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## Legal Briefings

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# Cayman Islands Economic Substance Regime: What the 2026 Revision Means for In-Scope Entities

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### Overview

The Cayman Islands Government has issued the [International Tax Co-operation \(Economic Substance\) Act \(2026 Revision\) \(the ES Act\)](#). This new updated legislation in respect of economic substance consolidates previous amendments made up to 31 December 2025 and replaces the 2024 Revision of the ES Act as the current authoritative version of the legislation.

The new 2026 Revision does not introduce substantive changes to the economic substance regime. Rather, it consolidates prior amendments and updates statutory cross-references, ensuring alignment with related Cayman Islands corporate legislation amended during 2024 and 2025.

### No Changes to the Core Substance Test

The scope and operation of the regime remain unchanged. The definitions of “relevant entity” and “relevant activity” continue to apply as set out in the previous ES Act. Relevant entities carrying on relevant activities must continue to satisfy the economic substance test by demonstrating that they are directed and managed in the Cayman Islands, conduct core income generating activities in the Cayman Islands, and maintain adequate operating expenditure, physical presence and personnel in the Cayman Islands, having regard to the level of relevant activity carried on.

The reduced requirements applicable to pure equity holding companies and the enhanced requirements applicable to high-risk intellectual property businesses remain in force.

### Reporting and Record-Keeping Obligations

The 2026 Revision confirms the continued application of existing compliance obligations. Relevant entities must submit annual Economic Substance Notifications and, where required, file an Economic Substance Return with the Tax Information Authority within twelve months after the end of the relevant financial year.

Entities are required to retain records and supporting documentation for a period of six years. Maintaining appropriate documentation remains essential to demonstrating compliance with the economic substance test.

## Enforcement and Penalties

The enforcement framework under the ES Act remains unchanged. The Tax Information Authority retains statutory powers to review Economic Substance Returns, require the production of information, determine whether an entity has satisfied the economic substance test, and issue notices where it determines that the test has not been met.

Administrative penalties may be imposed for failure to satisfy the economic substance test or for failure to submit a required Economic Substance Return within the prescribed timeframe. The ES Act provides for higher penalties in respect of failures occurring in a subsequent financial year following an earlier determination of non-compliance. Continued failure may also result in additional consequences under the ES Act, including further regulatory action and the exchange of information with overseas competent authorities.

## Practical Implications

Although the 2026 Revision does not introduce new substance thresholds or filing deadlines, it reinforces the continued application of the economic substance framework. In-scope entities should ensure that governance arrangements, operational structures and supporting documentation remain consistent with statutory requirements.

***This publication is not intended to be a substitute for specific legal advice or a legal opinion. For specific advice on the matters covered above, please contact your usual Loeb Smith attorney or any of the following:***

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