

Jersey welcomes you

JERSEY

A Centre for Niche Fund
Management and Family Offices



Jersey - The International Finance Centre

Excellence ...Expertise ...Choice

For more than 40 years Jersey has been at the forefront of international financial services developments designed to cater for the needs of the international investor.

A small Island near the coast of Northern France, Jersey has established itself as a leading international finance centre for both institutional and private clients seeking a quality location to meet their banking and investment requirements.

Its unique constitutional position, involving an 800-year allegiance to the British Monarchy and the existence of its own Parliament which has responsibility for domestic and fiscal affairs, has been an essential factor in its evolution as one of the world's premier financial services jurisdictions.

As a British Crown Dependency, the Island offers political and economic stability, a flexible, independently endorsed regulatory framework, a tax neutral environment, a mature and respected legal system and, backed by a 40-year track record of product and service innovation, a skilled and responsive workforce. These ingredients continue to be the basis for its global appeal as a jurisdiction of choice for international investors.

As a matter of policy, the Island's regulator - the Jersey Financial Services Commission - will only authorise the global top 500 banks to establish a presence in the Island. Jersey currently has more than 50 such banks from across Europe, the United States and Canada, South Africa and the Gulf region.

It also has approximately 200 licensed trust and company administrators; over 100 investment managers, stockbrokers, advisers, custodians and fund administrators; a significant presence by all "Big Four" accountancy firms; and a range of highly regarded offshore law firms with close links to major international firms.

Over 12,000 people are currently employed within Jersey's financial services sector. Over the past four decades the Island has developed a breadth and depth in its range of services that many other competing jurisdictions find difficult to match.

Living in Jersey

Lying in the warm waters of the Gulf Stream just 14 miles from the coast of France, Jersey offers an unparalleled and exclusive lifestyle which combines the cosmopolitan chic of its closest neighbours – both London and Paris are just a short flight away – with breathtaking countryside dominated by views of the surrounding Atlantic Ocean from virtually every point on the Island. Find out more at www.jersey.com



Jersey Expert Funds

The introduction of the Expert Fund regime in Jersey in February 2004 generated a significant level of interest amongst the international fund management community. Since the launch of the new regime, Jersey Finance and its Member Firms have received numerous enquiries from fund promoters and managers currently located outside the Island who are now considering using Jersey as a base for their international fund management activities.

This document has been produced as a generic guide to assist firms who are considering locating a fund operation in Jersey, including the establishment of a physical business presence.

It outlines some key considerations in the areas of:

- Financial and Business Regulation
- Personal and Business Taxation
- Housing in Jersey
- Education

Family Offices

Expert Funds have also been identified as a suitable vehicle for private investment, and are increasingly being used by professionals to manage private family wealth. The creation of the Expert Fund regime has therefore supported Jersey's development as a leading centre for Family Office solutions, and growth in this area is expected to continue. Accordingly, this document sets out some additional considerations in respect of establishing a Family Office in Jersey.

Applicability of this Guide

This Guide is primarily targeted at persons seeking to establish a niche fund management or Family Office operation in Jersey which would meet the following key criteria:

- The principals behind the operation can readily demonstrate that they are highly reputable, and in the case of a fund management operation, that they are fit and proper and have a proven track record in their field of expertise.
- The planned operation is a high value business expected to generate significant wealth, whether in the form of business profits or personal income for the principals resident in the Island.
- The business will be 'low footprint' - i.e. will not involve the migration of a significant number of principals (and their families) to the Island.

If prospective applicants believe they satisfy the above criteria (as elaborated in this Guide), then it is likely that a formal application to establish in Jersey would be viewed favourably. Potential applicants who do not automatically meet the above criteria may also be successful, but such cases tend in practice to be reviewed on individual merit and involve greater negotiation with the Island Authorities.

Financial Regulation

The Expert Fund Regime

The Expert Fund regime was designed to provide an innovative, flexible regime for the establishment of investment funds in Jersey aimed at sophisticated, institutional and high net worth investors. The regime is particularly suited to alternative investment funds.

The Expert Fund Guide can be obtained from the website of the Jersey Financial Services Commission (JFSC) at www.jerseyfsc.org

The Guide sets out the JFSC's requirements for Investment Managers. In broad terms, an Investment Manager must have a relevant track record, adequate financial resources and be able to demonstrate fitness and propriety. It should also be established in an OECD Member State or Associated State and either be regulated in its home state or granted approval to act by the JFSC because its proposed activity in relation to the Expert Fund is not regulated in its home state.

The Expert Fund rules also require that each Expert Fund must appoint an Administrator, or a Manager, and/or, in relation to a Closed Fund that is a unit trust, a Trustee* which has at least two Jersey resident directors with appropriate experience together with staff and a physical presence in the Island that is subject to the Codes of Practice ('the Jersey Functionary').

*In the case of a Closed Fund that is a unit trust, there is no requirement for a separate Administrator or Manager, provided that the Trustee carries out the administration or management role, including the monitoring function.

The Jersey Functionary is then responsible for monitoring the investment and borrowing restrictions applicable to the fund, and is required to maintain in Jersey sufficient records to enable it to fulfil its monitoring functions.

In practice, the majority of fund promoters based outside Jersey but seeking to establish a fund in the Island have historically outsourced the administration or other regulated activity to an existing local third party service provider.

The process for establishing a new fund in this way is extremely streamlined. Under the Expert Funds regime, the regulatory focus is placed upon the local service provider rather than on the fund itself, through a self-certification process. This ensures that new funds which meet the relevant criteria for Expert Funds can be established in a matter of days and subject to a 'lighter touch' regulatory regime.

Establishing a Physical Presence in Jersey

Licensing Requirements for an Investment Manager

An Investment Manager seeking to establish a physical presence in Jersey will be regulated under the Collective Investment Funds (Jersey) Law 1988 ('CIFL 1988'), and will be required to obtain a functionary permit in respect of its activity as Investment Manager to an Expert Fund. The criteria considered by the JFSC in determining whether or not to grant a permit are as follows:

- **Track record and relevant experience of the applicant** (including principal persons – directors, senior management etc).
- **Reputation of the applicant** – i.e. evidence that the applicants are persons/organisations held in high regard by the business community in which they operate. Such evidence can be in the form of newspaper articles and references. CVs will also normally be required.
- **Financial resources of the applicant** – whilst there is some degree of flexibility in this area the JFSC will wish to ensure that the applicant has adequate financial resources for the proposed function.
- **Span of control of the applicant** – i.e. evidence that the business is actively managed by at least two or three skilled, experienced individuals who can demonstrate independence, competence and integrity.

Where a Jersey-based Investment Manager also provides managed account or direct portfolio management services, it may also need to be regulated under the Financial Services (Jersey) Law 1998

('FS(J)L 1998'), which regulates the conduct of investment business in the Island. Depending upon the precise circumstances, however, it may well be that if the Investment Manager is regulated under one of the above laws then it will be exempt from regulation under the other.

Licensing / Permit Requirements for Other Fund Functionaries

As noted previously, the authorisation process for Expert Funds is based upon the principle of 'self-certification' by a local regulated functionary. In order to authorise an Expert Fund, the JFSC must receive a completed application form (and supporting documentation) which has been signed by the Jersey Functionary and countersigned on behalf of the Board, the Trustee or the Manager of the Fund.

The Jersey Functionary will also need to hold a functionary's permit under the CIFL 1988. Where this activity is outsourced to an existing service provider, the permit for the new fund can be obtained in a matter of days. For completely new applications (i.e. the proposed functionary is not already regulated in Jersey) a typical timescale for obtaining a permit is two to four weeks.

Any Jersey entity acting as a Functionary to an Expert Fund must be managed and operated in accordance with the applicable Codes of Practice.



Family Offices in Jersey

Expert Funds have already been identified as particularly well-suited to private wealth management. A number of professional services firms in the Island are actively promoting the use of these vehicles for private investment and further significant growth in this area is expected. Jersey is extremely well placed to service this growing market, and is home to many investment, trust and custody professionals who have extensive experience in managing all aspects of Family Office activities, including tax affairs, wealth transfer and succession planning, private philanthropy, asset-specific strategies and information management technology.

Family Office solutions are available in Jersey either through an established professional services provider or may be set up as a bespoke operation in the Island. The considerations on taxation, housing, and the Regulation of Undertakings are equally applicable in this area. However, as the Family Office is typically run on a private basis for the benefit of one family, its activities would not normally need to be regulated by the Financial Services Commission.

Business Regulation

Overview

Where the establishment of a new fund operation also involves the physical establishment of a business presence in Jersey, various additional consents are also required before commencing trade. The objective of these consents is broadly to ensure that the proposed new business meets Jersey's criteria in terms of regulatory standards and economic benefit, and to safeguard the Island's quality of life by ensuring that the new business aligns with Jersey's overall strategy of attracting 'low footprint', high value business to the Island.

In addition to the consent and permits required from the financial regulator (JFSC), the following key factors should also be considered by persons looking to establish a new business in the Island.

Work Permits in Jersey

Whilst work permits are not required for persons from EU Member States, other employees from outside the Island will require a work permit under the Immigration (Work Permits) (Jersey) Rules, 1995.

Regulation of Undertakings

The principal law governing the establishment of new businesses in Jersey is the Regulation of Undertakings & Development (Jersey) Law, 1973 ('Regulation of Undertakings' or 'the Law'). Under the Law, any proposed new business must first obtain a licence from the Economic Development Committee of the States of Jersey ('EDC'). In determining whether to grant a licence, EDC will have particular regard to the staffing levels required by the new business and to what extent it will endeavour to source its staff from Jersey's existing labour pool.

In a significant policy shift, EDC recently removed the distinction between local resident and non-local resident applications, and now considers each new business application on its own merit. This policy shift strongly reinforces the message now coming out of the Island's legislature, the States of Jersey, that the Island is very much 'open for business', and welcomes new, high quality businesses seeking to establish a presence in Jersey.

The licence issued under Regulation of Undertakings will specify the total number of staff permitted to be employed by the new business. Changes in staff numbers can usually be agreed in advance by the business entering into a three year joint staffing plan with the Economic Development Department ('EDD' – the executive body responsible for administering the Law). Increases to staff numbers outside of the agreed plan would normally be considered on a case by case basis by EDD.



Taxation in Jersey

Overview

The standard rate of income tax in Jersey is 20%. This rate is applicable both to individuals and corporate entities, as well as partnerships and branches of overseas companies. The Island has no separate corporation tax code.

There are no 'wealth' taxes such as capital gains tax or inheritance tax.

Other attractions of the Jersey tax system include generous rules for the taxation of employee share ownership, Social Security payments capped at a low level, no stamp duty on equity transactions and an excellent working relationship between the Finance Industry and the Tax Office which promotes openness and economic growth.

As an alternative to the standard rate of tax, international organisations wishing to set up an operation in Jersey that does not have Jersey resident owners presently have the option to be taxed as an International Business Company ('IBC') instead. This option is available until the end of

2005, after which the IBC will no longer be available.

The main condition to operate as an IBC is that no resident of Jersey has any beneficial interest in the company. The flexibility inherent in the IBC rules allows these companies to minimise their effective rate of Jersey income tax within a framework agreed with the Authorities (see 'Business Taxation').

As part of its international commitments, Jersey has indicated that it will move to a 'zero/ten' corporation tax regime in due course. Under 'zero/ten', companies will generally be taxed at 0% and there will be a special 10% rate applying to certain regulated financial businesses. These changes are intended to be in place by 2008 for the first full year of tax assessment thereafter, i.e. from 1st January 2009.

The Island's government has indicated a strong commitment to maintaining the attractiveness of the Jersey tax regime as part of its overall economic strategy.



Business Taxation

An important feature of most investment funds is their tax neutrality, and Jersey offers a range of vehicles specifically designed to meet this objective. Accordingly, it is most common for the fund vehicle itself to be outside the scope of Jersey taxation (with any tax liability instead falling upon the individual fund investors).

Clearly, the fund promoter/manager will be subject to Jersey taxation on profits arising from its business and a key criterion for any new business seeking to establish a presence in Jersey is the expected level of tax contribution. As part of the application process, businesses will be expected to produce and submit a three-year business plan, detailing expected revenues and tax contribution over the period.

For IBCs, the tax payable depends on where the profits are generated. Profits from international business will be subject to very competitive rates ranging from 2% on the first £3 million of profit down to a marginal rate of 0.5% on international profits in excess of £10 million. Profits derived from local Jersey business will be taxed at 30%. It is usual practice to agree in advance with the tax authorities what business profits are international for these purposes and what is local.

For owner-managed businesses moving to Jersey, the IBC option will not usually be available. Profits will simply be taxed at the standard rate of 20%. Whilst this rate will reduce to 10% or 0% from 2009 onwards, an imputation system will be introduced for locally owned businesses to ensure that corporate structures are not used by local residents to avoid income tax.

Personal Taxation

A key success factor for Jersey has historically been the simplicity of its tax regime and its attractiveness to local residents, including high net worth individuals. As previously noted, there are currently no other wealth taxes – for example capital gains or inheritance tax.

1(1)Ks

The 1(1)K licence given to high net worth individuals derives its name from Jersey's current Housing Law (see opposite for further details).

A key consideration in the granting of 1(1)K licences is the expected level of annual tax contribution to be made by the applicant. To meet the current requirements, applicants would normally be expected to generate sufficient income so that - at the present rates of tax - their annual tax contribution is in the region of £100,000. As part of the application process, the Committee will also have regard to the total net worth of the applicant, in order to be satisfied that the applicant has sufficient wealth to generate the expected future tax revenues.

With effect from 1st January 2005, 1(1)K individuals new to the Island are taxed on all of their Jersey source income at 20%. The first £1,000,000 of non-Jersey source income is also taxed at 20%, but the next £500,000 is taxed at 10% and non-Jersey source income above the £1.5 million level is taxed at just 1%.

Non-1(1)Ks

Non-1(1)K individuals do not have to agree a minimum income tax contribution with the Authorities. These individuals are subject to Jersey's general income tax rules and will pay tax at a standard rate of just 20% on their worldwide income (including Jersey source income).

In many instances, managers will also benefit from the favourable benefits in kind rules that apply, for example, to share incentive schemes and proprietary investments in funds managed by them. Generally, any initial benefit obtained when purchasing such shares will be taxable but the subsequent growth in value will be free of Jersey tax. Taken together with the Social Security benefits (see 'Social Security' below), this means the tax treatment of such benefits in Jersey is far more attractive than, for example, the UK.

Social Security

Social Security payments in Jersey are low compared to many jurisdictions. For 2004, the combined employer and employee Social Security payments in Jersey are capped at £4,326 per annum per employee. By way of comparison, at 2004-05 rates, to make a similar sized contribution in the UK, an employee would be typically earning approximately £22,900 per annum. Considerable Social Security savings can therefore be made by moving to Jersey.

Housing in Jersey

Given Jersey's small size (approximately 45 square miles), its attractive environment and the high standard of living enjoyed by its residents, it is perhaps unsurprising that accommodation in the Island is always in demand. The availability of housing stock to new residents is currently controlled through Housing Regulations established under the Housing (Jersey) Law 1949 ('the Housing Law'). Whilst this law is expected to remain in force for the foreseeable future, the Island's parliament is committed to reviewing the existing requirements and it is widely anticipated that further relaxation of the Housing Regulations will occur in due course.

In summary, there are currently three broad categories of housing defined under the Housing Law:

- 'A to H' properties – which are only available to local residentially-qualified persons;
- 'J Category' properties – which are available to 'essentially employed' individuals; and
- '1(1)K' properties – which are available to individuals whose residence in the Island 'can be justified on social or economic grounds' (i.e. typically high net worth individuals).

All property sales and leases require the consent of the Housing Committee. As this document has been prepared primarily as a guide to assist non-local persons who are considering establishing a physical presence in the Island, some additional considerations in respect of J Category and 1(1)K residency are set out opposite and overleaf.



High Net Worth Individuals – 1(1)K Residents

As noted above, 1(1)K licences are most typically granted to high net worth individuals. There is no prescribed limit on the number of 1(1)K consents the Housing Committee may grant each year although in practice the number tends to be small. Each application is considered by the Committee on its own merits, but in making its decision the Committee will have regard to factors such as:

- The individual's likely contribution to tax revenues (see 'Taxation' on page 8).
- The business / social background of the applicant and their likely business activities (if any) in Jersey.
- The number of dependants and the extent to which these persons may in time acquire residential qualifications in their own right, and
- Other non-economic benefits which the Island may obtain if consent is granted.

Successful 1(1)K applicants will retain their residential status as long as they remain resident in Jersey. They may only purchase property which has been classified or approved as suitable for their occupation. In practice, such properties tend to be £1 million or more in value.

Essentially Employed Persons - 'J' Category Licence

Under the Housing Regulations, the local authorities have the ability to grant 'J Category' consents to persons whose employment in the Island is deemed to be essential. In practice, the factors taken into account in making this assessment include the expected economic contribution of the employer, the ability, qualifications and experience of the proposed employee, the importance of the post and availability of suitable candidates from within the existing labour market.

In line with the policy shift described above, the Island authorities have demonstrated an increased willingness to grant 'J Category' consents to employees of new businesses which meet the criteria for establishing a presence in the Island, particularly if it can be demonstrated that the individual brings a particular area of expertise to the Island, or that the planned position cannot readily be filled from within Jersey's existing labour force.

For financial services businesses, 'J Category' licences are usually granted for an initial five year period. The accommodation occupied by the J Category licence holder is normally leased or purchased in the name of the employer and the licence is conditional upon the individual remaining in the post for which the licence was originally granted.

For very senior people, particularly those with equity in their business, it is also usually possible to extend the licence beyond the initial period for a further five years, provided the business plan set out with their original proposal is broadly accurate. This effectively gives those senior people similar housing rights to locals.

It is anticipated that further reforms of the Housing Law over the coming years are likely to replace the J-Category system with an even more attractive regime for businesses wishing to set up in the Island. The policy dictating the proposed changes is expected to be agreed during the course of 2005.

Disclaimer

This document has been prepared for general information purposes only and does not constitute or offer legal, financial or other advice upon which you may act or rely. Specific professional advice should be taken in respect of any individual matter. Whilst every effort has been made to ensure the accuracy and completeness of the information contained herein, Jersey Finance cannot be held liable for any error or omission.

Education in Jersey

The Department for Education, Sport and Culture aims to provide high quality learning and leisure opportunities for the people of Jersey and is committed to creating the best educational experience for all students. In the last decade nearly all the States of Jersey schools have been rebuilt or refurbished. The States of Jersey invests almost twice as much in education as any LEA in Great Britain. Pupil/teacher ratios are low and our capital investment programme of more than £100M ensures that schools are well built, maintained and furnished to meet all the demands of a 21st century curriculum. There is a wide range of schools on the Island and the standard of provision is very high.

The proportion of young people remaining in full-time education beyond compulsory school age is high (90%). The number of students going on to higher education remains at over 40%, a much higher proportion than the UK and, year on year, local students' performance at GCSE and A Level exceeds that of the

UK average, and their performance is at least comparable with the five best performing LEAs in England and Wales.

There are 23 non-fee paying primary schools in Jersey, four non-fee paying secondary schools for pupils aged 11 to 16 and one non-fee paying school for pupils aged 14 to 18 years. At the age of 14 pupils who are more academically able may transfer to this latter school.

In addition there are two fee paying primary and secondary schools within the States of Jersey sector, five private primary schools, three private secondary schools and two private preparatory schools for 4 to 13 year olds which prepare children for UK boarding schools.



In Summary

The creation of Jersey's Expert Fund regime has positioned Jersey as a leading jurisdiction for alternative investment funds and for the establishment of Family Office solutions. Jersey has a first class regulatory and legal framework, an outstanding infrastructure and workforce, and over 40 years' pedigree as a leading international finance centre.

Whether you are looking to set up your Expert Fund structure through an outsourcing arrangement using existing local service providers, or through the establishment of a physical presence in the Island, Jersey can offer a wealth of experience tailored to meet your individual requirements.

For high net worth individuals seeking to relocate to and/or establish a Family Office in a low tax environment, Jersey can also offer an unparalleled quality of Island life on the doorstep of Europe.





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