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Economic substance requirements in Jersey

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On 1 January 2019, the Taxation (Companies – Economic Substance) (Jersey) Law 2019 ("ESL") entered into force in Jersey. The law addresses the commitment made by Jersey to the EU Code of Conduct Group (Business Taxation) in relation to their concerns regarding the lack of economic substance requirement for doing business in Jersey. The key features of what is proposed under the ESL are highlighted below:

Stage 1: Identify the companies carrying on relevant activities

All Jersey resident companies have to identify whether they carry on "relevant activities" in Jersey. The term has been derived from categories of geographically mobile income identified by the OECD forum on harmful tax practices and include:

Banking	**Insurance**	**Fund management**
Headquarters	**Shipping**	**Holding company**
Distribution and service centre	**Finance and leasing**	**Intellectual property**

Stage 2: Impose substance requirements on companies undertaking relevant activities

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

i. It is directed and managed in Jersey

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 its Core Income Generating Activities ("CIGA") in Jersey

Companies are required to conduct their CIGA in Jersey. The ESL provides a non-exhaustive list of what constitutes CIGA separately for each relevant activity.

Where CIGA is carried out by another entity, the relevant company is required to monitor and control the carrying out of that activity. CIGA cannot be outsourced outside of Jersey.

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Economic substance requirements in Jersey (cont.)

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

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 Jersey, as well as that there are adequate physical assets in Jersey.

Stage 3: Reporting and enforcement of the substance requirements

The Comptroller has power to request the company to supply sufficient information to enable him to make a determination on whether or not the substance test has been passed. This information will be required to be included on the Jersey Company Tax Return.

The ESL 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 Jersey 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

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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

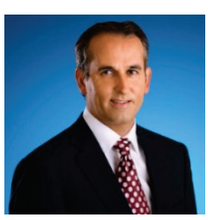
KPMG's experiences and **innovative** use of KPMG's global methodology and tools, tailored to the Channel Islands, combine to provide **insight** into your requirements and identify **deficiencies** that could impact your **reputation and credibility**.

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

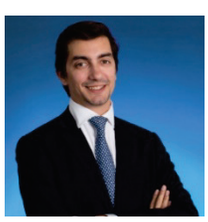
Your contacts at KPMG in the Channel Islands



John Riva
Head of Tax
+44 (0)1534 608401
jriva@kpmg.com

Paul Eastwood
Tax Director
+44 (0)1534 608433
peastwood@kpmg.com

Chris Lowe
Associate Tax Director
+44 (0)1534 632518
chrislowe@kpmg.com



Tomás T. Machado
Manager, Tax
+44 (0)1534 608450
tmachado1@kpmg.com

kpmg.com/channelislands

kpmg.com/app

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