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Future of the saver

A new wave of cooperation between governments and the global financial services industry is needed if consumers around the world are to be encouraged to save and create an alternative to the wholesale markets as a source of capital, says a new survey from KPMG's Global Financial Services Tax practice.

The survey, "Future of the Saver" looks at taxation of savings in 12 large economies (Australia, Brazil, China, Germany, India, Japan, Singapore, Switzerland, Turkey, the UK and the US), and the work being done by international bodies both to open up the market in cross-border savings and to counter tax evasion.

It suggests that the foundations of a new international system of regulation are now being laid. But governments and the financial services industry are being slow to adapt to this new system. They should work together to provide the mixture of opportunities and security that savers need.

Moves to create a truly international market in savings can be seen most clearly in the European Union, where the European Commission (EC) is taking legal action against governments whose tax systems continue to favor domestic savings over savings in other countries.

At the same time, European governments are cooperating to force financial services providers to give up information on savings deposited by people from other countries, and the Organisation for Economic Co-operation and Development (OECD) has reported significant progress in its long campaign to change laws around the world to improve access to bank information for tax purposes.

"The challenge for governments is to embrace this international move to open borders for savings, and to bring some coherence to the many different ways that savings are taxed," said Mike Glover, Head of Tax Services at KPMG's in Hungary.

Our survey showed a huge range of different tax regimes in just 12 countries, but, to take just one example, we know from our member firms' experience of working with business that there is strong international support for moves to harmonize cross-border tax treatment of pensions.

The challenge for the financial services industry is to engage with government early on this project. Future international savings products will have to be designed to include the additional costs of a much tougher disclosure regime, and greater transparency will become a requirement if financial services providers are to be allowed to operate in new markets. Companies wanting to do this should be co-operating with governments now to help shape the new rules," Mike Glover added.

The survey looks in detail at the taxation of those 12 countries - it reveals a wide range of tax regimes, but few concessions to international savers.

An exception is Brazil, where economic success has boosted confidence in the economy and savings have flowed in. Targeted tax concessions have boosted foreign participation in the Brazilian stock exchange, and foreign savers have also been offered opportunities to invest in special mutual funds set up by the government which are exempt from both capital gains and income taxes.

European governments, spurred by the EC, have been changing their tax laws to allow cross-border distribution of investment funds. But progress on removing discrimination between domestic and foreign pension funds has been much slower, and many countries appear to be awaiting the outcome of EC legal proceedings against Belgium, Spain, Denmark, France, Ireland, Italy, Portugal and the UK before deciding what to do.

“Savers worldwide may be forgiven for thinking that the level of their return from savings has been a secondary consideration for governments anxious to avoid the worst effects of a recession. This must change if savings ratios are to improve, and capital is to flow once more. Governments and the financial services industry have an opportunity to do this with the creation of a genuinely international savings market. This is an opportunity that should not be missed,” said Mike Glover.

Key findings:

- New research shows barriers to savings slowly coming down, as tax co-operation takes hold
- Transparency a corner-stone of emerging new regulations

Note to editors

A great deal of academic research has been conducted into the ways in which the taxation of savings and investments, and particularly fiscal incentives designed to encourage savings, influence behavior. Many of the studies have been carried out by economists, other academics, or fiscal authorities. Much less attention has been paid to the commercial implications of changes to the taxation of savings.

In the light of the profound changes that have been seen in the assumptions underlying economic behavior throughout the world, KPMG's study, "Future of the Saver, an investigation into how the tax treatment of savings has impacted the development of the global savings market " looks at the possible effects on savings behavior of different fiscal incentives, from a commercial perspective.

The study considers three principal areas, the conclusions of which are brought together in the executive summary set out in Chapter 2. In Chapter 3, it sets out the thoughts of KPMG professionals on international government action affecting cross-border savings and investments.

Chapter 4 considers if, and how, taxation influences the choices relating to savings and investments. Finally, in Chapter 5, the study contains a detailed summary of the taxation of savings and investments in 12 countries, Argentina, Australia, Brazil, China, Germany, India, Japan, Singapore, Switzerland, Turkey, the UK and the US.

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