

Cayman Islands economic substance legislation extended to include partnerships

Insights - 01/07/2021

The Cayman Islands economic substance regime has recently been expanded^[1], so as to now bring into scope Cayman Islands partnerships. By way of background to the economic substance regime (**ES Regime**), it requires certain entities that are domiciled or registered in the Cayman Islands and carrying on certain types of activities to have demonstrable economic substance in the Cayman Islands. Investment funds (whether Cayman partnerships or companies) continue to be out of scope of the ES Regime, although notification filings are required.

As a result of the recent expansion of the ES Regime, all types of Cayman Islands partnerships (exempted limited partnerships, general partnerships, limited partnerships and foreign limited partnerships) will be required to make an annual notification through their corporate services provider (typically a registered office service provider) as to whether or not they are in scope of the ES Regime and whether or not they were carrying on one or more of a defined list of activities in the relevant reporting period (**Relevant Activity**). Entities which are in scope (**Relevant Entities**) and which were conducting a Relevant Activity during such period are required to meet an economic substance test (**ES Test**) in respect of those Relevant Activities carried out.

The definition of Relevant Entity under the economic substance legislation has been amended to include partnerships but, as with corporate entities, does not include:

- (a) investment funds or entities through which investment funds directly or indirectly invest or operate;
- (b) entities which are tax resident outside the Cayman Islands (including, subject to certain conditions, entities which are disregarded entities for US income tax purposes);
- (c) entities which are authorised to carry on business locally in the Cayman Islands as a local partnership.

For existing partnerships, there is no immediate action required, but steps should be taken in due

course to determine whether such partnership is in scope and if so, the steps which must be taken ensure the ES Test will be met from 1 January 2022. Any partnerships formed after 1 July 2021 will need to take into account the requirements of the ES Regime from the date of formation to ensure compliance.

For more information on Cayman's economic substance regime, please see our client briefing: [Cayman Islands economic substance requirements - an overview](#).

If you would like to discuss the potential impact of this change to the ES Regime, please get in touch with your usual Ogier contact or any of our partners listed here.

[1] See the [International Tax Co-operation \(Economic Substance\) \(Amendment of Schedule\) Regulations, 2021](#) and the [International Tax Co-operation \(Economic Substance\) \(Prescribed Dates\) \(Amendment\) Regulations, 2021](#) which came into effect on 30 June 2021

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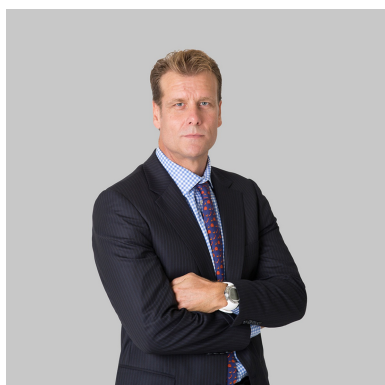
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Meet the Author



[James Bergstrom](#)

Partner

Cayman Islands

E: james.bergstrom@ogier.com

T: +1 345 815 1855

Key Contacts



Tim Cone

Partner

Cayman Islands

E: tim.cone@ogier.com

T: +1 345 815 1767



Angus Davison

Partner

Cayman Islands

E: angus.davison@ogier.com

T: +1 345 815 1788



Joanne Huckle

Partner

Cayman Islands

E: joanne.huckle@ogier.com

T: +1 345 815 1895



Bradley Kruger

Partner

Cayman Islands

E: bradley.kruger@ogier.com

T: +1 345 815 1877



Nick Rogers

Partner

Cayman Islands

E: nick.rogers@ogier.com

T: +1 345 815 1844



Justin Savage

Partner

Cayman Islands

E: justin.savage@ogier.com

T: +1 345 815 1816



Giorgio Subiotto

Partner

Cayman Islands

E: giorgio.subiotto@ogier.com

T: +1 345 815 1872



Emma Sutherland

Partner

Cayman Islands

E: emma.sutherland@ogier.com

T: [+1 345 815 1789](tel:+13458151789)



Kate Hodson 凯特·赫臣

Partner and Head of ESG (Legal) 合伙人

Hong Kong

E: kate.hodson@ogier.com

T: [+852 3656 6049](tel:+85236566049)



Nicholas Plowman 包乐文

Partner 合伙人

Hong Kong

E: nicholas.plowman@ogier.com

T: [+852 3656 6014](tel:+85236566014)



Nathan Powell

Partner 合伙人

Hong Kong

E: nathan.powell@ogier.com

T: +852 3656 6054

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