

# Taxation of Guernsey investment funds

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Guernsey remains a popular choice of jurisdiction for investment funds and managers, with its well-regulated and stable environment. This article provides a high level summary of the Guernsey tax position of two of the most popular fund vehicles in Guernsey, limited partnerships and limited companies.

## 1. Limited partnerships

Guernsey limited partnerships registered under the Limited Partnerships (Guernsey) Law 1995 (whether or not an election has been made to have separate legal personality) are tax transparent for Guernsey income tax purposes.

Limited partners which are neither Guernsey resident individuals nor Guernsey resident companies, will not be liable to income tax in Guernsey on income received from a Guernsey resident limited partnerships provided such persons do not carry on any trade or business using a Guernsey resident permanent establishment. Limited partners who are resident in Guernsey will be liable to income tax in Guernsey on income received from the partnership.

## 2. Limited companies

### Rates

#### The standard rate (0%)

Guernsey companies will be subject to income tax in Guernsey at the company standard rate, which is currently zero per cent (0%), provided they do not carry out activities which are within the categories taxable at either the "intermediate rate" (10%) or the "higher rate" (20%).

#### The intermediate rate (10%)

The intermediate rate (10%) applies to certain regulated activities and includes the following:

- banking business
- domestic insurance business
- insurance intermediary business
- fund administration
- custody services
- investment management individual client services

Importantly, it should be noted that in relation to "investment management individual client services", this category of activity does not comprise provision of investment management services to a collective investment scheme. As such, income from fund management should remain subject to the 0% rate (unless tax exempt status has been granted, as referred to in more detail below).

## The higher rate (20%)

The activities to which the higher rate (20%) applies include trading activities regulated by the Guernsey Competition and Regulatory Authority (ie electricity provision and telecommunications), deriving income from ownership of Guernsey situate real estate, gas and hydrocarbons business and large retail business.

## Tax exempt status

In addition, certain categories of Guernsey company, which includes investment funds and bodies established solely for the purposes of management of a specific investment fund, are entitled to apply for tax exempt status pursuant to the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989. The exemption, once granted, must be renewed annually on application and is subject an annual fee (currently £1,200). As below, companies which have tax-exempt status are not required to deduct withholding tax from distributions (irrespective of whether such distributions are paid to Guernsey resident or non-resident individuals).

## Withholding tax

Distributions made by Guernsey companies to non-Guernsey resident shareholders, whether made during the life of the Company or by distribution on liquidation, are not subject to Guernsey withholding tax provided such payments are not taken into account in computing the profits of any permanent establishment situated in Guernsey through which such non-Guernsey resident shareholder carries on a business in Guernsey. Guernsey does not levy withholding tax on interest payments.

Distributions made by Guernsey companies to Guernsey resident individuals are required to withhold tax of 20% in the case of companies which are taxable at 0% and 10% in the case of

companies which are taxable at 10%. Companies which have tax-exempt status are not required to deduct withholding tax from distributions (irrespective of whether such distributions are paid to Guernsey resident or non-resident individuals).

## Stamp duty

Save for document duty which can apply where a company disposes of Guernsey situate real estate or shares in a company which holds Guernsey situate real estate, no stamp or other document duty is chargeable in Guernsey.

## Capital taxes

Guernsey does not levy capital gains, estate or inheritance tax (save for registration fees and ad valorem duty for a Guernsey grant of representation when the deceased dies leaving assets in Guernsey which required presentation of such a grant).

## VAT

Guernsey does not levy value added tax (**VAT**), consumption or goods and services tax.

## Compliance

Companies are required to submit a tax return in respect of each applicable year of charge irrespective of whether they are subject to the standard income tax rate of zero per cent. In addition, limited partnerships, although tax transparent, are required to submit a return in respect of each year of charge for the purposes of confirming whether or not they are within the scope of Guernsey's economic substance regime (and, if so, confirming how the relevant requirements are met). Find out more information on [Guernsey's economic substance regime as extended to partnerships](#).

## FATCA

Guernsey is party to an intergovernmental agreement (**IGA**) with the USA in respect of the Foreign Account Tax Compliance Act (**FATCA**) which has been implemented in Guernsey by way of domestic regulations brought into force in 2014 (as subsequently amended) (the **FATCA Regulations**). Investment funds will typically constitute "Reporting Foreign Financial Institutions" for the purposes of the FATCA Regulations and will therefore have reporting obligations with respect to shares or interests held by certain investors, in particular, individuals or entities that are US persons. Guernsey holds a "Model One" IGA with the USA and accordingly reports are made to the Guernsey Revenue Service rather than the IRS.

## CRS

Guernsey is a party to the Common Reporting Standard (**CRS**) as developed by the OECD and

CRS has been implemented in Guernsey by way of domestic regulations brought into force in 2015 (as subsequently amended). Investment funds will typically constitute "Reporting Financial Institutions" for the purposes of CRS and will be required to submit reports on shares or interests held by persons from "reportable jurisdictions". The Guernsey Revenue Service publishes a [list of jurisdictions that are "reportable" for Guernsey CRS purposes](#).

## MDR

Guernsey has committed to the implementation of Mandatory Disclosure Rules (**MDR**) based on the OECD Mandatory Disclosure Rules. The MDR is intended to impose reporting obligations on promoters and service providers with respect to "CRS Avoidance Arrangements" (an arrangement where it is reasonable to conclude that it is designed to circumvent the CRS) and "Opaque Offshore Structures" (a legal person or arrangement that does not carry on substantive economic activity where the beneficial ownership is unclear). The MDR has not yet been implemented in Guernsey.

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