

NAVIGATING ECONOMIC SUBSTANCE

As part of an EU initiative, Economic Substance legislation has been developed and introduced in a number of international finance centres including BVI, Cayman, Guernsey, Jersey and Isle of Man. The new legislation requires entities carrying on specific types of business to demonstrate that they have adequate substance in the jurisdiction in which they are tax resident. Considerable work has been undertaken by these jurisdictions to ensure they have legislation in place by the end of 2019 in order to avoid being blacklisted by the EU.

Further information, including detail about the specific substance requirements, is provided within this document.

ECONOMIC SUBSTANCE HEALTH CHECK & SOLUTIONS

There are two major areas of consideration when it comes to navigating the Economic Substance landscape and JTC is ideally placed to assist with both:

1. Company classification and action point identification

JTC can assist clients with the initial classification of companies and ongoing compliance with the Economic Substance rules.

Using our Economic Substance Health Check, a sophisticated proprietary review tool, we conduct a full review of structures enabling us to identify and address immediate concerns and compliance matters on an ongoing basis.

ECONOMIC SUBSTANCE HEALTH CHECK

Our purpose-built review mechanism works using a two-step process that starts by establishing the fundamental facts that determine whether or not the entity in question is in scope of the new regulations. This is achieved through a series of detailed, cross-referenced questions relating to the specified entity's:

- > Type or legal status (e.g LLC, domestic, exempt)
- > Tax residence
- > Relevant activities in the jurisdiction

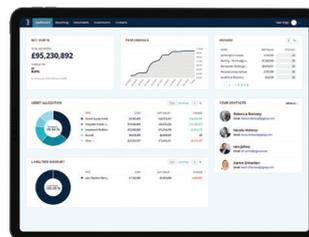
Once this initial fact-finding has established whether or not the entity is in scope, the second stage goes into greater detail based on the identified triggers. From here, we use our in-house expertise to propose the most appropriate solution for you.

2. Addressing identified Economic Substance issues

Following the classification and review, JTC provides practical steps and bespoke solutions on any issues identified during this process.

These can range from:

- > Simple solutions such as returns, ensuring appropriate board composition, decision making and director meetings.
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- > Establishment of a single family office encompassing a complete suite of outsourced company operations, through [JTC Private Office](#).
 - > A flexible, on-demand resourcing service based on your specific operational and logistical administration requirements, be it for continual, frequent or periodic support, all through a single point of contact.
 - > A full range of [infrastructure management services](#), delivered swiftly and efficiently, enabling you to focus on other business priorities.



To complement your Economic Substance solution, and underpinning [JTC Private Office](#), is our multi-award winning purpose built, customisable online platform, Edge. Easily accessible via an app on any smartphone or tablet, Edge

provides an oversight of all assets, stores related documents and provides seamless navigation through your financial and non-financial affairs through an interactive structure chart.



BACKGROUND AND SCOPE

The requirement to show Economic Substance is primarily aimed at preventing what is called “base erosion and profit shifting”. The EU regards this as the artificial shifting of profits to places where there is little or no economic activity or taxation.

The Economic Substance regulations impose specific substance requirements on resident companies that undertake and have income from one or more of the following activities referred to by the EU as “geographically mobile”:

- > Banking
- > Financing and leasing
- > Distribution and service centre
- > Fund management
- > Headquartering
- > Intellectual property
- > Holding companies
- > Insurance
- > Shipping

SUBSTANCE REQUIREMENTS

The tests

To meet the substance requirements, a company carrying on certain activities must ensure that it meets the following Economic Substance tests:

- > It is directed and managed in the jurisdiction
- > It carries on core income generating activity (“CIGA”) in relation to that relevant activity in the jurisdiction
- > Proportionate to the level of that relevant activity, it has
 - (i) adequate appropriately qualified people in the jurisdiction,
 - (ii) adequate level of operating expenditure incurred in the jurisdiction, and
 - (iii) adequate physical presence in the jurisdiction.

Compliance and monitoring

Tax returns

Data on the activities of tax resident companies will be collected using an enhanced corporate income tax return in the relevant jurisdictions for accounting periods beginning on or after 1 January 2019. Tax resident companies subject to Economic Substance requirements will need to include the following detail in their returns:

- > Business activity
- > Gross income
- > Expenses and assets
- > Employees
- > CIGA conducted in the island

The information provided in the return will be monitored and random selections for audit will be made to ensure compliance with the Economic Substance rules.

Exchange of information

Non-compliance with the Economic Substance rules could result in exchange of information with the jurisdiction where the immediate parent, ultimate parent or ultimate beneficial owner is tax resident.

Financial penalties

There are progressive financial penalties in each jurisdiction for non-compliance with the Economic Substance rules.

Winding up

Ultimately, non-compliance with the Economic Substance rules will result in the company being struck off the register.

MEET THE TEAM



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ABOUT JTC

JTC is a publicly listed, global professional services business with deep expertise in fund, corporate and private client services.

Every JTC person is an owner of the business and this fundamental part of our culture aligns us with the best interests of all of our stakeholders.

Our purpose is to maximise potential and our success is built on service excellence, long-term relationships and technology capabilities that drive efficiency and add value.

Core services

- > Fund Accounting
- > Fund Administration
- > Corporate Accounting
- > Corporate Administration
- > Executive Financial Services
- > Treasury Services
- > Registrar Services
- > Private Client Services
- > JTC Private Office
- > Marine & Aviation Services
- > Real Estate Services
- > Art Services
- > ESG Services for Private Clients

We value shared ownership

- > We operate around the principle that if our people have a stake in the business, they will do a better job for our clients.

We value relationships

- > We aim to work with clients who share our belief in the importance of building strong relationships over time.

We invest in our people

- > Over 83% of our employees hold a relevant professional qualification or are working towards this through our dedicated JTC Academy.

We embrace technology

- > We operate a variety of best-in-class systems to deliver and maintain an impeccable standard of administration and use technology to innovate in both service delivery and efficiency.

ENVIRONMENTAL,
 SOCIAL AND
 GOVERNANCE (ESG)



- > Our environmental, social and governance (ESG) framework has at its heart our culture of shared ownership and is informed by our purpose, which is to help maximise the potential of every client, colleague and partner with whom we work.
- > We believe that we will thrive as a business by working in a sustainable way, operating within constantly evolving legal and regulatory frameworks, respecting the natural environment and creating a positive impact for the communities where we live and work.
- > We understand the ESG risks and opportunities our clients face and as a listed professional services business with expertise across a wide range of sectors, geographies and asset classes, we are ideally placed to support our clients with a range of solutions that help them meet their own ESG commitments and goals.



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