

UPDATE

Non-fund Partnerships to be brought within scope of Jersey's economic substance requirements

Update prepared by Ben Robins (Jersey)

The Jersey Government has announced the intention to bring certain partnerships carrying on a relevant activity within scope of the economic substance framework.

In response to commitments made to the EU Code of Conduct Group, the Jersey Government has confirmed that economic substance requirements which currently apply to certain Jersey companies will shortly be extended to include certain partnerships. A draft of the Taxation (Partnerships – Economic Substance) (Jersey) Law 202- was lodged on 18 May 2021 for Governmental approval (the **Law**).

Which partnerships are within scope?

The intention is that the economic substance requirements will apply to partnerships carrying on a **relevant activity**, other than those which may be exempt (as set out below).

The term **partnerships** includes:

- general partnerships formed in Jersey;
- Jersey limited partnerships, whether formed under the Limited Partnerships (Jersey) Law 1994, the Separate Limited Partnerships (Jersey) Law 2011, or the Incorporated Limited Partnerships (Jersey) Law 2011;
- Jersey limited liability partnerships (**LLPs**) formed under the Limited Liability Partnerships (Jersey) Law 2017; and
- non-Jersey limited partnerships,

which have their place of effective management in Jersey.

Where a Jersey partnership has its effective place of management in a jurisdiction where the highest rate at which a company or individual may be charged to tax on any part of its income is lower than 10% or where the partnership is not required to satisfy a test that is substantially the same as the Jersey economic substance test, it will also be in scope of the new law

Notably partnerships that are **collective investment funds** continue to be out of scope.

Any person who is a (non-managing) partner of a partnership is not required to meet the economic substance requirements: rather substance compliance will be considered at the partnership level and largely by reference to the activities of the governing body of the partnership, such as the general partner of a limited partnership.

Relevant activities

The **relevant activities** of a partnership in scope (which are broadly as per the relevant company substance activities) are:

- banking business;
- distribution and service centre business;

- financing and leasing business;
- fund management business;
- headquarters business;
- holding partnership business*;
- insurance business;
- intellectual property business; or
- shipping business.

*In the context of holding partnership business, note that only LLPs holding controlling stakes in underlying companies will be in scope, not general or limited partnerships.

For further details of these **relevant activities**, please refer to our '[Economic substance requirements for Jersey companies and LLCs](#)' guide.

Exemptions

The draft Law contains the following exemptions (in addition to the fund partnership exemption):

- partnerships made up of individuals who are all subject to personal income tax in Jersey; and
- wholly domestic partnerships (ie not undertaking business outside Jersey and not part of a multinational group).

What will the substance requirements be for partnerships?

These are broadly similar to the substance requirements for relevant companies. Partnerships in scope will be required to be managed in Jersey and to carry on their core income generating activities in Jersey, with an adequate number of people, expenditure and physical assets in the Island.

A partnership is managed in Jersey in relation to an activity if (i) its governing body meets in Jersey at an adequate frequency having regard to the amount of decision-making required at that level; (ii) records are kept of the strategic decisions made at meetings of the governing body; (iii) the members of the governing body, as a whole, have the necessary knowledge and expertise to discharge their duties; and (iv) the records of the relevant partnership, including the records referred to in sub-paragraph (b), are kept in Jersey. Future guidance will add colour, but we anticipate that the boards of corporate general partners of limited partnerships and of the managing partners of LLPs will be regarded as their governing body.

What will the reporting requirements be for partnerships?

Reporting requirements for partnerships are anticipated to change, including a likely requirement that partnerships register with the Taxes Office in Jersey and file an annual confirmation of whether they need to file economic substance information. It is anticipated that the tax return filing deadline will be the same as that for companies which must be filed online. It is anticipated that the return will not show the identity or profit entitlement of individual partners.

Penalties

The penalties for failure to satisfy the economic substance test or failure to provide information are broadly the same as those applicable to companies (see our Jersey company substance Legal Guide above).

When will the requirements come into force?

Partnerships in existence as at 30 June 2021 will be in scope for accounting periods commencing on or after 1 January 2022 and partnerships formed on or after 1 July 2021 will be in scope from the date of their formation.

The draft Law can be found [here](#).

There is no accompanying guidance in relation to the draft Law yet but we will update this briefing as and when guidance is published.

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