

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 (2020 Revision) (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 here¹.

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 Group² –*

- (i) component parts or materials for goods; or*
 - (ii) goods ready for sale, and*
 - (iii) 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 (unless it has no relevant income in respect of that relevant activity, in which case only notification and reporting obligations will apply). The economic substance test can be satisfied in relation to that

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."

¹<https://maples.com/Knowledge-Centre/Industry-Updates/2020/09/Cayman-Islands-Update-Economic-Substance-Guidance-Notes-v3-Issued>

² 'Group' is defined as "a collection of enterprises related through ownership or control such that it is either required to prepare

distribution and service centre business if the relevant entity:

- (a) conducts '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.

Core Income Generating Activities

The relevant core income generating activities in the context of distribution and service centre business include:

- Transporting and storing goods, components and materials
- Managing stocks
- Taking orders
- Providing consulting or other administrative services

Guidance on Distribution and Service Centre Business

The Guidance on Distribution and Service Center Business makes it clear that the scope of the definition does not extend to cases where: the distribution and service centre activities are provided to a group company on an incidental basis; where the relevant entity purchases the items from or provide services to a third party; or where entities within the same group located in the Cayman Islands are involved with purchasing and selling items or services.

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 reach out to your usual Maples Group contact or:

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