

FACT SHEET



Location of Jersey, Channel Islands.

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JERSEY FINANCE

VOICE OF THE INTERNATIONAL FINANCE CENTRE

Jersey and the European Union Savings Tax Directive

Proposal for a Council Directive amending Directive 2003/48/EC on taxation of savings income in the form of interest payments [COM(2008)727]

Historical Context

The European Union Savings Tax Directive is an agreement between EU member states to automatically exchange information with each other about individuals who reside in one member state and earn interest in another. The purpose of this is to allow the authorities of the residing country to compare an individual's income declaration with the information provided. Austria, Belgium and Switzerland have implemented a withholding/retention tax as the default position, instead of exchange of information, whereby banks automatically withhold tax from interest paid to residents of other EU member states. In the cases where withholding tax is charged, no information is exchanged. Individuals can still opt to exchange information instead of paying the withholding tax.

To avoid this exchange of information or withholding/retention tax, an individual can apply for a tax exemption certificate. The withholding tax is 20% on interest earned, and will rise to 35% on the 1st July 2011.

Key Issues

The coverage of the EUSTD is not as wide as was originally expected and there remained certain loopholes allowing individuals to avoid or reduce payments. Amends need to widen the scope of the directive, and ensuring these loopholes are rectified.

A number of solutions have been proposed and scrutinised, with the following option being decided upon:

- Amendments to ensure a better implementation of the unanimous agreement reached by the Council on 27 November 2000 about what should be the substantial content and aim of the EUSTD in combination with amendments to close as far as possible all loopholes and extend the coverage to all products which can be assimilated to interest-bearing instruments.

Effect on Jersey

- Jersey is not obliged to implement the recommended changes but may consider accommodating some of the changes proposed.
- A key amendment is that the present transitional arrangements that allow for a withholding tax option should be terminated three years after the introduction of the 35% rate of withholding tax i.e in 2014.

Who is subject to EUSTD?

EU Passport	EU Resident	Implication
No	No	Outside the scope of EUSTD
Yes	Yes	Subject to EUSTD
Yes	No	Outside the scope of EUSTD
No	Yes	Exempt from EUSTD on completion of an EUSTD Request for Exemption Form

Jersey's Position

Jersey's voluntary support in respect of the Review of the Savings Tax Directive will depend on a number of factors including:

- The position taken by the Third Countries (and Switzerland in particular), by the other dependent and associated territories, and by the Member States themselves;
- Whether the EU has been able to obtain the support of jurisdictions such as Hong Kong, China and Singapore for the adoption of equivalent measures related to the EUSD;
- Particularly in the absence of the required level playing field, what economic benefits would be able to be enjoyed by the Island in exchange for its cooperation;
- What additional burden will be placed on paying agents in relation to the likely effectiveness of the proposed amendments in achieving the EU's desired objectives?

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