

Cayman Islands Economic Substance Requirements – 'Relevant Activity' of 'Headquarters Business'

For general background on The International Tax Co-operation (Economic Substance) Law, 2018 (as amended by relevant regulations, the "Economic Substance Law"), the related Guidance on Economic Substance for Geographically Mobile Activities (the "Guidance") and for the meaning of 'relevant entity', please click [here](#).

This update assumes that an entity has already been determined to be a 'relevant entity' under the Economic Substance Law and that the 'relevant entity' is now considering whether it is carrying on one of the nine categories of geographically mobile 'relevant activities' - in particular, under the 'headquarters business' category.

What is 'headquarters business'?

'Headquarters business' in the Economic Substance Law is defined to mean 'the business of providing any of the following services to an entity in the same Group'¹: –

- (a) the provision of senior management;
- (b) the assumption or control of material risk for activities carried out by any of those entities in the same Group; or
- (c) the provision of substantive advice in connection with the assumption or control of risk referred to in paragraph (b),

¹ 'Group' is defined by reference to the Tax Information Authority (international Tax Compliance) (Country-By-Country Reporting) regulations, 2017, and means 'a collection of enterprises related through ownership or control such that it is either required to prepare Consolidated Financial Statements for financial reporting purposes under applicable accounting principles or would be so required if equity interests in any of the enterprises were traded on a public securities exchange'

but does not include banking business, financing and leasing business, fund management business, intellectual property business, holding company business or insurance business.'

Economic Substance Test

If a relevant entity carries on the relevant activity of 'headquarters business', it will be subject to the economic substance test set out in the Economic Substance Law. The economic substance test can be satisfied in relation to that headquarters business if the 'relevant entity':

- (a) conducts 'Cayman Islands core income generating activities';
- (b) is directed and managed in an appropriate manner in the Cayman Islands; and
- (c) has adequate operating expenditure, physical presence and personnel in the Cayman Islands.

Cayman Islands Core Income Generating Activities

The relevant Cayman Islands core income generating activities in the context of 'headquarters business' include:

- (a) taking relevant management decisions;
- (b) incurring expenditures on behalf of Group entities;
- (c) co-ordinating Group activities.

The Guidance on 'Headquarters Business'

At present, there is no specific section on headquarters business in the Guidance.

What to do if a Relevant Entity is Carrying on the Relevant Activity of 'Headquarters Business'

It is worth noting that there are a range of consequences for breaches of the Economic Substance Law (including financial penalties and potential striking-off).

If you have any specific questions in relation to a 'relevant entity' conducting 'headquarters business' or this update, please speak to your usual Maples Group contact or:

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