ForwardPoint

Substance Requirements by Jurisdiction

Executive Summary

Substance rules vary significantly by jurisdiction — and misunderstanding them can lead to penalties, blacklisting, or denial of banking access.
This comparison outlines substance requirements in major offshore and midshore jurisdictions — including who must comply, what is required, and how enforcement works.
FPS provides turnkey solutions in each jurisdiction, ensuring real substance and audit-proof documentation — not just legal formality.

Understanding Jurisdictional Variations

Economic substance rules are driven by OECD BEPS initiatives and EU blacklisting standards. Jurisdictions have responded with their own laws to require:

- Local directors and control
- Real office space and staff
- Documented income-generating activity (CIGA)
- Filing of economic substance returns

Not all jurisdictions apply the same scope, standards, or penalties.

Comparative Table: Substance Requirements by Jurisdiction

Jurisdiction	Applicability	Key Requirements	Enforcement Status	Treaty Access
BVI	Entities conducting “relevant activities”	Local director, physical office, annual ES return	Actively enforced since 2019	No tax treaties
Cayman Islands	Relevant activity entities (esp. finance, IP)	Directed & managed locally, real ops, substance report	Aggressive enforcement (DITC)	No treaties
Malta	All resident companies, especially holding & finance	Office, local director, audited accounts, tax return	High enforcement by MFSA/IRD	Broad treaty network
UAE (Free Zones)	License-type dependent	Depends on activity – mainland less strict	Moderate enforcement	Partial
Jersey	All tax-resident companies	Local board, CIGA in Jersey, reporting to tax office	Strict and annual enforcement	Extensive network
Luxembourg	Holding and IP companies	Management in LU, employees, functional presence	Substance presumed but reviewable	Excellent treaties
Seychelles	IBCs with relevant income	Minimal enforcement but under EU pressure	Filing required from 2022 onward	Very limited
Hong Kong	Management & Control-based residency	Board-level substance, office, employees if trading	Moderate enforcement	Excellent network
Ireland	PoEM + CMC, especially for finance	Local board, employees, decision-making in Ireland	High scrutiny from Revenue	EU & global
Singapore	Tax resident companies	Local directors, control, meaningful activity	Actively enforced by IRAS	Strong network

Key Risk Indicators

Companies face heightened scrutiny if:

- Directors or decision-makers are based outside the incorporation country
- No physical office or leased workspace is maintained
- There are no full-time employees or qualified staff
- CIGA is conducted from another jurisdiction
- ES returns are not filed or misrepresent facts

Penalties for Non-Compliance

Jurisdiction	Penalty Range	Additional Measures
BVI	\$5,000–\$75,000, strike-off risk	Info sharing with foreign tax authorities
Cayman Islands	\$10,000–\$100,000+, reporting to TIA	Automatic exchange of failure
Malta	Up to €10,000+, loss of tax residence	AML flags & tax audits
Jersey	£10,000+, strike-off, reputational impact	Increased audits
UAE	AED 50,000–400,000	License suspension possible

FPS Turnkey Solutions

FPS ensures jurisdictional compliance through:

- Resident director services
- Office lease and staffing setups
- Economic Substance filings with authorities
- Substance audit defense documentation
- Jurisdiction-specific governance protocols

Our network spans Malta, BVI, Cayman, Jersey, UAE, Ireland, Luxembourg, and more — giving you strategic options backed by operational infrastructure.

Conclusion

Economic substance is no longer optional — it is a core compliance requirement. Each jurisdiction enforces differently, but failure to comply risks:

- Fines and entity strike-off
- Global exchange of information
- Banking shutdowns and red flags
- Rejection of treaty claims

FPS helps you build real operations, not just legal shells — ensuring your entities are resilient, credible, and future-proof.