

Economic Substance Requirements in the Cayman Islands

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

Location / [Cayman Islands](#)

Date / [May 2019](#)

Economic Substance Legislation

The Cayman Islands, along with many other jurisdictions, has been required by the OECD to introduce economic substance requirements. Framework legislation to meet the requirements, the International Tax Co-operation (Economic Substance) Law, 2018 (**Substance Law**), was introduced in December 2018. The new substance rules have been amended by regulations on 22 February 2019 and 30 April 2019 including amendments to reflect feedback from the OECD.

Guidance Notes

The Substance Law is supplemented by guidance notes (**Guidance Notes**) issued by the Tax Information Authority of the Cayman Islands (TIA). Version 2.0 of the Guidance Notes was issued in conjunction with the 30 April changes to the Substance Law, providing affected entities with guidance on the practical steps they must take to comply with the economic substance test set out in the Substance Law.

Relevant Entities

The Substance Law applies to the following **Relevant Entities**:

- Cayman Islands companies and limited liability companies (other than domestic companies)
- Cayman Islands limited liability partnerships
- Foreign companies registered in the Cayman Islands

Excluding:

- Investment funds (including vehicles through which they invest)
- Entities tax resident outside the Cayman Islands

Relevant Activities

The economic substance requirements only apply to the following Relevant Activities carried on by Relevant Entities:

- banking business
- distribution and service centre business
- financing and leasing business
- fund management business
- headquarters business
- holding company business
- insurance business
- intellectual property business
- shipping business

Economic Substance Test

If a Relevant Entity is carrying on a Relevant Activity, it must:

- carry on in the Cayman Islands all core income generating activities in respect of that Relevant Activity;
- be directed and managed in an appropriate manner in the Cayman Islands in relation to that Relevant Activity; and
- with regard to the income generated from the Relevant Activity, have incurred adequate operating expenditure, have an adequate physical presence and an adequate number of employees or other personnel with appropriate qualifications in the Cayman Islands.

An abbreviated test applies to pure equity holding companies, while a presumption of non-compliance applies to a Relevant Entity that carries on high risk intellectual property business.

OFFSHORE LAW SPECIALISTS

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

Reporting

Relevant Entities will be required to report annually to the TIA whether they have carried on a Relevant Activity. A Relevant Entity that is carrying on a Relevant Activity must file a report with the TIA for the purpose of the TIA determining whether that Relevant Entity has satisfied the economic substance test in respect of the relevant financial year. Reporting will start in 2020 for financial years that commenced in 2019.

Commencement

For Relevant Entities existing prior to 1 January 2019, the requirement to comply with the economic substance test comes into effect from 1 July 2019. For Relevant Entities incorporated, formed or registered (as applicable) after 2018, the requirement applies from the date such entity commences a Relevant Activity.

Further Information

For further information please get in touch with your usual attorney contact at Carey Olsen.

A quick reference interactive tool is also available on our website to help you determine if a Cayman Islands entity is subject to the requirements imposed by the Substance Law. [Launch tool.](#)



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



FOLLOW US

Visit our tax and substance team at careyolsen.com



PLEASE NOTE

'Carey Olsen' in the Cayman Islands is the business name of Carey Olsen Cayman Limited, a body corporate recognised under the Legal Practitioners (Incorporated Practice) Regulations (as revised). The use of the title 'Partner' is merely to denote seniority. Services are provided on the basis of our current terms of business, which can be viewed at www.careyolsen.com/sites/default/files/TermsOfBusiness.pdf

CO Services Cayman Limited is regulated by the Cayman Islands Monetary Authority as the holder of a corporate services licence (No. 624643) under the Companies Management Law (as revised).

This briefing is only intended to provide a very general overview of the matters to which it relates. It is not intended as legal advice and should not be relied on as such. © Carey Olsen 2019