

Jersey economic substance for partnerships

Service area / [Taxation and Economic Substance](#)

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Summary

Under the [Taxation \(Partnerships – Economic Substance\) \(Jersey\) Law 2021](#), an economic substance test will apply to a Jersey resident partnership in each relevant financial period in which it has gross income from relevant activity carried on by or through it unless an exemption applies. Partnerships that are funds are generally out of scope but a general partner of a fund should consider whether it is required to meet the test for fund management business. If a resident partnership is in scope and does not meet the requirements, financial and information sharing penalties will apply.

Carey Olsen continues to be closely involved in the development of substance legislation and is happy to advise on the impact it may have on structures in Jersey, as well as the equivalent regimes in Guernsey, BVI, Bermuda and the Cayman Islands.

What is the Jersey economic substance regime for partnerships?

An 'economic substance test' similar to that for Jersey resident companies will apply to a 'resident partnership' which has gross income from 'relevant activity' in a relevant financial period, being a financial period starting on or after: (a) for those formed after 1 July 2021, their date of formation; and (b) for those formed before 1 July 2021, 1 January 2022. The regime will be familiar to those with an understanding of the company regime, with the main difference being that the partnership test will look at the activities of the relevant governing body. For example, for limited partnerships, the activities of the general partner will be key.

What are 'resident partnerships'?

These are partnerships deemed to have their 'place of effective management' in Jersey. Jersey-formed partnerships will be deemed resident partnerships automatically unless their 'place of effective management' is in another jurisdiction that either has an income tax rate of at least 10% or an equivalent economic substance test. Because of their nature, exceptions are made for: (a) partnerships where all the partners are individuals subject to income tax in Jersey; and (b) partnerships that are not part of a multi-national group and not undertaking business activities outside of Jersey.

What are 'relevant activities'?

There are nine categories in all, which broadly mirror those under the company regime: banking business, distribution and service centre business, finance and leasing business, fund management business, headquarters business, insurance business, intellectual holding property business and shipping business. Some take priority over others, and the activities of a fund are generally not considered relevant activity, though a general partner of a fund should consider whether it is required to meet an economic substance test for fund management business. Common examples of activities that fall within scope are: (a) providing services to foreign connected persons; (b) providing credit facilities of any kind for consideration; and (c) holding controlling interests in companies without carrying on any commercial activity.

What is the 'economic substance test'?

A resident partnership will meet the economic substance test in relation to a relevant activity if: (a) it is managed in Jersey, meaning in summary that its governing body meets in Jersey

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at an adequate frequency with a majority physically present at those meetings, records are kept of the strategic decisions at those meetings and passed by members who have the necessary knowledge and expertise to do so, and all records are kept in Jersey; (b) it has adequate levels of people, expenditure and assets in Jersey; and (c) all core income-generating activities ('CIGA') are carried out in Jersey (and to the extent outsourced to another person in Jersey the partnership is able to monitor and control those activities).

What are the penalties?

If a breach is determined for a financial period, the resident partnership is liable to a fine for that period not exceeding £10,000. A higher penalty will apply if a breach occurs in a financial period where the partnership has received prior notices. That higher fine will be an amount of up to £50,000 multiplied by the number of previous notices plus 1. In respect of any breach, the Tax Office will also be required (subject to limited exceptions) to exchange the information received with the authorities in each jurisdiction in which the partnership has its controlling partner, ultimate holding body of that controlling partner and the ultimate beneficial owner of the partnership. Additional penalties will apply to those who provide false or misleading information, or obstruct the Tax Office. In repeat and serious cases, the Comptroller may seek court orders and, ultimately, the dissolution of the partnership.

Should you require any more information or assistance, please speak to your usual Carey Olsen contact or a member of our Taxation and Economic Substance Team.



FIND US

Carey Olsen Jersey LLP
47 Esplanade
St Helier
Jersey JE1 0BD
Channel Islands

T +44 (0)1534 888900

E jerseyco@careyolsen.com



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Visit our taxation and economic substance team at [careyolsen.com](https://www.careyolsen.com)



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