KPMG

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Strictly private and confidential
Mr J Morris
Strategy Programme Manager
Treasury & Resources Department
2nd Floor
Cyril Le Marquand House
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St Helier
JE4 8UL

Our ref jr/dp

31 July 2006

Dear Mr Morris

The Zero/10 Design Proposal

We are writing in response to the above public consultation document issued by the Treasury & Resources Department on the 5th May 2006.

We understand that Jersey Finance Limited has presented its views to you via its Fiscal Strategy Group ("the FSG"). KPMG's Head of Tax John Riva was a member of the FSG and, as such, we would like to state that on the whole, we are in agreement with the views of the FSG subject to the following points.

Look through for trading companies

Although we concur with the views of the FSG that the deemed distribution and deferred distribution charge proposals ought to be shelved, we do believe that some form of taxing mechanism is needed to capture, on an arising basis, profits of trading companies that are owned by Jersey resident individuals. Where there is a substantial difference in the tax rates for individuals and companies, we believe that without any specific provision to tax Jersey individuals by reference to the profits of a company they may have an interest in as they arise, there is likely to be a substantial loss in Jersey tax revenues. We also believe that were Jersey to adopt a 'distribution only' basis of taxing company profits, it would be difficult to budget for tax revenues on an annual basis as the taxable event can be delayed or deferred indefinitely by the behaviour of the directors and shareholders who in a number of cases will be the same individuals.

We favour the extension of the 'look through provisions' as applicable to investment companies to trading companies. However, we would wish to explore the possibility of extending these to both Jersey and non Jersey resident companies but limiting the application of the provisions to trading profits arising through an established place of business in Jersey. This proposal would

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discourage Jersey resident individuals establishing (say) Guernsey resident companies that trade in Jersey, and encourage international expansion of Jersey enterprises.

We recognise that one of the major hurdles in relation to 'look through provisions' is the issue that a person is subject to tax on profits he has not received. We would therefore urge the States to look at the three possible solutions outlined in 3.3.3.2 of the letter submitted to you by the FSG.

Maintaining the zero rate band

We are aware of concerns within the finance industry and from users of Jersey companies that there exists a mechanism by which the general rate of income tax may be increased from one year to another. We would therefore wish the States to look at the possibility of removing the requirement to set the general rate of income tax each year. We believe that the general rate of zero should be set for a number of years in advance (say 20 years). We understand that this has worked well in a number of Caribbean jurisdictions such as the Netherlands Antilles where the Code of Conduct Group on Business Taxation accepted that the Netherlands Antilles' equivalent to our "international business company" regime was able to be grandfathered until the end of the period for which the rate was set, which is 2019. This assumes of course that the Island is able to raise sufficient revenues through other measures such as the special rate of corporate income tax and GST.

Please call John Riva on 608401 if you wish to discuss matters further.

Yours sincerely

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