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The Impact of Cayman's EU Blacklisting

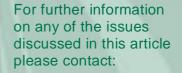
At the ECOFIN meeting of 18 February 2020 the EU finance ministers added Cayman to the EU list of non-cooperative jurisdictions for tax purposes.

It was reported at that time that the Cayman Islands has been listed because it "does not have appropriate measures in place relating to economic substance in the area of collective investment vehicles". Cayman passed collective investment vehicle legislation, the Private Funds Law, 2020 and the Mutual Funds (Amendment) Law 2020, on 7 February 2020 in order to address the EU's concerns regarding the Cayman Island's collective investment vehicle regulation but these law came into force too late to avoid the EU blacklisting.

There are no automatic sanctions on blacklisted non-cooperative tax jurisdictions but the EU has encouraged its Member States to apply one or more legislative measures on transactions with non-cooperative tax jurisdictions from 1 January 2021. These measures include:

- limiting tax deductions on payments to entities in non-cooperative tax jurisdictions;
- applying controlled foreign company rules where entities in noncooperative tax jurisdictions are used;
- imposing withholding taxes on payments treated as received in non-cooperative jurisdictions; and
- limiting tax exemptions on revenue treated as received from a non-cooperative jurisdiction.

Luxembourg has recently produced draft legislation which is expected deny tax deductions on interest and royalty payments to related entities located in non-cooperative tax jurisdictions. Luxembourg already applies enhanced





Matt Mulry
DD:+1 345 814 4054
matt.mulry@dilloneustace.ie



Jonathan Law DD:+1 345 814 4057 jonathan.law@dilloneustace.ie

tax audit requirements for Luxembourg companies with related entities located in non-cooperative tax jurisdictions.

Efforts by the Cayman Islands Government to ensure that the Cayman Islands are removed from the EU list of non-cooperative jurisdictions for tax purposes are ongoing and it is expected that with some minor changes to the Private Funds Law, 2020 and the Mutual Funds (Amendment) Law 2020 the Cayman Islands will be able to ensure its removal from the list by October 2020.

With Luxembourg being a major jurisdiction for collective investment funds and with the key promoters of those funds also being key promoters of collective investment funds established in the Cayman Islands it is hoped that the coming into force of Luxembourg's draft legislation will be set for the 1 January 2021 target date.

DILLON EUSTACE

Dublin

33 Sir John Rogerson's Quay, Dublin 2, Ireland. Tel: +353 1 667 0022 Fax: +353 1 667 0042.

Cayman Islands

Landmark Square, West Bay Road, PO Box 775, Grand Cayman KY1-9006, Cayman Islands. Tel: +1 345 949 0022 Fax: +1 345 945 0042.

New York

245 Park Avenue, 39th Floor, New York, NY 10167, U.S.A. Tel: +1 212 792 4166 Fax: +1 212 792 4167.

Tokyo

 $12 th^{'}$ Floor, Yurakucho Itocia Building, 2-7-1 Yurakucho, Chiyoda-ku, Tokyo 100-0006, Japan. Tel: +813 6860 4885 Fax: +813 6860 4501.

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