Luxembourg to Reveal Bank Data

By VANESSA MOCK

BRUSSELS—Luxembourg shifted its banking policy, saying it would exchange information with the rest of the European Union about EU holders of bank accounts in the country, another step in Europe's crackdown on tax evasion.

The move, announced by Prime Minister Jean-Claude Juncker during a state-of-the-nation address on Wednesday, marks a retreat from banking secrecy in Luxembourg, a practice that for decades has helped the grand duchy, with a population of 90,000, establish itself as one of the biggest financial centers in Europe. According to the European Central Bank, banking assets there are 22 times the nation's gross domestic product.

The shift is politically significant in a country that has long guarded its secrecy rules, but the impact of the measure isn't clear. The disclosure policy will target interest payments on funds held by private EU savers, not those of investors with money in investment funds or who are registered as legal or corporate entities. The Luxembourg Bankers' Association estimates that more than 50% of Luxembourg's private savers are from the EU.

On Tuesday, Germany, France, Britain, Italy and Spain agreed to develop a system that would make it easier to clamp down on tax evaders by automatically exchanging information among those countries. The five countries said in a letter to the European Commission that they hoped the template would pave the way for a broader agreement, in Europe and globally.

"We can, without great damage, introduce automatic exchange of information as of Jan 1, 2015." Mr. Juncker told lawmakers, adding the move was largely spurred by pressure from the U.S., rather than from European partners. "If we’re changing our position it’s not under European pressure…but because the Americans leave us no other choice. The Americans only do financial business with those countries which agree with the automatic information exchange."

Prime Minister Jean-Claude Juncker said the move away from banking secrecy was largely spurred by pressure from the U.S. Above, the Petrusse River in Luxembourg last November.

Also Wednesday, French President François Hollande assailed tax havens, vowing to "eradicate" them "in Europe and the world." Speaking after a domestic tax-fraud scandal, he promised to put in place structures to pursue corruption and tax fraud in a "relentless battle against the excesses of money, greed and secret finance."

Luxembourg is in talks with the U.S. about implementing the Foreign Account Tax Compliance Act, a 2010 law that aims to prevent tax evasion by U.S. citizens. The act requires foreign banks and financial entities to find any American account holders and disclose their transactions and balances to U.S. authorities. The U.K., Germany and other EU countries have already wrapped up agreements with the U.S.
The European Commission said it "warmly welcomed" Luxembourg's move and urged Austria to follow suit. Austria is the only EU country that hasn't agreed to rules known as the EU Savings Directive.

"We understand there are ongoing discussions in Austria at this moment on this issue, and we hope they will follow Luxembourg's lead," Emer Traynor, a commission spokeswoman, told reporters in Brussels.

A spokesman from the Austrian Finance Ministry referred to a joint interview to be published Thursday, in which Austrian Vice Chancellor Michael Spindelegger and Finance Minister Maria Fekter said they would cooperate with the EU, but only to clamp down on tax evaders.

"We are cooperative when it is about organized crime, but it won't be an automatic information exchange of this type," said Mrs. Fekter, who has in the past vowed to defend banking secrecy. Mr. Spindelegger added: "Bank secrecy will stay, but tax evaders will be tracked down."

Ben Jones, a London-based tax specialist at law firm Eversheds, said it was inevitable that Luxembourg would relax its banking-secrecy rules. The Tax Justice Network, which researches and monitors tax havens, said it was now inevitable that other countries would follow suit. "For years there's been an unholy alliance between Luxembourg, Austria and [non-EU country] Switzerland and there's now a real possibility of a domino effect that will force the other two to come to the negotiating table," said director John Christensen. However, he cautioned that there were still many loopholes in the EU Savings Directive that allowed "sophisticated tax evaders to create offshore trusts" and avoid being targeted. In the U.S., lawyers said the impact of Luxembourg's announcement depends on the details. "If the information sharing is only for interest paid to individuals, it's a baby step," said Scott Michel of Caplin & Drysdale in Washington, who has handled many offshore account cases.

"The writing has been on the wall for banking secrecy across Europe for several years now. Countries such as Switzerland and Luxembourg that have built their banking sectors on strong secrecy laws have long been resisting European attempts to pierce the secrecy veil and were largely successful until the U.S. began to focus its attention on the issue," Mr. Jones said.

Luxembourg, a hub for large international companies, said the information-sharing measure won't apply to foreign companies based in the country. The tax treatment for assets held by citizens or foreign residents of the U.S. will be dealt with in a bilateral agreement that is being negotiated, while payments made to residents of countries outside the EU and the U.S. will remain unchanged, a government statement said.

The Luxembourg Bankers' Association said the information exchange would target only a sliver of its financial sector. "This is not Cyprus," Jean-Jacques Rommes, the association's director, said in an interview, explaining that while the Mediterranean island was a magnet for individual offshore savers, Luxembourg's financial activities were broader. "We're also a booking center for international loans, investment funds and insurance companies."

—Nicole Lundreen and Laura Saunders contributed to this article.

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