

## Notice

# Investment income and investment income tax

External transactions

## I Preliminary remarks

This notice explains the reporting rules for cross-border investment income and investment income tax under the Foreign Trade and Payments Regulation (*Aussenwirtschaftsverordnung*), paying particular regard to Germany's flat-rate investment income tax (*Abgeltungssteuer*).

In order to ensure the reporting rules are clearly understood, the first section below begins by explaining the basic methodology of the reporting provisions. Aspects relating to the definition of investment income versus transactions in financial instruments and valuation effects (eg price gains, capital gains) are dealt with in section III. Section IV provides case studies of the most important types of investment income for balance of payments statistics and the resulting reporting requirements under the Foreign Trade and Payments Regulation. Since domestic banks pay the flat-rate investment income tax over to the tax authorities for domestic customers,<sup>1</sup> the deduction or forwarding thereof is a transaction between residents and therefore not subject to reporting requirements under the Foreign Trade and Payments Regulation.<sup>2</sup> Where, exceptionally, the place of residence under the Foreign Trade and Payments Regulation and under tax law differs (non-residents under the Foreign Trade and Payments Regulation but residents for tax purposes), simplified reporting rules apply, as described.

## II Basic methodology

As a general rule, investment income is to be shown in the balance of payments of the Federal Republic of Germany on a gross basis, ie prior to the deduction of domestic or foreign taxes (gross reporting principle). Any cross-border investment income taxes paid or deducted are to be reported as a separate balance of payments item.

For domestic investors or creditors, this means that investment income received from abroad and any investment income tax deducted from it must be reported separately. If foreign investment income tax has already been deducted from dividend or interest payments made by foreign issuers/debtors prior to their being paid out, then the gross amount, ie the amount prior to the deduction of foreign investment income tax, is to be shown as the incoming investment income payment. The tax deducted abroad must be reported additionally as an outgoing investment

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<sup>1</sup> The flat-rate investment income tax is generally paid over only for private individuals.

<sup>2</sup> Furthermore, the deduction of the solidarity surcharge and of any church tax is a transaction between residents and is therefore also not subject to reporting requirements.

income tax payment. By contrast, any domestic investment income tax (flat-rate investment income tax) deducted or payable subsequently by the domestic investor/creditor is to be regarded as a transaction between residents and is therefore not subject to reporting requirements under the Foreign Trade and Payments Regulation. The amounts printed in **b o l d** in the table below (example 1) would be the values used as the basis for incoming (income) and outgoing (tax) payments for reporting purposes under the Foreign Trade and Payments Regulation.

**Example 1:** Income from and taxes on capital investment abroad

Income and tax items	Amount in €	Economic area	Code	Vchr type
Foreign investment income (dividends/interest)	<b>110,000</b>	Abroad	eg 185	3
Foreign investment income tax	(-) <b>30,000</b>		810	2
Dividends/interest received	80,000	Germany		
Domestic investment income tax deducted	(-) 20,000			
Credited to account / safe custody account	60,000			

For domestic issuers or debtors, any cross-border investment income paid is also to be recorded on a gross basis, ie prior to the deduction of taxes, in the balance of payments. However, domestic taxes are deducted only in the case of dividend payments or profit distributions.<sup>3</sup> There is usually no tax deduction from any other cross-border investment income paid out, thus the amount actually paid – which is also the gross amount to be recorded for statistical purposes – is to be reported. However, even in the case of cross-border dividends and profit distributions paid out, it is sufficient to report the actual net amounts paid. The Bundesbank calculates the gross amounts to be recorded in the balance of payments using the withholding tax rates applying in Germany. If the withholding taxes deducted differ from the regular rate of 25% – for example pursuant to section 43b of the German Income Tax Act (*Einkommensteuergesetz*) – we do ask that the reduced tax rate be indicated when reporting under the Foreign Trade and Payments Regulation.

**III Distinction between investment income and transactions in financial instruments**

Unlike under tax law and with the flat-rate investment income tax, price and valuation changes do not constitute income for the purposes of balance of payments statistics. Instead, they affect the relevant financial instruments in the balance of payments, with securities transactions likely to be the biggest contributor. The basic reporting methodology set out in the previous section also applies correspondingly to the reporting of transactions in financial instruments. In the case of foreign securities sold to non-residents, as in example 2, this means that deduction of the flat-rate investment income tax does not enter into the reporting. The amounts printed in **b o l d** in the table

<sup>3</sup> Domestic credit institutions paying out investment income generally need to deduct the flat-rate investment income tax and transfer it to the tax authorities only for domestic investors and creditors.

below (example 2) would therefore be the values used as the basis for reporting securities transactions under the Foreign Trade and Payments Regulation. The aim in this is to ensure that cross-border purchases and sales continue to be recorded in their full amounts.

**Example 2:** Purchase and sale of securities as part of financial broking services

Capital and tax items	Amount in €	Code	Vchr type	Month
Purchase of foreign shares	<b>100,000</b>	104	4	January
Sale of foreign shares	<b>120,000</b>	104	3	November
of which price gains	20,000			
Domestic flat-rate tax deducted	(-) 5,000			November
Credit to acct / safe custody acct	115,000			

As the example shows, the amount to be reported is the gross sales proceeds of €120,000 prior to the deduction of (domestic) tax, and not the actual amount credited of €115,000.

**IV Case studies**

The following details show the reporting requirements for various types of investment income for banks or their (safe custody) customers pursuant to sections 67 and 70 of the Foreign Trade and Payments Regulation. The case studies are based on the normal scenarios in which a resident/non-resident pursuant to the Foreign Trade and Payments Regulation is also considered a resident/non-resident for tax purposes. If either scenario ceases to apply, relaxed reporting requirements may be applied pursuant to section 73 of the Foreign Trade and Payments Regulation.<sup>4</sup>

The following case studies distinguish between

- external claims: claims, the debtor of which is a foreign party, and
- domestic claims: claims, the debtor of which is a domestic party.

**1 Investment income from external claims**

**1.1. Interest payments on foreign securities**

1.1.1. Bank customer receives interest on foreign securities

- Bank deducts flat-rate tax for the domestic customer.<sup>1</sup>

Bank's reporting requirement pursuant to the Foreign Trade and Payments Regulation

None.

<sup>4</sup> See section IV.3 below.  
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Domestic customer's reporting requirement pursuant to the Foreign Trade and Payments Regulation<sup>5</sup>

Investment income received must be reported (Z4: incoming payment in the gross amount, ie before deduction of foreign withholding tax and domestic flat-rate tax), and withholding tax deducted abroad must be reported (Z4: outgoing payment).

1.1.2. Bank receives interest on own foreign securities positions

- Bank does not deduct flat-rate tax.

Bank's reporting requirement pursuant to the Foreign Trade and Payments Regulation<sup>7</sup>

Investment income received must be reported (Z4: incoming payment in the gross amount, ie before deduction of foreign withholding tax), and withholding tax deducted abroad must be reported (Z4: outgoing payment).

**1.2. Interest payments on book-entry claims on non-residents**

1.2.1. Bank customer receives interest from foreign debtors

- Bank does not deduct flat-rate tax.

Bank's reporting requirement pursuant to the Foreign Trade and Payments Regulation

None.

Customer's reporting requirement pursuant to the Foreign Trade and Payments Regulation

Investment income received must be reported (Z4: incoming payment in the gross amount, ie before deduction of foreign withholding tax), and withholding tax deducted abroad must be reported (Z4: outgoing payment).

1.2.2. Bank receives interest from foreign debtors

- Bank does not deduct flat-rate tax.

Bank's reporting requirement pursuant to the Foreign Trade and Payments Regulation

Investment income received must be reported (Z14: incoming payment in the gross amount, ie before deduction of foreign withholding tax), and withholding tax deducted abroad must be reported (Z4: outgoing payment).

**1.3. Dividends from foreign shares**

1.3.1. Bank customer receives dividends from foreign shares

- Bank deducts flat-rate tax for the domestic customer.<sup>1</sup>

Bank's reporting requirement pursuant to the Foreign Trade and Payments Regulation

None.

Domestic customer's reporting requirement pursuant to the Foreign Trade and Payments Regulation<sup>7</sup>

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<sup>5</sup> Reporting requirements apply irrespective of the safe custody location, ie domestic or foreign safe custody.  
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Investment income received must be reported (Z4: incoming payment in the gross amount, ie before deduction of foreign withholding tax and domestic flat-rate tax), and withholding tax deducted abroad must be reported (Z4: outgoing payment).

1.3.2. Bank receives dividends from own foreign shares positions

- Bank does not deduct flat-rate tax.

Bank's reporting requirement pursuant to the Foreign Trade and Payments Regulation<sup>7</sup>

Investment income received must be reported (Z4: incoming payment in the gross amount, ie before deduction of foreign withholding tax), and withholding tax deducted abroad must be reported (Z4: outgoing payment).

## 2 Investment income from domestic claims

### 2.1. Interest payments on domestic securities

2.1.1. Bank makes cross-border interest payment on domestic securities (on behalf of its customers (issuers) or for own issues)

- Bank does not deduct flat-rate tax.

Bank's reporting requirement pursuant to the Foreign Trade and Payments Regulation

Investment income paid must be reported (Z11: outgoing payment, gross amount, ie actual amount paid).

Customer's (issuer's) reporting requirement pursuant to the Foreign Trade and Payments Regulation

None.

2.1.2. Bank receives cross-border interest payments on domestic securities<sup>6</sup> (for its customers (investors) or for own securities positions)

- Bank deducts flat-rate tax for its domestic customers.<sup>1</sup>

Bank's reporting requirement pursuant to the Foreign Trade and Payments Regulation

Investment income received must be reported if the bank is the first domestic instance to receive the payment from a foreign party (Z11: incoming payment, gross amount, ie before deduction of domestic flat-rate tax).

Customer's (investor's) reporting requirement pursuant to the Foreign Trade and Payments Regulation

None.

### 2.2. Interest payments on book-entry liabilities towards non-residents

2.2.1. Bank makes interest payments on book-entry liabilities towards foreign customers (eg deposits)

- Bank does not deduct flat-rate tax.

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<sup>6</sup> From a foreign paying agent or custodian.  
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Bank's reporting requirement pursuant to the Foreign Trade and Payments Regulation

Investment income paid must be reported  
(Z15: outgoing payment, gross amount, ie actual amount paid).

2.2.2. Domestic customer pays interest on credit liabilities towards foreign creditors

- Bank does not deduct flat-rate tax.

Bank's reporting requirement pursuant to the Foreign Trade and Payments Regulation

None.

Customer's reporting requirement pursuant to the Foreign Trade and Payments Regulation

Investment income paid must be reported  
(Z4: outgoing payment, gross amount, ie actual amount paid).

**2.3. Dividends from domestic shares**

2.3.1. Bank pays cross-border dividends on domestic shares  
(on behalf of its customers (issuers) or on own shares)

- Issuer or bank deducts withholding tax on domestic dividends.

Bank's reporting requirement pursuant to the Foreign Trade and Payments Regulation

Investment income paid must be reported  
(Z11: outgoing payment, net amount, ie actual amount paid).

Customer's (issuer's) reporting requirement pursuant to the Foreign Trade and Payments Regulation

None.

2.3.2. Bank receives cross-border dividends on domestic shares  
(for its customers (investors) or own financial assets)

- Bank does not deduct flat-rate tax.

Bank's reporting requirement pursuant to the Foreign Trade and Payments Regulation

Investment income received must be reported if the bank is the first domestic instance to receive the payment from a foreign party  
(Z11: incoming payment, net amount, ie actual amount paid).

Customer's (investor's) reporting requirement pursuant to the Foreign Trade and Payments Regulation

None.

### **3 Exception: non-residents pursuant to the Foreign Trade and Payments Regulation who are residents for tax purposes**

In exceptional cases, non-residents (pursuant to the Foreign Trade and Payments Regulation) may be deemed residents for tax purposes. They receive investment income<sup>7</sup> from domestic claims only after the deduction of domestic investment income tax (flat-rate tax). In terms of foreign trade and payments law, the gross amount of the income distributed and the investment income tax deducted would have to be reported separately in such cases. Since the reporting volume to be expected for these tax payments is estimated to be low overall, the net amount actually credited for investment income received by non-residents who are residents for tax purposes is permitted to be reported in order to simplify reporting (section 73 of the Foreign Trade and Payments Regulation).

#### **Information on the foreign trade and payments reporting system**

Hotline: 0800 1234 111 (freephone – only available if call is made from a German landline)  
Internet: [www.bundesbank.de](http://www.bundesbank.de) under Service/Reporting systems/External sector statistics  
Newsletter (in German): [www.bundesbank.de](http://www.bundesbank.de) under Service/Newsletter (category: Meldewesen Aussenwirtschaft)  
E-mail: [presse-information@bundesbank.de](mailto:presse-information@bundesbank.de)

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<sup>7</sup> Investment income for the purposes of the balance of payments, ie excluding price or valuation gains or losses.