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Dear Sir

With reference to the 0/10 design paper, I am pleased to submit the following comments.

While noting that various parties have been consulted, there has not been direct consultation with the major locally owned Jersey accounting practices. This is surprising because, should the proposals proceed, it is they that will bear the largest share of the compliance burden implicit in the proposals. This contrasts with the major accounting firms consulted who by and large are finance industry oriented and their client base, being predominantly non Jersey owned, will not face the myriad detailed implications of the proposals.

The paragraph headings refer to the corresponding headings in design proposal which I have referred to as the "Paper".

6.4.5

The proposal to impose a £150 charge in respect of foreign incorporated investment companies would appear to be

discriminatory and not in compliance with the Code. It would also appear to be inflationary as, contrary to what the authors may think, the cost will be passed on to clients of the finance industry. Those same clients are of course already paying fees to the Jersey company administrators and it is not clear, as it has not been explained, why it is thought that this additional cost would be readily accepted by such clients.

It is considered reasonable that those FIICs already managed by Jersey administrators ought not to bear the charge immediately and that it should be deferred until say, 2010, at the earliest.

7.2.8

From paragraph 31.2.4 it appears that it is expected that companies would be expected to seek agreement with the Comptroller prior to the distribution of profits to shareholders as to the breakdown between income and capital. This can be time consuming and under the present system the matter could go to appeal. So that companies can proceed with the payment of dividends would it not be better for the dividend voucher to simply note that the stated capital element is subject to the agreement of the Comptroller?

Incidentally, it is not clear if there is a dispute over the taxation of corporate transactions in future such that the outcome would impact the shareholder's tax position, how this would be dealt with through the appeal process. This is not discussed in the Paper and clarification would be appreciated

7.2.15

Presumably it is not the intention to tax a dividend paid by an investment company if the income has already been subject to look through. Confirmation would be appreciated. The same comments apply to trading companies.

7.3.7

The proposed tick the box approach leaves the taxpayer with uncertainty and this is unsatisfactory. The Paper does not address the position of minority shareholders in this regard.

7.3.8

It is notable that when taxes are to be raised from sources not taxed hitherto, recent examples include the taxation of benefits in kind and restrictions on relief for interest paid, detailed legislation is introduced to cover such matters. On the other hand, when a taxpayer receives unilateral relief this is dealt with by concession and the States for its own reasons chooses not to put the matter on a statutory basis. The benefit of the statutory basis to the taxpayer is that he then knows the rules rather than having to rely on the Comptroller's discretion. Over time this can only lead to anomalies in the treatment of different taxpayers and there is no published record of the Comptroller's rulings and so the taxpayer does not therefore have the benefit of precedent.

It is also considered that unilateral relief should be considered for all taxpayers in receipt of foreign taxed income not otherwise covered by a double taxation agreement. Guernsey has had such a system for many years and it is unreasonable that taxpayers should suffer double taxation to the extent currently applicable. For example, a dividend from the USA suffers tax overall of 44% in the hands of a Jersey resident whereas the same dividend received by a UK resident suffers a maximum of 40%.

7.10.4 & 7.10.7

The introduction of a form of statutory group relief is to be welcomed. This will replace the concessionary basis and underlines the comments made above in regard to reliefs granted by concession versus statute based reliefs.

It is not clear how group relief will operate in arriving at the deemed distribution charge. Clarification would therefore be appreciated.

There appears to be no group relief available to investment companies but it is not clear why this should be so. Groups will often include investment and trading companies, usually for sound commercial reasons.

8.2.6

The position of partnerships is unclear, particularly limited partnerships operating in the venture capital sphere often used by the finance industry.

10.1.4

It is unfortunate that a Paper such as this proposes the termination of a relief, namely management expenses, that has hitherto applied for decades. This is a political issue and should be dealt with by the States in possession of the reasons for its abandonment provided by the Treasury minister. No coherent case is made by the Paper for the cessation of the relief.

In the Jersey system, at least hitherto, many families have utilised investment companies for managing assets held on a world wide basis. The company has protected assets from foreign taxation and obviated the requirement for a grant of probate that otherwise have been required had the individual held the assets personally. These companies have paid their taxes in Jersey and to deny them relief for management expenses seems a rather excessive step, particularly without any accompanying explanation

The Paper does not address the position of minority investors. It seems that they will be subject to look through in respect of income they may not receive and indeed, where management expenses have absorbed the income, will not receive.

The Island is attempting to attract high value residents and it appears that this proposal will send out the wrong message to such individuals. It is hoped that it will be reconsidered.

The Paper does not explain why investment companies should be treated different to trading companies as it would appear that the challenges listed at paragraph 23.1.3 apply equally to both types of company.

10.4.3

While the Paper proposes a new form of legal entity, the limited trading partnership, it does not comment on the cost to business in switching from a limited company to the LTP. Indeed, the only benefit to locally owned concerns would appear to be that relief for the proposed RUDL charge will be obtained. Also, the Paper does not

explain how continuity of contract will be achieved. More thought is therefore required before the LTP can become a realistic option for business in general.

Would the LTP be available to utility companies so that the shareholders rather than the entity itself would be liable for tax on its profits?

Will the LTP be available to non residents and if so will it be subject to the same constraints applicable to Jersey limited liability partnerships?

10.5.2

The basis of assessment of company profits from 2008 onwards his not yet known. It is understood that the Comptroller has consulted on this but no conclusions have yet been reached.

10.7.2

What is the position of companies making up their accounts for a period in excess of 12 months?

16.1.4

The proposal to introduce yet another tax via the RUDL charge is most unwelcome. It appears that those shareholders to whom a company's profits will be apportioned will not receive credit for the charge. The LTP may suit some but certainly not all entities and is not therefore a solution to the potential for double taxation.

At paragraph 19.1.1 the Paper says that HM Treasury suggests that publicly owned companies fall outside the scope of the Code. If the RUDL charge is meant to recover some of the tax lost in respect of foreign owned businesses operating in Jersey, why not tax such companies at 20% where they are owned by public companies?

24.3.1

It is surely an unwarranted generalisation to say that the retention of profits is a "fattening up" of the company for eventual tax free extraction of profits. Profits are invariably retained for commercial reasons.

24.3.3

Many businesses do not pay dividends for sound commercial reasons. In particular, businesses that have just started or businesses going through hard times will choose not to pay dividends. In any event, those businesses that do pay dividends are most unlikely to distribute 100% of their profits.

How are minority shareholders to be treated? They may not have been shareholders in the company when the dividend is deemed paid. They are not in a position to demand a dividend and may not have the cash to pay the tax assessed on them. There would appear to be human rights implications should the deemed dividend basis be pursued.

26.1.2

It is surely fundamentally incorrect to say that simply because an investor does not receive a dividend he does not thereby receive an economic return on his investment. The thousands of investors in many public companies would not agree with this statement; Microsoft is but one company that for years never paid a dividend. The Paper is suggesting that not only did the investors not receive an economic return from such companies but also that they in some way made an interest free loan to the company!

26.3.1

The proposal for deemed distributions is unwieldy and administratively complex. It will simply add further to the compliance costs of business in Jersey. It is not clear why different systems should apply to investment companies and trading companies. The shareholders in a group holding company with the two types of company will find themselves in an intolerable position.

As already noted, the position of minority shareholders has not been addressed.

The deemed distribution charge and its application to companies within a group has not been discussed.

The Paper does not discuss the alternatives. There appears to be some concern if the company is seen to be paying the tax due by the shareholder. If the income tax law and company law provides for this as they could do, why are there such concerns?

Would it not be possible for the shareholder to elect that the company should pay the tax otherwise due by him such that this would be legally binding between the parties?

30.2

In the modern age blanket anti avoidance legislation is unsatisfactory. Many taxpayers invest and some in quite sophisticated investment products. Jersey has hitherto been recognised internationally for its low tax rate and absence of capital taxation either during lifetime or on death. The proposal in the Paper that taxpayers should disclose their capital transactions can only lead to one conclusion that there is a move to abandon this long held principle and move toward the taxation of capital. If this is so Jersey will cease to hold any attraction for tax purposes for wealthy individuals. The Islands drive to encourage high value residents will be undermined.

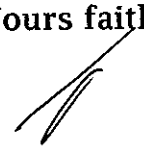
Taxpayers are entitled to expect a certain degree of certainty when they make an investment and this can only be achieved if the law sets out in detail what it seeks to tax. It is unfair to taxpayers to find that the Comptroller is seeking to tax a capital gain several years after an investment has been made when the law on the subject was unclear or simply not stated.

Contrary to what is stated in this paragraph of the Paper it is thought that most taxpayers will find it onerous and intrusive were they to be obliged to detail their capital transactions.

The Paper does not explain the position of high value residents who have settled in the Island and whether they too will be required to disclose details of their capital transactions, particularly those who settled prior to 1st January 2005 with an agreement as to the amount of tax they would pay.

From the proposal it is not clear whether high value residents who have undertaken to pay a minimum amount of tax will be asked to detail their capital contributions.

Yours faithfully



J P Frith