Practice Note

Accounting for investments on a portfolio basis and determination of realised capital profits

This Practice Note only applies to certain investment holding companies with Jersey resident shareholders.

For Schedule D Case III and Case V purposes, a distribution made by a company to a Jersey resident shareholder is not chargeable to Jersey income tax to the extent it is made out of realised capital profits.

The accounting records of a Jersey company should be capable of identifying realised and unrealised capital gains for these purposes (see Taxation (Accounting Records) (Jersey) Regulations 2013 (“Regulations”)).

Revenue Jersey recognises however that the directors of a company may have difficulty applying the law in certain circumstances where the records available to them can make identifying realised capital profits a time-consuming exercise.

With this in mind, when the directors of a company hold a board meeting to determine what profits are being distributed to (Jersey resident) shareholders, Revenue Jersey will accept a ‘best estimate’ of the split of realised and unrealised capital profits of a company in the following specific circumstances:

- The only assets of the company comprise:
  - a portfolio of investments managed by a third-party manager (‘Manager’); and/or
  - cash.
- Those investments are held on investment/ capital account.
- The Manager provides the company directors with monthly/ quarterly/ annual reports (‘Reports’) that do not distinguish between realised and unrealised capital profits made in the financial reporting period.
- The company accounts for transactions relating to its investments on a ‘portfolio basis’ i.e. by using the Reports as the source for accounting entries rather than accounting for each individual transaction.

In all other cases, Revenue Jersey expects Jersey companies to follow the Regulations such that it can properly identify what profits are being distributed and apply Income Tax (Jersey) Law 1961 appropriately.