

Holding Company Business

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Relevant Activity – What is a “holding company business”?

“Holding company business” means the business of a pure equity holding company.

An entity therefore engages in a ‘holding company business’ when it is a pure equity holding company.

A “pure equity holding company” means an entity that only holds equity participations in other entities (including incidental activities such as holding a bank account and engaging professional or other service providers) and only earns dividends and capital gains.

For the avoidance of doubt, an investment fund is not regarded as a pure equity holding company.

Source: Cayman Islands Economic Substance Guidance Notes v3.1, page 20

Economic Substance Test

A ‘relevant entity’ that conducts one or more ‘relevant activity’, will need to satisfy the Economic Substance Test (“**ES Test**”) in respect of each relevant activity conducted.

A ‘relevant entity’ that is only carrying on the business of a pure equity holding company is subject to a reduced ES Test, which is satisfied if the relevant entity –

- (a) has complied with all applicable filing requirements under the Companies Act (2020 Revision);
and
- (b) has adequate human resources and adequate premises in the Islands for holding and managing equity participations in other entities.

What is required for compliance with limb (b) of the reduced ES Test, as with the International Tax Co-operation (Economic Substance) Act (2021 Revision), as amended (the “**ES Act**”) in general, will be dependent on how the pure equity holding company business is being conducted. A pure equity holding company maintaining a registered office in the Islands engaging its registered office service provider in accordance with the Companies Act (2020 Revision) may be able to satisfy the reduced ES Test, depending on the level and complexity of activity required to operate its business.

For the avoidance of doubt, a pure equity holding company is not required to be directed and managed in the Islands.

Source: Cayman Islands Economic Substance Guidance Notes v3.1, page 66

Examples

- (a) CayCo Ltd, a relevant entity, is an intermediary pure equity holding company in a group structure; it holds 100% of the shares in two other companies and receives dividends annually, which are paid into an interest bearing bank account. The bank account is used for the purpose of receiving the dividends and to pay the company's expenses. This is CayCo Ltd's only activity.
- CayCo Ltd is a pure equity holding company; the receipt of incidental interest income on the bank account does not affect CayCo Ltd's classification as a pure equity holding company. Thus, CayCo Ltd will be required to file an Economic Substance Notification ("**ESN**"), to satisfy the reduced ES Test and to file an Economic Substance Return ("**ES Return**") as outlined in the *Cayman Islands Economic Substance Guidance Notes v3.1* (the "**Guidance**").
- (b) CayCo Ltd, a relevant entity, has a brokerage account. The brokerage account only holds equity participations in underlying entities. This is CayCo Ltd's only activity.
- CayCo Ltd is not a pure equity holding company because CayCo Ltd's only asset is a claim against the broker. CayCo Ltd does not directly hold or manage equity participations; these are held by the broker. CayCo Ltd is therefore not conducting holding company business. CayCo Ltd will be required to file an ESN as outlined in the Guidance.
- (c) CayCo Ltd is a shipping company; it also acquired all the shares in another company, Y Ltd.
- CayCo Ltd is not a pure equity holding company as it is conducting shipping business, which is clearly not an activity that is incidental to the holding of equity participations. CayCo Ltd should consider whether it is carrying on the relevant activity of shipping business. CayCo Ltd will be required to file an ESN as outlined in the Guidance.
- (d) Trust Services Ltd acts as a professional trustee to a number of trusts, holding assets (comprising equity participations) in its capacity as trustee. Trust Services Ltd provides trustee services and is not the beneficial owner of the assets.
- Trust Services Ltd is not a pure equity holding company as it does not hold the assets for its own account and receives fees for acting as trustee (i.e. income other than from dividends and capital gains), but it should consider if it carries on any other relevant activities for its own account, not acting as trustee. Trust Services Ltd will be required to file an ESN as outlined in the Guidance.
- (e) GP Ltd is the general partner of an exempted limited partnership and only holds equity participations in other entities in its capacity as general partner on behalf of the exempted limited partnership, and receives all dividends and capital gains in respect of those equity participations on behalf of the exempted limited partnership. In addition, and as is usual, GP Ltd (as the general partner of the exempted limited partnership) is involved in the administration and conduct of the business of the exempted limited partnership.
- GP Ltd is not a pure equity holding company for the purposes of the ES Act because: (i) GP Ltd does not hold the assets for its own account. Such assets are held by GP Ltd on behalf of the exempted limited partnership pursuant to the terms of the partnership

agreement; and (ii) GP Ltd's administration and conduct of the business of the exempted limited partnership will mean that the GP is conducting activities which are clearly not incidental to its ownership of equity participations (the general partner interest) in the exempted limited partnership. GP Ltd should consider whether it is carrying on a relevant activity for its own account. GP Ltd will be required to file an ESN as outlined in the Guidance.

Source: Cayman Islands Economic Substance Guidance Notes v3.1, page 66-67

Economic Substance Reporting

Entities that are in-scope under the ES Act (i.e. 'relevant entities' conducting 'relevant activities') will be required to report certain information on their relevant activities in the Cayman Islands, in particular the extent to which core income generating activities are being conducted in the Cayman Islands, on an annual basis to the [Tax Information Authority](#).

An ES Return must be submitted each year within twelve months of the relevant entity's financial year end. Together with the ES Return, the entity will be required to upload appropriate documents (i.e. financial statements or books of account) that give a true and fair view of the state of the entity's affairs and to explain its transactions.

Source: Cayman Islands Economic Substance Guidance Notes v3.1, page 28

Contact your Campbells attorney or regulation@campbellslegal.com if you have questions about Economic Substance Reporting.

For more information about Relevant Activity, CIGA, the ES Test and Economic Substance Reporting, please review the Guidance and additional DITC-issued Resources available [here](#).

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