

BVI and Cayman Islands holding companies after the economic substance rules

*Dr Alexander Ressos, TEP
Attorney-at-Law (Switzerland), Solicitor (Hong Kong),
Solicitor (England & Wales)*

For decades, companies from the British Virgin Islands and the Cayman Islands were the default holding vehicles for Asian and Middle Eastern business families. Since 2019, economic substance legislation, beneficial ownership reporting and more demanding banks have raised the cost of keeping such companies, and many owners are now asking whether their holding still fits their circumstances.

1 The economic substance rules

Both territories introduced economic substance legislation that took effect at the beginning of 2019, in response to the European Union's review of tax practices in low-tax jurisdictions. Companies carrying on defined relevant activities, such as holding business, headquarters functions, finance and leasing, fund management or intellectual property business, must demonstrate adequate local substance and file annual reports. A pure equity holding entity is generally subject to reduced requirements, although it must still comply with corporate law obligations and maintain adequate resources for holding and managing its participations. Penalties for non-compliance can be significant, and the local authorities exchange substance information with the tax authorities of the owners' countries.

2 Beneficial ownership registers

Both territories maintain beneficial ownership information that is held centrally or by licensed service providers and is accessible to competent authorities. Public access has been debated for years, and the rules on who may inspect the information continue to evolve. Owners should proceed on the basis that the identity of the persons behind their company is known to the authorities and can be shared with foreign authorities on request.

3 Bank acceptance

Swiss and other international banks still accept BVI and Cayman companies, but they look more closely at the purpose of the structure. A holding company with no apparent function beyond the bank account, or one whose ownership chain cannot be documented quickly, can lead to long onboarding periods or a refusal. Banks also check whether the company is in fact managed from the country where the owner lives, since this affects both its tax position and the bank's own risk assessment.

4 When to migrate or replace the holding

A change is worth considering when the company holds operating subsidiaries that rely on tax treaties, when the owner has moved to a country with controlled foreign company rules, or when the cost of compliance outweighs the benefits. One route is to redomicile the company to another jurisdiction, provided both the departure and the arrival law allow a continuation without liquidation. Swiss private international law permits a foreign company to transfer its seat to Switzerland and continue under Swiss law if certain conditions are met. Alternatively, a new onshore holding can acquire the participations. A Swiss holding company offers a broad treaty network and the participation deduction on qualifying dividends and capital gains, but distributions are subject to Swiss withholding tax, which needs to be planned.

5 What pays off in practice

- **Review the activity classification.** Confirm each year whether the company carries on a relevant activity and which substance test applies.
- **Check where management really sits.** Decisions taken in the owner's home country can create tax residence there.
- **Model the exit before acting.** Redomiciliation, contribution to a new holding and liquidation have different tax consequences in each country involved.

6 How Ressos Legal helps

I advise owners of BVI and Cayman companies on substance compliance, bank relationships and the transfer of holdings to Switzerland or another onshore jurisdiction, working with local counsel where required. [Contact me](#) for a first conversation.

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