

Extension of the Cayman Islands economic substance regime to partnerships

UPDATE

As part of the ongoing commitments made by the Cayman Islands to the EU Code of Conduct Group, the economic substance regime has been extended to all partnerships carrying on a relevant activity.

Background

The International Tax Co-operation (Economic Substance) Act (2021 Revision) (as amended, the **Substance Act**) was introduced in response to concerns of the EU Code of Conduct Group regarding favourable tax regimes facilitating offshore structures that generate profits without real economic activity. The Substance Act also reflects Cayman's commitment as a member of the OECD's Inclusive Framework on Base Erosion and Profit Shifting (**BEPS**) and, in particular, BEPS Action 5.

Under the Substance Act, a relevant entity which carries on a relevant activity is required to satisfy the economic substance test in relation to that relevant activity. Please see our guide to [Economic substance in the Cayman Islands](#) for full details of the regime.

Extension to partnerships

The Substance Act previously only imposed economic substance requirements on Cayman Islands companies, limited liability companies and limited liability partnerships, and foreign companies registered in the Cayman Islands. However, on 30 June 2021, the Schedule to the Substance Act was amended¹ to extend the scope of the economic substance regime by expanding the definition of a **relevant entity** to include:

- Cayman Islands partnerships, except where the partnership is a local partnership;
- Cayman Islands exempted limited partnerships (**ELPs**); and
- foreign limited partnerships registered in the Cayman Islands (**foreign LPs**).

The following entities remain excluded and out of scope of the regime:

- investment funds;
- entities that are tax resident outside the Cayman Islands;
- trust vehicles; and
- domestic companies.

Amendments to the Guidance Notes

The Tax Information Authority's Guidance Notes² on economic substance were accordingly amended at the same time with a new appendix in relation to partnerships, ELPs and foreign LPs.

¹ Pursuant to the International Tax Co-operation (Economic Substance) (Amendment of Schedule) Regulations, 2021.

² The [Guidance for Economic Substance for Geographically Mobile Activities](#) issued by the Cayman Islands Tax Information Authority.

Notification

Partnerships, ELPs and foreign LPs (including local partnerships) will be required to file an economic substance notification via the General Registry as a prerequisite to filing their annual return. The existing form of the notification will be modified so that it can be submitted with respect to partnerships, ELPs and foreign LPs.

Return

Where the partnership is conducting relevant activities, it will be required to satisfy the economic substance test and file an economic substance return (**ES Return**) on the Department for International Tax Cooperation's online portal. The form of the ES Return will be modified to enable a general partner (**GP**) to file in respect of its limited partnership (**LP**), ELP or foreign LP.

A GP will not be required to file a separate ES Return for itself where it makes a declaration that:

- the GP is not conducting any relevant activity for itself which is different from the relevant activity it conducts for the LP, ELP or foreign LP; and
- its relevant income for such relevant activity is only derived from the relevant income it receives for any such LP, ELP or foreign LP.

Tax resident overseas

The form for entities tax resident outside of the Cayman Islands (known as the **TRO Form**) will similarly be modified on the portal to allow a GP to include a declaration that:

- it is not conducting any relevant activity for itself which is different from the relevant activity it conducts for such LP, ELP or foreign LP; and
- its relevant income for the relevant activity is only derived from the relevant income it receives for any such LP, ELP or foreign LP.

LPs, ELPs or foreign LPs will be regarded as tax resident in a jurisdiction other than the Cayman Islands if the GP can provide objective and sufficient evidence that the place of effective management of the partnership is in that other jurisdiction and that either the partnership is subject to tax in that other jurisdiction or is required to satisfy a test in that other jurisdiction that is substantially the same as the economic substance requirements in the Substance Act.

Timing

Partnerships, ELPs and foreign LPs must satisfy the economic substance test in relation to a relevant activity from:

- for partnerships, ELPs and foreign LPs formed after 1 July 2021, the date it commences the relevant activity; or
- for existing partnerships, ELPs and foreign LPs, **1 January 2022**.³

Such partnerships, ELPs and foreign LPs must submit an economic substance return no later than 12 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.

³ Pursuant to the International Tax Co-operation (Economic Substance) (Prescribed Dates) (Amendment) Regulations, 2021.

Contacts



Alex Last
Partner, Mourant Ozannes
Cayman Islands
+1 345 814 9243
alex.last@mourant.com



Catherine Pham
Partner, Mourant Ozannes
Cayman Islands
+1 345 814 9247
catherine.pham@mourant.com



Hayden Isbister
Partner, Mourant Ozannes
Cayman Islands
+1 345 814 9125
hayden.isbister@mourant.com



Neal Lomax
Partner, Mourant Ozannes
Cayman Islands
+1 345 814 9131
neal.lomax@mourant.com



Paul Christopher
Partner, Mourant Ozannes
Hong Kong
+852 3995 5700
paul.christopher@mourant.com



Sara Galletly
Partner, Mourant Ozannes
Cayman Islands
+1 345 814 9233
sara.galletly@mourant.com
