

Changes to economic substance regulations in respect of partnerships

The Guernsey Revenue Service (GRS) have recently issued a Circular confirming that the economic substance requirements that apply to companies will be extended to partnerships.

The requirements are being extended to fully meet the commitments given to the EU Code of Conduct Group, and is happening across Crown dependencies and Overseas territories. Whilst we recognise this change will mostly affect the fund industry, we have set out below an overview for all to consider.

The new requirements will come into force in respect of any accounting period commencing on or after 1 January 2022 for partnerships in existence at 30 June 2021.

The requirements will apply to new partnerships i.e. those formed on or after 1 July 2021 for accounting periods commencing on or after 1 July 2021. It applies to all partnerships, including LPs and LLPs.



As is the case for companies the requirements will only apply to partnerships carrying on a relevant activity.

The relevant activities are:

- Pure Equity Holding Company
- Banking
- Finance and Leasing
(this includes loans and leased to related parties)
- Fund Management
- Insurance
- Distribution and Service Centre
- Headquartering
- Shipping
- IP Company
- High Risk IP Company



There are some exemptions currently under discussion with the EU Commission, these include:

- Partnerships comprised solely of individual partners whose income will be subject to income tax in Guernsey.
- Wholly domestic partnerships i.e. neither conducting activities outside of Guernsey nor part of a multinational group.
- Partnerships with an effective place of management in another jurisdiction.

Collective investment schemes regulated under the POI Law are out of scope.



The reporting requirements of partnerships will require some changes following the extension of the Substance requirements:

- All partnerships will be required to register with the GRS, alongside.
- Needing to consider where a partnership's place of management really is, as the well-known tax transparency position is ignored for these purposes. (It's expected to match a general partner where one exits).
- All partnerships will be required to confirm annually whether they need to file economic substance information. This is expected to be in the form of the partnership as a whole, not each partner.
- Mandatory filing of partnership tax returns accompanied by financial statements, the deadline will be the same as the deadline for companies.

It is expected that the economic substance returns and sanctions will be similar to the returns and sanctions for companies.

If you wish to discuss the extension of the substance requirements or require assistance with returns please do not hesitate to contact us.



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