

## Cayman Islands Economic Substance Requirements – 'Relevant Activity' of 'Holding Company 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 'holding company business' category.

### What is 'Holding Company Business'?

'Holding company business' in the Economic Substance Law is defined to mean 'the business of a pure equity holding company', which itself is defined to mean 'a company that **only** holds equity participations in other entities and **only** earns dividends and capital gains'.

### Economic Substance Test

If a 'relevant entity' **only** carries on a 'relevant activity' that is the business of a pure equity holding company, it will be subject to a reduced economic substance test as set out in section 4(5) of the Economic Substance Law (the "Reduced ES Test").

That Reduced ES Test can be satisfied if the relevant entity confirms that:

- (a) it has complied with all applicable filing requirements under the Companies Law (2018 Revision); and
- (b) it has adequate human resources and adequate premises in the Cayman Islands

for holding and managing equity participations in other entities.

### The Guidance on 'Holding Company Business'

The Guidance contains some additional sector-specific guidance in respect of 'holding company business'. It provides that a pure equity holding company may engage its registered office service provider in the Cayman Islands to satisfy the Reduced ES Test where the pure equity holding company is passively holding equity interests in other entities.

### What to do if a Relevant Entity is Carrying on the Relevant Activity of 'Holding Company 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 'holding company business' or this update, please speak to your usual Maples Group contact or:

**Matthew Gardner**  
+1 345 814 5453  
[matthew.gardner@maples.com](mailto:matthew.gardner@maples.com)

**Suzanne Correy**  
+1 345 814 5434  
[suzanne.correy@maples.com](mailto:suzanne.correy@maples.com)

**Daniel Lee**  
+1 345 814 5508  
[daniel.lee@maples.com](mailto:daniel.lee@maples.com)

**March 2019**  
© MAPLES GROUP

This update is intended to provide only general information for the clients and professional contacts of Maples Group. It does not purport to be comprehensive or to render legal advice.