- ▶ you are a company or partnership
- ▶ your affairs are in a Trust (provided the trust structure meets certain rules)
- ▶ you are able to provide us with an exemption certificate from an EU tax authority (please see Claim exemption on page 8)

Options for affected customers

Impacted customers have the following options; to seek exemption from ESD or to choose between Retention Tax or Reporting.

How to seek exemption or exclusion

If you are an individual or sole trader, there are still a number of ways that you may be excluded from ESD, provided you qualify:

▶ Advise us that you are not EU resident

Whether or not you are impacted will depend upon your residential address, as held in our records. If you are no longer resident in the EU, your accounts will be unaffected.

To update the address on your bank accounts, please use a Change of Address form available on our website at www.offshore.hsbc.com/esd.

Alternatively, you can call International Direct Banking on +44 1534 616000 and advise us of your new details.

In all cases, we will amend our records and if they show that you are not EU resident, your accounts will be excluded.

▶ Advise us that you benefit from an exemption from income tax in your home country

If you benefit from an exemption from income tax in your EU member state of residence, then you could also qualify for exemption from ESD. Please call International Direct Banking or complete and return the ESD Exemption form.

▶ Advise us that you are UK resident but not UK domiciled

If you are resident in the UK but not domiciled there (ie: the UK is not your permanent home) and you do not intend to transfer any of the offshore interest paid after 1 July 2005 from your offshore accounts back to the UK, you may qualify for exemption from ESD. Please call our ESD helpline or complete and return the ESD Exemption form on our website at www.offshore.hsbc.com/esd

▶ **Claim exemption**

If you qualify, you can claim exemption by presenting us with a Tax Exemption Certificate from your EU member state. These tax exemption certificates would exclude you from Retention Tax and Reporting. They are issued by the tax authorities in the country where you live and have a specific expiry date. To take this option, please speak to your professional tax adviser.

▶ **Reclaim tax withheld from your local tax authority**

If you have had Retention Tax applied to your account(s) or investments, you may be able to reclaim some or all of this back from your local EU tax authority. To do so, you will need to ask us for a certificate at the end of the tax year.

▶ **Hold accounts which are not impacted by the rules**

Non interest-bearing bank accounts, loans, mortgages and certain investments are exempt.

Choose between the Retention Tax or the Reporting option

If your home address is in the EU and you cannot be excluded by any of the above criteria, you are affected by ESD and must decide whether you wish to opt for the Retention Tax or the Reporting option:

- ▶ If you choose the Retention Tax option, tax will be deducted automatically from your interest or income before you receive it in your account. This tax will be paid to the local tax authority and shared with the tax authority in your country of residence. No personal information or account details will be exchanged. (Please see page 12 About the Retention Tax option for further details).
- ▶ If you select the Reporting option, you will receive your interest gross and certain personal details including information on your accounts and all credit interest paid to you will be sent to the local island tax authority who will send it on to the tax authority in your country of residence. (Please see page 13 About the Reporting option for further details).

What interest or income is liable to Retention Tax or Reporting?

The following forms of credit interest or income will be taxable or reportable under ESD:

- ▶ All interest paid or credited to any bank account such as current accounts, instant access accounts and fixed term deposits
- ▶ Income received from Government securities, bonds or debentures, including premiums and prizes attaching to such securities, bonds or debentures
- ▶ Interest accrued or capitalised at the sale, refund or redemption of debt holdings such as Government securities, bonds or debentures
- ▶ Income received from shares or units in certain investment funds
- ▶ Income realised upon the sale, refund or redemption of shares or units in certain investment funds

What interest or income is excluded from Retention Tax or Reporting?

The following forms of credit interest or income will NOT be taxable or reportable under ESD:

- ▶ Payments received that are not interest or are not derived from interest or are not related to a debt claim eg: ordinary cheque payments made into your account
- ▶ Dividends received on the ordinary or preference shares of a company
- ▶ Distributions received of business or company profits – including distributions of profits made in respect of debt claims which also have a right to a share of a company's profits
- ▶ Wages, salaries, occupational and personal pension payments and other purchased life annuities
- ▶ Payouts from insurance policies, lotteries and other winnings from betting, gaming or wagers
- ▶ Income distributed by holding, or derived from the sale or redemption of, units or shares in exempt collective investment funds (eg: hedge funds)
- ▶ Income from bonds first issued before 1 March 2001 which have made no further issues since 1 March 2002

About the Retention Tax option

Unless you select the Reporting option, for all your affected accounts, Retention Tax will continue to be deducted from interest or fund income you receive.

What tax will be deducted?

Tax will be deducted at the following rates:

1 July 2005 until 30 June 2008	15%
1 July 2008 until 30 June 2011	20%
1 July 2011 onwards	35%

When will the tax be deducted?

Bank accounts

- ▶ For bank accounts, the tax will be calculated daily and deducted on the day your interest is paid or credited to you

Investments

- ▶ For affected investment accounts, the tax will be deducted on the day your income is paid or credited to you
- ▶ If you are resident in the EU according to our records on the last day of the relevant fund accounting period, tax will be withheld from that income. If you are not resident in the EU according to our records on the last day of the relevant fund accounting period, no tax will be deducted

About the Reporting option

If you select the Reporting option and your home address in our records is in an EU member state on the last day of the tax year in the island in which your accounts are based, information on your affected accounts will be reported.

What information will be reported?

Details such as your name and address, and possibly other personal information may be reported.

Where will the information be sent?

The information will be sent to the local tax authority in the island where your accounts are based and then sent by them to the tax authority in your country of residence.

When will the report be sent?

The report will be sent within three months of the end of the tax year ie:

In Jersey and Guernsey:

by 31 March each year
(tax year ends 31 December)

In Isle of Man:

by 5 July each year
(tax year ends 5 April)

Frequently asked questions

Can I choose different options for my various accounts?

All your bank accounts are linked on our systems so you must choose the same option (ie: either Retention Tax or Reporting) for all your bank accounts.

All your investment accounts are linked on our systems so you must choose the same option (ie: either Retention Tax or Reporting) for all your investment accounts. The Retention Tax option will automatically be applied unless you opt for Reporting.

You can choose a different option for your bank accounts from your investment accounts, should you wish.

Can I switch options?

Yes, if you wish to switch from Reporting to Retention Tax or vice versa because of a change in circumstances you can do so. Please download and complete the relevant form from our website www.offshore.hsbc.com/esd.

What is the tax year in the islands?

The tax year is:

In Jersey and Guernsey:

1 January to 31 December

In the Isle of Man:

6 April to 5 April

According to your records, what is my home address?

If we hold only one address for you in our records, we will assume this is your current or permanent home address. If this has now changed, please use the Change of Address form on our website at www.offshore.hsbc.com/esd. Alternatively, you can call International Direct Banking on +44 1534 616000 and advise us of your correct home address. We will amend our records and, if you are a non-EU resident, your accounts will be unaffected by ESD going forward.

Is there any way I can qualify for exemption from ESD?

There are a number of ways you can be excluded from ESD. These are covered on page 8. In addition, it may be possible for resident but non domiciled individuals in some European countries, such as the UK, to qualify for exemption. We suggest you seek guidance from your local tax adviser.

How will you calculate tax or report interest for my joint accounts?

Interest paid to a joint account will be split equally between all account holders. So, if you have a joint account with someone who is not EU resident, only your share of the interest will be taxed or reported. All joint account holders who are resident in the EU have the right to choose the different ESD options (outlined previously in this booklet) individually.

If I move address, what should I do?

Retention Tax option

Where Retention Tax is applied, the date you notify us of any change of address is critical in determining whether your interest will be taxed.

If you change your country of residency during the year, please let us know. If you are no longer subject to Retention Tax, we will amend our records and your future interest payments will be paid gross.

If you change from a non-EU address to an EU address, then Retention Tax will only apply to the interest paid or credited to you after the change of address notification has been received and actioned.

Reporting option

If you change address, we will report your interest based on the permanent residential address (ie: home address) held in our records at the end of the tax year for the island in which your accounts are based.

How do I advise you of a change of address?

You may change your address using the Change of Address form on our website at www.offshore.hsbc.com/esd. Alternatively, you can phone International Direct Banking on +44 1534 616000 and give us the new details.

What happens if I close my account?

If you close an account during the tax year, you will be taxed or reported on any interest paid to you on the basis of the last address held in our records at the point of closure.

What statements or tax certificates will I receive?

Retention Tax option

- ▶ Your regular bank statements and dividend vouchers will show details of your interest payments and the amount deducted for tax
- ▶ A certificate showing your account and tax details can be provided annually at the end of the tax year, upon request

Reporting option

- ▶ Your regular bank statements and dividend vouchers will show details of your gross interest payments

Can I open an account outside Europe?

If you want further information, please call International Direct Banking on +44 1534 616000

Next steps

Check your address

Do we have your address details correct? Please make sure the address we hold in our records is your correct home address. If it is not, you can update it using the Change of Address form on our website at www.offshore.hsbc.com/esd or by calling International Direct Banking on +44 1534 616000.

Choose between Reporting and Retention Tax

For the Reporting option

If you wish to select the Reporting option, please complete, sign and return the Reporting Request form found at www.offshore.hsbc.com/esd on our website. Please then return the original signed form by post.

For Retention Tax

Tax will automatically be applied, unless you notify us that you are eligible for exemption (see page 8) or you select the Reporting option.

What if I do nothing?

We will automatically apply the Retention Tax option to all your affected accounts.

Where can I go for help?

If you would like to discuss ESD and how it may affect your savings and investments with us, please call International Direct Banking on +44 1534 616000. Calls may be monitored and/or recorded for security and service improvement purposes. Lines are open 24 hours a day, seven days a week, 365 days a year.

Alternatively, you can visit our ESD information centre on our website at www.offshore.hsbc.com/esd.

Important notes

Please note that the information in this booklet is based on our current understanding of the impact on our customers of ESD legislation and practice. The accuracy of this information or its completeness cannot be guaranteed. The legislation or practice may be subject to change.

Your tax situation will depend on your personal circumstances and we recommend you obtain independent tax advice. Any tax information in this leaflet is based on our understanding of current and proposed legislation and practice. The legislation and practice may be subject to change.

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