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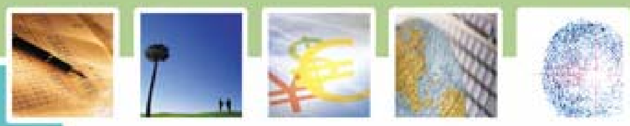


ZERO TEN

BACKGROUND

In light of the past studies by the OECD claiming that the Channel Islands were encouraging harmful tax practices, Jersey and Guernsey took positive steps by effectively establishing a new tax neutral corporate income tax policy. In 2007 Jersey's Treasury Minister lodged the "shareholder taxation provisions" au Greffe - known as the Zero Ten provisions.

PRINCIPLES

The States of Jersey introduced a tax with "look through" taxation principles, similar to the UK "closed company" rules. This means a Jersey resident individual with interest in a Jersey company will be taxed personally on income arising at company level. However, there are various factors that affect the tax liability which include:

- the nature and size of the interest in the company;
- the status of the company in which the income arises; and
- the character of its profits.

As explained below, most trading entities, outside the finance sector, will be subject to a corporate income tax rate of zero-percent.

APPLICABILITY

Zero % applicability

- All EXISTING companies and those FIRST resident in Jersey or first trades through a "permanent establishment"[1] ("PE").
- New resident company effective start date on or after 3 June 2008.
- All existing resident companies effective start date on 1 January 2009.

10% applicability

Specified financial services companies will be taxed at 10% rate. Financial services companies defined as:

- Banks,
- Trust companies,
- Companies with an investment business licence, and
- Permit holders under the Collective Investment Funds (Jersey) Law 1988 - as administrators or custodians

20% applicability

Jersey rental income taxed at 20% under Schedule A – to include development profits and land held anywhere (even outside Jersey). And utility companies to be taxed at 20%.

Note - A Jersey non-resident landlord scheme (similar to one in the UK) will be introduced shortly and a 20% rate will apply.

FULL ATTRIBUTION

This will apply to:

- non-trading companies ("NTC") – will include most group holding companies as well as all forms of investment company (save for CIFs) all of which are taxed at 0% under Zero Ten; and
- personal services companies ("PSC") – with 25%(+) of its profits arising from supplying the services of a shareholder, or persons connected with a shareholder, to a customer who would otherwise be considered an employer.

The Jersey resident individual shareholder in such a company is taxed as if the whole of his share of the company's profits arises in his own hands.

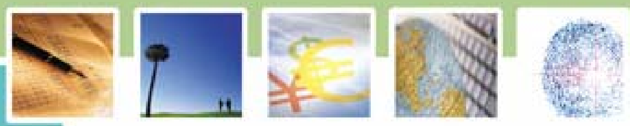
GROUP RELIEF & LOSSES

There are new provisions that allow group companies to surrender "losses" between qualifying trading group companies. There is a time limit to make a claim for the group relief, which is within 1 year following the year of assessment.

This provision will benefit trading groups which fall within the zero percent band.

There are also new changes on the "loss-relief" provisions; "losses" will only be allowed to be carried forward in the future.

[1] Permanent establishment, in relation to a company, includes a branch of the company, a factory, shop, workshop, quarry or a building site, and a place of management of the company – broadly place where business is being undertaken – does not apply if only board meetings take place.



DEEMED DIVIDEND

The deemed distribution provisions will apply to:

- Zero% trading companies – i.e. one not listed on a recognised stock exchange, which will be subject to tax at Zero%.
- 10% companies - broadly unlisted financial services companies – meaning, those not listed on a recognised stock exchange.

The Jersey resident individual shareholder will be deemed to have received a deemed dividend equal to the 60% of company's relevant profits as computed for tax purposes, after deducting actual dividends already paid out of those profits.

The deemed final dividend will be assessable in certain circumstances such as the winding up of the company, the death of the shareholder or the shareholder's ceasing to hold more than 2% of the ordinary share capital.

Similar to UK close company rules provisions, the Jersey resident individual shareholder will also be taxable on any loan he/she, or a member of his/her family, receives from a company subject to the deemed dividend rules. The tax charge will be on the whole of the loan advanced with credit in subsequent years where loans have been repaid.

ADMINISTRATION

- Continue to file returns – these will be issued in January each year for completion and submission by the end of the following month.
- Company secretaries to issue deemed dividend vouchers where appropriate by 31 March of each calendar year.
- Normal issue of estimated assessments and appeals will continue as before, (save for those companies which were previously under the exempt company and concession 60 regime – provided appropriate declarations made in a timely manner).
- Annual notification for concession 60 companies (i.e. F I I Cs).

WHAT NEEDS TO BE DONE NOW AND ONGOING COMPLIANCE

1. Speak to us and we can assist with:
    - Undertaking analysis on which category your company(ies) fall within and any client entities you may administer.
    - Undertaking review on areas of risk and how we may be able to stream line the compliance for your company and the underlying group and or client entities.
    - Providing in-house training.
    - Assisting with ongoing/annual compliance in relation to existing and new entities.
    - Assessing the effectiveness of your current accounting year end.
2. Set out an internal timeline for training and systems review and application that need to be in place prior to the full implementation of zero-ten.
3. Identify and address issues facing Jersey resident and/or non-resident shareholders.
4. Diarise annual compliance events on respective diaries.
5. Review and re-draft annual and new take on client questionnaires to capture the relevant data and prompting actions for ongoing compliance.

For further information please contact Mehul Kotedia on details set out below or email us on info@mekad.com

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