Jersey Finance

Delivering Insight ▪ Driving Innovation

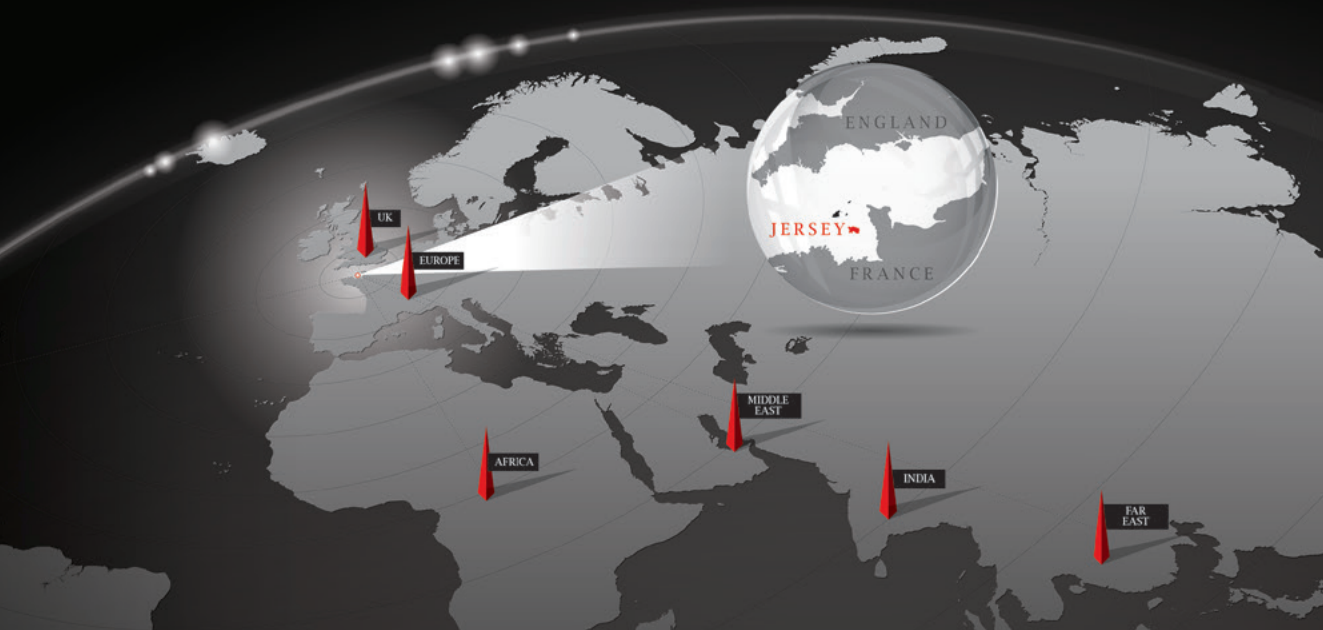
Tax Neutrality

Jersey is a major conduit for international capital flows and a key foundation of the Island's offering is the provision of a tax neutral environment for international business.

www.jerseyfinance.je

Factsheet

Introduction



Globalisation is no longer a phenomenon, but although it is familiar to us all, this does not mean it is slowing down

Individuals are increasingly footloose, the value of goods and services traded internationally continues to rise, and so do cross-border capital flows as investors search for returns in a global market place.

Despite this, many tax systems remain domestically focussed and do not adequately deal with cross-border trade and investment; double taxation remains a significant issue for individuals and businesses alike and this can result in inefficient economic decisions being made if the tax implications of a transaction have undue influence.

The concept of tax neutrality is simple; that by not imposing additional layers of tax, decisions can be made on their economic merits alone.

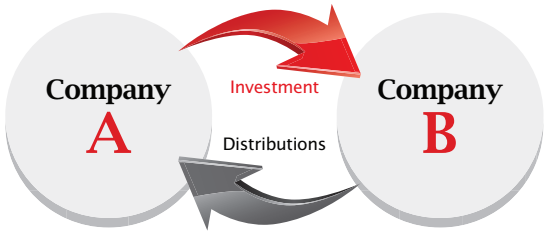
However, tax neutrality is also widely misunderstood and misrepresented, with certain corners erroneously linking it to tax evasion.

We consider here in more detail how tax neutral jurisdictions, such as Jersey, operate.

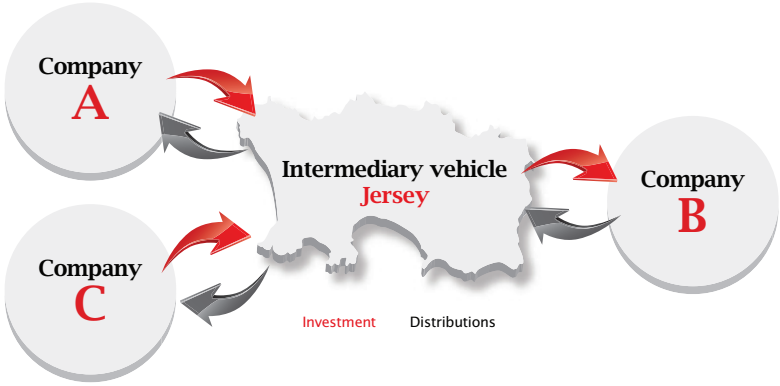
Tax Neutrality

Tax neutrality is best explained through an example.

Company A invests in Company B. Company B pays tax on its profits in its home jurisdiction. Company A then pays tax, in its home jurisdiction, on the distributions it receives from Company B.



If Company A wanted to invest jointly with a partner, Company C, they may wish to pool their funds in an intermediary vehicle. This vehicle can reduce the administrative burden for all parties, provides an independent platform which treats each investor fairly and can be based in a stable jurisdiction to reduce country risk concerns.



The use of a tax neutral vehicle should result in the same total amount of tax being due as if an investor had invested directly into the underlying asset.

In the above example, some jurisdictions would tax the intermediary vehicle, meaning the investment entity itself is no longer tax neutral, potentially putting the whole investment at risk.

A tax neutral jurisdiction such as Jersey would not tax the intermediary vehicle. Tax would continue to be paid by the ultimate investors (Company A and Company C) in their home jurisdiction, and also by the underlying investment (Company B) in its home jurisdiction. Therefore, the use of a tax neutral international finance centre ("IFC") such as Jersey should result in no more or less tax being payable.

This is a simplified example, as withholding taxes, double tax agreements and other matters would also be taken into account.

Why Use a Tax Neutral Jurisdiction?

Many IFCs offer a form of tax neutrality and the need for tax neutral vehicles is present across different finance industry subsectors. Some examples are provided below of the services Jersey provides to international clients.

Tax neutrality is just one string to the bow of any successful IFC. Political stability, a talented local workforce of substance, a sophisticated legal system, modern corporate laws and a well-regulated environment for investment have all made the Island a popular destination for a variety of international clients.

Wealth management

Global shifts in the wealth management landscape are prompting many investors to look for access to markets through well-regulated, reputable and long-established finance centres such as Jersey, which has been at the forefront of private wealth management for more than 50 years.

Jersey does not tax individuals who are not resident in the Island. Non-residents can therefore hold cash deposits or investments without becoming subject to Jersey income tax.

This is important to the growing proportion of high net worth clients who have truly international lives, without a dominant country in terms of where they spend their time or hold their assets.

Jersey offers the opportunity for these individuals to hold their assets in one location and need only settle their tax liability in the jurisdiction(s) where they are tax resident at the time. This minimises the risk of either suffering tax twice or having to invest time and money in making claims for double tax relief.

Head offices

In recent years, there has been a growing trend for extractive industry companies to locate their head office in Jersey. Capital for investments into politically unstable jurisdictions can be pooled in - and deployed from - Jersey, providing the confidence of security to investors, without the additional tax complexity often associated with establishing operations in a third country.

It is estimated that extractive industry firms with a presence in Jersey are responsible for around £50 billion of investment into Africa in the form of the construction of mines, equipment and related infrastructure in the countries in which they operate.

Funds

Jersey has grown to be a significant IFC for the funds industry, with assets under management in excess of £200 billion.

Fund promoters establish vehicles in Jersey that pool investor contributions from across the world. Accumulated returns can be distributed without the imposition of additional layers of tax and investors therefore need only pay tax once, to their home taxing authority.

The Island's funds sector also attracts significant pension fund investments. Although pension funds are often not taxed in their home jurisdiction, such exemptions may not be provided by other tax authorities when they make international investments. The ability to invest through Jersey funds therefore means that they can seek exposure to cross-border investments without the concern of suffering an unnecessary tax liability, thus maximising returns for future retirees.

Tax Neutrality and Transparency

The majority of Jersey's international activities focus on the pooling and deployment of assets that have already been taxed. Tax neutrality is not a form of, and does not facilitate, tax evasion; lack of transparency and poor regulation do.

It is a criminal offence to facilitate or engage in tax evasion in Jersey. It has been this way since 1999, three years before the UK enacted similar legislation.

Jersey is also at the forefront of international standards designed to prevent tax evasion and money laundering: The Island's credentials include:

- An early adopter of the Common Reporting Standard
- Signatory to the Convention on Mutual Administrative Assistance in Tax Matters
- Member of the Global Forum on Transparency and Exchange of Information for Tax Purposes
- Signed 37 Tax Information Exchange Agreements and 13 full Double Tax Agreements, all of which provide for information exchange on request in regards to tax matters
- Committed to consistent implementation of the BEPs package as a 'BEPs Associate'

Not only has Jersey signed up for such initiatives, but it has been independently assessed by international organisations to have demonstrated a high level of compliance with them.

Additionally, Jersey has been reviewed by the Code of Conduct Group for Business Taxation, which aims to identify and abolish harmful tax measures. In 2011, the Code of Conduct Group confirmed the Island's corporate tax regime as being compliant with the Code; a confirmation subsequently endorsed by the EU's Council of Ministers.

Jersey has maintained a central register of the beneficial ownership of companies for more than two decades. In addition, Jersey regulates those who form and administer companies, trusts, partnerships and foundations. They are required by statute to maintain up-to-date and accurate information on the ownership of the vehicles they administer, with this information being available to international law enforcement and tax authorities on request.

The IMF, OECD and EU have all endorsed Jersey's credentials as a top international finance centre.

A major new report published by MONEYVAL underlines Jersey's ability to combat financial crime through a sophisticated system of capturing ownership information about entities and structures in the jurisdiction.

Jersey is endorsed as a top international finance centre by...

Funding Public Services

Double Taxation Agreements ("DTAs") are used by many IFCs to ensure that income generated in one jurisdiction and remitted to another is, rightly, only taxed once. In the absence of an extensive DTA network, Jersey provides tax neutrality through a general rate of corporate taxation of zero.

Like all jurisdictions, Jersey has public services which need to be paid for and the question is often raised as to how IFCs can survive if tax revenue is not generated from foreign investors using local vehicles.

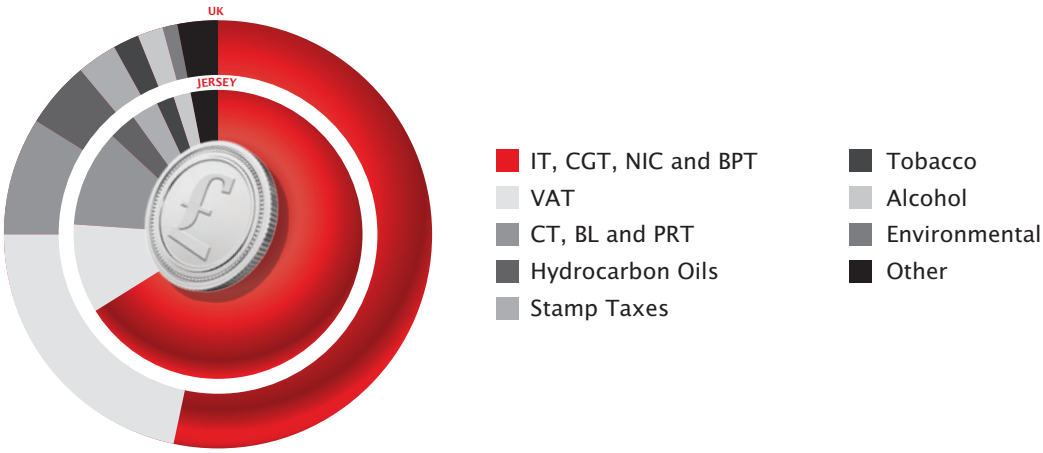
Jersey derives economic benefits from international clients through the imposition of a 10% tax rate on certain businesses undertaking regulated activity in Jersey, which are typically the service providers to such clients. This includes banks, trust companies, investment management companies and fund administrators and custodians.

These local service providers also employ highly skilled individuals who, along with individuals employed in the wider economy, support Jersey's tax revenues through personal income tax and social security contributions. The Island has had a long-standing commitment to a 20% personal tax rate, which is extremely competitive and has contributed to the Island's continued ability to maintain a finance industry of substance by attracting talented individuals to service international clients.

In addition to the above, specified utilities companies in Jersey are taxed at 20%, as are profits derived from property rental and development. The Island also raises revenue through a 5% Goods and Services Tax (similar to UK VAT), stamp duty on Jersey situs real estate and duty on goods, such as cigarettes and alcohol.

This provides Jersey with a low and broad tax base which is not dissimilar to the UK[1]:

Sources of Government tax revenue (2015)



1 Dividend tax credits in the UK mean that a significant proportion of the tax paid on distributions is effectively recorded under corporate taxes. In Jersey, most companies are subject to tax at 0% with dividends liable to personal tax at 20%.

Over 13,000
highly-skilled and experienced finance professionals

Operates Own Judicial System
which is based on common law principles

Open For International Business
its central time zone overlaps with both East and West time zones

Independent and Politically Stable

Expertise and Substance

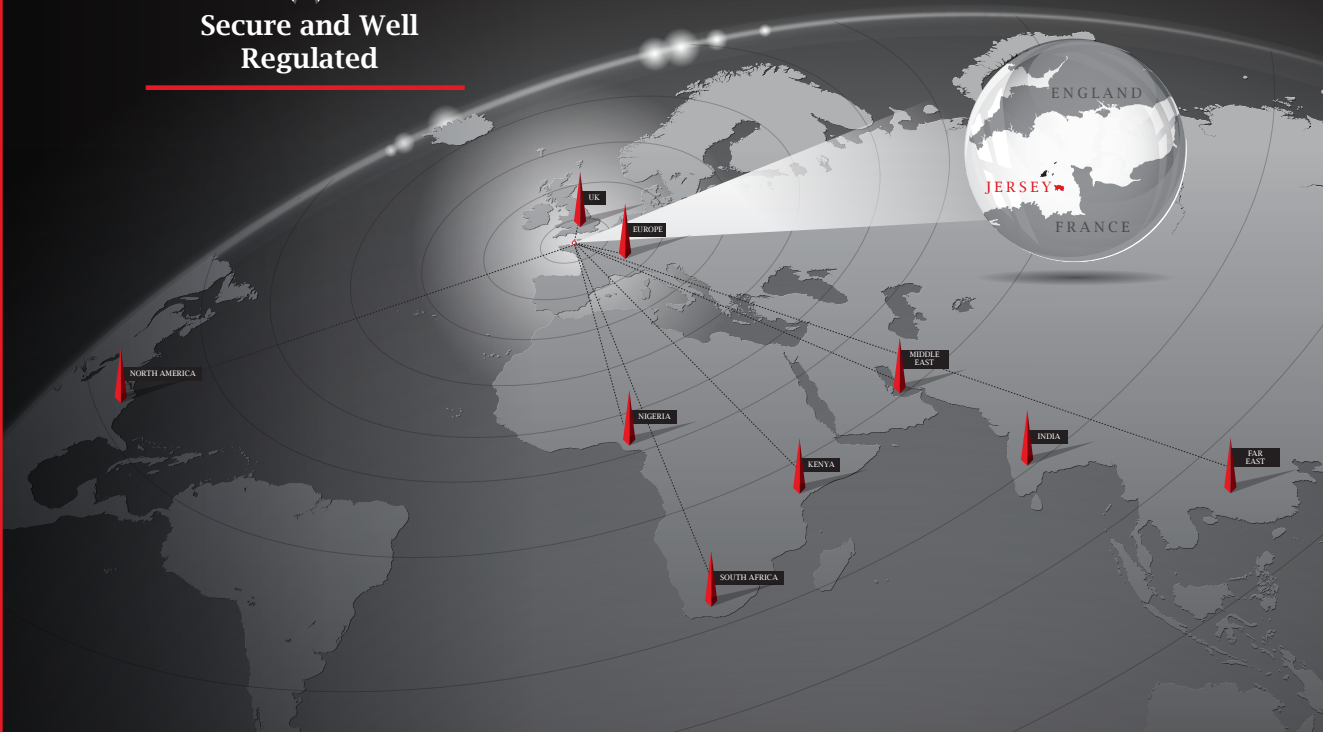
Variety of Structures & Flexible Regime

Own Democratically Elected Parliament

Significant Optionality For Structures

Legislatively Independent

Secure and Well Regulated



About Jersey Finance

Jersey Finance has been run as a not-for-profit organisation since it was formed in 2001. It represents and promotes Jersey as an international financial centre of excellence.

It is funded by members of the Island's finance industry and the Government of Jersey, and has offices in Dubai, Hong Kong, Mumbai and New Delhi along with representation in London and a CBBC Launchpad in Shanghai.

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