
INDUSTRY ADVISORY NOTICE

Date: 22 November 2018

SUBSTANTIAL ACTIVITIES REQUIREMENT APPLIES TO NO AND NOMINAL TAX JURISDICTIONS

The OECD recently confirmed that its Base Erosion and Profit Shifting (BEPS) Inclusive Framework, of which the Isle of Man is a member, has extended the [substantial activities requirement to "no or only nominal tax" jurisdictions](#).

"Given that all preferential regimes for geographically mobile income must now meet the Substantial Activities Requirements, it is essential to ensure that business activity does not simply relocate to a zero tax jurisdiction in order to avoid the substance requirements," said Pascal Saint-Amans, Director of the OECD Centre for Tax Policy and Administration.

"This would tilt the playing field for those that have now changed their preferential regimes to comply with the standard and jeopardise the progress made in (BEPS) Action 5 to date. Against this backdrop, the Inclusive Framework has decided to apply the Substantial Activities Requirement for "no or only nominal tax" jurisdictions."

"This new global standard means that mobile business income can no longer be parked in a zero tax jurisdiction without the core business functions having been undertaken by the same business entity, or in the same location. The Inclusive Framework's actions will ensure that substantial activities must be performed in respect of the same types of mobile business activities, regardless of whether they take place in a preferential regime or in a no or only nominal tax jurisdiction."

Nicola Guffogg
Assessor of Income Tax