

The Cayman Islands introduces economic substance requirements for partnerships

Service area / [Taxation and Economic Substance](#)

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The economic substance requirements in the Cayman Islands, introduced by the International Tax Co-operation (Economic Substance) Act (as revised) (the “**ES Act**”) ([Economic substance requirements in the Cayman Islands](#)), have been extended to partnerships pursuant to the International Tax Co-operation (Economic Substance) (Amendment of Schedule) Regulations 2021, which came into force on 30 June 2021. This means that, as with all other relevant entities, partnerships will have to submit an annual economic substance notification indicating whether or not they are required to meet the economic substance test under the ES Act. We expect that most partnerships that operate as investment funds will not be required to meet the test.

When do the requirements come into force?

The International Tax Co-operation (Economic Substance) (Prescribed Dates) (Amendment) Regulations, 2021 sets out the applicable dates from when general partnerships, exempted limited partnerships and foreign limited partnerships that carry on a “relevant activity” will be required to satisfy the economic substance test in the ES Act. A partnership formed after 30 June 2021 will be required to satisfy the test from the date on which it begins carrying on a relevant activity. A Partnership in existence prior to 30 June 2021 must satisfy the test from 1 January 2022.

What else has been changed?

The updated Schedules include revisions to the definitions of “relevant entity”, “Ultimate Beneficial Owner” and “Ultimate Parent”, to include general partnerships, exempted limited partnerships, foreign limited partnerships and limited liability partnerships.

“Local partnerships” will not be considered “relevant entities” for the purposes of the ES Act, and while they will need to submit a notification under the ES Act they are not required to satisfy an economic substance test. A local partnership is defined as a partnership that is not part of a Multinational Enterprise Group (“**MNE Group**”) and is “only carrying on business in the Islands”.

The forms prescribed by the Department of International Tax Cooperation for economic substance notifications, certifying tax residency outside the Cayman Islands and for the economic substance return will be updated to reflect the inclusion of partnerships in the economic substance regime.

For more information please speak to your usual Carey Olsen contact or a member of our [Cayman Islands economic substance team](#).

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BERMUDA BRITISH VIRGIN ISLANDS CAYMAN ISLANDS GUERNSEY JERSEY
CAPE TOWN HONG KONG LONDON SINGAPORE



FIND US

Carey Olsen
PO Box 10008
Willow House
Cricket Square
Grand Cayman KY1-1001
Cayman Islands

T +1 345 749 2000
E cayman@careyolsen.com



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