

Statement of practice | The tax treatment of carried interest

Jersey has a mature funds sector that offers regimes from retail options through to the more sophisticated and institutional end of the market. In recent years, Jersey has evolved into a specialist centre for the alternative asset classes, including hedge, real estate, and private equity funds.

This statement of practice sets out the Jersey income tax treatment of carried interest that may arise in the private equity industry. For the avoidance of doubt, the principles in this statement of practice equally apply to other funds (for example: venture capital, infrastructure, and real estate funds) where there is carried interest, and if the profits they generate are capital profits.

We have not sought to define in detail a private equity fund or carried interest as these are well known concepts.

Private equity funds typically acquire material stakes in businesses which they support to grow and increase in value. This is achieved by unlocking the potential of the business by means of the financial investment itself and through the support and development of the business management team. This is the same form of support that would be provided by any substantive investor. Profit from the sale of these investments is capital profit.

Private equity funds in Jersey are generally structured as partnership vehicles. Therefore, the carried interest of any partner is simply a share of these capital profits and is not taxable in Jersey.

Jersey's principles accord with applicable case law and with the UK's approach, as at the date of this note and as set out in the HMRC letter of 8 September 2023 on the treatment of carried interest. Revenue Jersey has never seen an example of a Jersey private equity fund where the carried interest is not treated as capital.

The principles outlined above are not new. They simply restate Revenue Jersey's long-standing practice in relation to the tax treatment of private equity funds and their partners, in line with Jersey tax law, and Jersey's continued commitment to providing tax certainty.