

# Extension of the BVI economic substance regime to partnerships

As part of the ongoing commitments made by the British Virgin Islands (BVI) to the EU Code of Conduct Group, the economic substance regime has been extended to limited partnerships formed without legal personality.

## Background

The Economic Substance (Companies and Limited Partnerships) Act, 2018 (the **Act**) imposes economic substance requirements on companies and limited partnerships in the BVI. The Act was brought into force on 1 January 2019 to address the concerns of the EU Code of Conduct Group (Business Taxation) regarding the existence of favourable tax regimes facilitating offshore structures generating profits without real economic activity. The Act also reflects the BVI's commitment as a member of the OECD's Inclusive Framework on Base Erosion and Profit Shifting (BEPS) and, in particular, BEPS Action 5. Please see our guide to the [BVI economic substance legislation](#) for full details.

## Extension to limited partnerships without legal personality

Previously the Act only applied to limited partnerships with legal personality. However, on 30 June 2021, the scope of the Act was by widened by expanding the definition of **legal entity** to include limited partnerships formed without legal personality, pursuant to the Economic Substance (Companies and Limited Partnerships) (Amendment) Act 2021 (the **Amendment Act**).

The Beneficial Ownership Secure Search System Act, 2017, which facilitates the monitoring and enforcement of the economic substance requirements and the Rules on Economic Substance in the Virgin Islands issued by the BVI International Tax Authority (ITA), which provide guidance as to operation of the economic substance regime in practice, are both expected to be amended accordingly.

## Exemptions

It should be noted that the Act still excludes **non-resident limited partnerships**, meaning a limited partnership that is tax resident in a jurisdiction outside the BVI which is not on Annex 1 to the EU list of non-cooperative jurisdictions for tax purposes.<sup>1</sup>

The meaning of 'relevant activities' under the Act has also been amended to exclude **investment fund business**. Investment funds<sup>2</sup> are therefore outside of the scope to the economic substance regime.

<sup>1</sup> <https://www.consilium.europa.eu/en/policies/eu-list-of-non-cooperative-jurisdictions/>

<sup>2</sup> **Investment fund** means an entity whose principal business is the issuing of investment interests to raise funds or pool investor funds with the aim of enabling a holder of such an investment interest to benefit from the profits or gains from the entity's acquisition, holding, management or disposal of investments and includes any entity through which an investment fund directly or indirectly invests or operates (but not an entity that is itself the ultimate investment held), but does not include a person licenced under the Banks and Trust Companies Act, 1990 or the Insurance Act, 2008, or a person registered under the Cooperatives Societies Act 1979 or the Friendly Societies Act 1928.

## Enforcement changes

The Amendment Act also makes a minor change to the enforcement provisions of the Act by permitting the ITA to request that an entity be wound up for non-compliance (rather than struck off).

## Key dates

The Amendment Act came into force on 30 June 2021. All legal entities (including newly in-scope limited partnerships) are required to notify their registered agent of whether the relevant legal entity is subject to economic substance requirements and, if so, whether the entity is complying with them.

Any newly in-scope limited partnerships carrying on a relevant activity will then be required to satisfy the economic substance test from:

- for limited partnerships formed after 1 July 2021, the date on which the relevant entity commences the relevant activity; or
- for limited partnerships existing prior to 1 July 2021, **1 January 2022**.

Such limited partnerships must file economic substance reporting no later than twelve months after the last day of the end of each financial year commencing on or after 1 July 2021.

## Next steps

For further information or advice on the changes to the economic substance regime, please reach out to your usual contact or one of the contacts listed below.

## Contacts

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