

**WRITTEN QUESTION TO THE MINISTER FOR TREASURY AND RESOURCES  
BY THE DEPUTY OF ST. MARY  
ANSWER TO BE TABLED ON TUESDAY 30th NOVEMBER 2010**

**Question**

Can the Minister explain in more detail ‘the further changes to the [EU Savings Directive] retention tax rate, eventual move to automatic exchange of information and lower investment returns on these [revenue] funds’, as outlined on page 22 of the Budget report?

**Answer**

This comment explains why States income from the EU Savings Directive has decreased in recent years and is expected to continue to decrease.

Jersey’s obligations under this Directive stem from the agreements entered into with 27 Member States. It means a retention tax is deducted from interest payments made by Jersey banks to EU resident individuals. The recipients can instead choose to have their information disclosed to the tax authorities in their home country.

Jersey collects the retention tax on interest payments and is entitled to keep 25% of that tax. It passes 75% to the country in which those individuals are resident.

The current retention tax rate is 20% of the interest payment. This is increasing to 35% from 1 July 2011. This rate may in some cases be higher than the individual’s tax liability in their home country and so some investors may choose to have their information disclosed instead of paying the retention tax.

Under the terms of our agreements which mirror the Directive, Jersey will be required in the future to move to automatic exchange of information (AEOI) and so will not be able to collect this retention tax. The timing of this is currently unknown but could happen in the next 2-3 years. The move to compulsory AEOI is currently being blocked by Austria and Luxembourg. Alternatively Jersey could choose to move to AEOI voluntarily, as the Isle of Man and Guernsey are doing.

Interest rates have decreased in recent years and are likely to stay low. As a result, the amount of interest from which the retention tax is taken has decreased.

For all of these reasons, the amount the States receives as its share of the retention tax has decreased and is likely to decrease further. At some time in the future it will cease completely.