

Cayman Islands Economic Substance Requirements – 'Relevant Activity' of 'Distribution and Service Centre 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 'distribution and service centre business' category.

What is 'distribution and service centre business'?

'Distribution and service centre business' in the Economic Substance Law is defined as:

'the business of either or both of the following:

- (a) purchasing from an entity in the same Group¹ –
 - (i) component parts or materials for goods; or

- (ii) goods ready for sale, and reselling such component parts, materials or goods outside the Islands;

- (b) providing services to an entity in the same Group in connection with the business outside the Islands,

but does not include any activity included in any other relevant activity except holding company business.'

Economic Substance Test

If a 'relevant entity' carries on the 'relevant activity' of 'distribution and service centre 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 'distribution and service centre 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 'distribution and service centre business' include:

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'.

- (a) transporting and storing goods, components and materials;
- (b) managing stocks;
- (c) taking orders; and
- (d) providing consulting or other administrative services.

Guidance on 'Distribution and Service Centre Business'

At present, there is no specific section on 'distribution and service centre business' in the Guidance. The Guidance does, however, highlight the definitions of 'Group' and the related definition of 'Consolidated Financial Statements' in the Economic Substance Law.

What to do if a 'Relevant Entity' is Carrying on the 'Relevant Activity' of 'Distribution and Service Centre Business'

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

If you have any specific questions regarding a 'relevant entity' conducting 'distribution and service centre business' or on this update, please speak to your usual Maples Group contact or:

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