

**WRITTEN QUESTION TO THE PRESIDENT OF THE FINANCE AND ECONOMICS COMMITTEE
BY DEPUTY G.P. SOUTHERN OF ST. HELIER**

ANSWER TO BE TABLED ON TUESDAY 13th SEPTEMBER 2005

Question

“Would the President inform members –

- (a) whether the ‘look-through’ provisions proposed under zero/ten will resemble the Profits Distribution Charge in the Isle of Man?
- (b) of the measures that are proposed for this tax to ensure that it is treated by the EU as personal and not company taxation?
- (c) how individual tax-payers will declare and confirm any liability to tax under ‘look-through’ and how this will be administered? and,
- (d) how many other jurisdictions use similar ‘look-through’ provisions?”

Answer

- “(a) The proposed ‘look through’ provisions are different to the Profits Distribution Charge in the Isle of Man in some respects although they do have a similar rationale, namely, to protect tax revenues on the introduction of the zero/ten corporate reforms. The former will assess all corporate profits and income arising on the Jersey individuals who wholly or partly beneficially own a company. The latter will tax Manx residents on 60 per cent of the corporate trading profits, and on 100 per cent of the income arising in investment holding companies, by means of a deemed distribution or distributable profits charge. Further detailed information on the Isle of Man charge is contained in the consultation document issued by the Isle of Man Income Tax Division on 18th January 2005.
- (b) The ‘look through’ provisions will be a charge to taxation on Jersey resident individuals and will be a personal tax measure. Further detailed information on this personal tax measure is available in the written answer tabled on 19th July 2005 and in the oral answer given on 19th July 2005, both answers being in response to questions asked by the Deputy.
- (c) Every taxpayer has an obligation to declare income and profits brought into charge by the Income Tax (Jersey) Law on his or her personal Income Tax Return. The provisions relating to ‘look through’ will place such an obligation on all Jersey taxpayers. It will be administered by staff currently working at the Income Tax Office. Further detailed information on how the ‘look though’ provisions will be administered is contained in P.44/2005.
- (d) Territories generally aim to ensure that the tax rates for individuals and for companies are not too dissimilar. If there is a disparity between the two tax rates then there is a need to find some mechanism to offset tax planning arrangements aimed at reducing the overall liability. The mechanism to be adopted will vary from one territory to another, but at the present time both Guernsey and the Isle of Man are considering some form of ‘look through’. Similarly, in the United Kingdom when there was previously a disparity between personal and corporate tax rates, there were ‘close company’ provisions, similar to ‘look through’, to ensure that tax liabilities were not circumvented. Other countries may impute a deemed profit distribution from private companies in cases where the personal tax rate is higher than the corporate rate. As the trend generally is to reduce both the corporate and personal rates of tax to similar levels, most countries will not need such ‘look through’ provisions. The same is true in those jurisdictions where personal tax rates are below the corporate rate, since there is then an incentive to distribute profits. Ultimately, if general corporate tax rates move towards zero, there will be a tendency to rely more and more on indirect taxation measures. Caribbean territories are good examples of this.”

