



Economic substance requirements in Guernsey

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On 1 January 2019, the Income Tax (Substance Requirements) (Implementation) Regulations, 2018 ("SRR") entered into force. The law addresses the commitment made by Guernsey to the EU Code of Conduct Group (Business Taxation) in relation to the lack of economic substance requirement for doing business in Guernsey. The Law does not provide for any transitional period for compliance. It is necessary to consider the requirements of the SRR over the course of the financial period and not at any specific point in time. The key features of the SRR are highlighted below:

Stage 1: Identify the companies carrying on relevant activities

All Guernsey resident companies will have to identify whether they carry on "relevant activities" in Guernsey. The term has been derived from categories of geographically mobile income identified by the OECD Forum on Harmful Tax Practices and include:



Stage 2: Impose substance requirements on companies undertaking relevant activities

Once a Guernsey resident company has been identified as undertaking relevant activities, the SRR requires the company to satisfy the 'economic substance test'. The test is split in three parts:

i. It is directed and managed in Guernsey

This part of the test is similar, but not identical, to the familiar "central management and control" test, but is more prescriptive in its application

ii. It conducts Guernsey Core Income Generating Activities ("CIGA")

Resident companies are required to conduct Guernsey CIGA. The SRR provides a list of what constitutes CIGA separately for each relevant activity.

Where Guernsey CIGA is carried out by another entity, the relevant company is required to monitor and control the carrying out of that activity.

Economic substance requirements in Guernsey (cont.)

iii. It meets the adequate requirements with regard to the level of relevant activity carried out in Guernsey

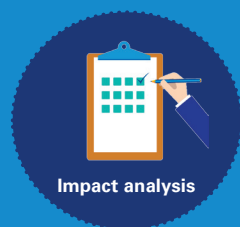
Companies carrying on a relevant activity must demonstrate adequate levels of (qualified) employees (whether or not employed by the relevant company or by another company) and annual expenditure in Guernsey, as well as that there are adequate physical assets in Guernsey.

Stage 3: Reporting and enforcement of the substance requirements

Sufficient information to enable the Director to make a determination on whether or not the substance test has been passed will be required to be supplied, with the Guernsey income tax return by the company.

The SRR provides for a hierarchy of sanctions for those companies that fail the substance test including a maximum fine of up to £100,000 and the possibility of the company being struck-off the Guernsey Registry.

How KPMG can assist your business



Identify the extent to which the law may impact on your business



Gap analysis and advice of the requirements for your business to ensure compliance with the law



Tailored training sessions for your staff



Assistance with implementing the law and review/assist in completing the requirements of the tax return

Our services can be customised to meet your needs



Scalable services

We take a pragmatic and tailored approach to providing a comprehensive range of services that meet your requirements.



Meeting your evolving needs

KPMG has developed a set of tools to assist with delivering assurance services using Digital services and embedded Data and Analytical skills.



Multi-jurisdictional

We use our KPMG network to source the correct team who are experts with the required experience to service your specific needs.

Potential benefits

KPMG's experiences and **innovative** use of KPMG's global methodology and tools, tailored to the Channel Islands, combine to provide **insight** into your requirements and identify **deficiencies** that could impact your **reputation and credibility**.

Why KPMG?

A leader in its field

- KPMG has worked closely with the relevant authorities in the Crown Dependencies on the introduction of the substance requirements
- KPMG is a leading provider of audit, tax and advisory services
- Through our clients, we have significant insight into your business
- KPMG in the Channel Islands has over 240 professionals working locally and links into one of the largest professional services firms in the world

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