

If you are planning on **doing business in the Cayman Islands** knowledge of the investment environment and information on the legal, accounting and taxation framework are essential...

Grant Thornton 



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Grant Thornton in the Cayman Islands

The Cayman Islands has experienced rapid growth during the last twenty years in practically all aspects of international business, e.g. banking, insurance and offshore management, and is now the world's most sophisticated and most successful offshore centre. Today Cayman ranks as the world's fifth largest financial centre, after London, New York, Tokyo and Hong Kong.

The firm has a very wide range of clients, from major international banks and insurance managers to small local corporations. Accordingly, the services provided reflect this diversity and, in addition to providing a full range of auditing and accounting functions, the firm also provides those specialised services required to conduct business in a tax haven, e.g. company incorporation, registered office facilities, etc.

We are a member firm of Grant Thornton International, the world's fifth largest professional services audit and accountancy firm. We provide the following services in the Cayman Islands:

1. audits of financial service industries, including trust companies, mutual funds and captive insurance companies
2. audit and accounting services to non financial service entities
3. provision of personal trustees
4. liquidations and receiverships
5. through our management company (Caribbean Management Ltd.), the incorporation and maintenance of Cayman companies

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Foreword

Grant Thornton is one of the world's leading organisations of accounting and consulting firms providing assurance, tax and specialist advice to fast-growing, entrepreneurial people and businesses.

The strength of each local firm is reflected in the quality of our organisation. Operating in 112 countries, all Grant Thornton firms share a commitment to providing the same high quality service to their clients wherever they choose to do business. Experienced professionals combine invaluable local market knowledge with technically advanced systems to help business prosper in today's highly competitive international markets.

This document summarizes the formalities of setting up a business in the Cayman Islands together with relevant background information which will be of assistance to organisations and individuals considering investing there.

The most common use of the Cayman Islands is for offshore business, and the information has been produced mainly with this in mind. Onshore business is conducted essentially in the same manner but further licensing is required and potential investors wishing to conduct business in the Islands should contact us for further information. It should be noted that offshore banks, mutual funds and insurance companies are subject to special regulations which are not fully covered in this document.

It is essential that advice should be obtained from qualified professional sources before commencing any form of offshore international business. In this document information is presented in summary form and is intended to serve as a guide only. Whilst every care has been taken in the preparation of this document, no responsibility can be accepted for inaccuracies. Readers are advised that the law and practice may change from time to time: this publication is dated **January 2004** and is accurate up to that date.

Country profile

Geography and population

The Cayman Islands are situated due south of Miami, Florida, and almost due west of Jamaica. There are three Islands: Grand Cayman, Little Cayman and Cayman Brac. The Capital, George Town, and most of the population are situated on Grand Cayman, from where almost all business activities are conducted. The total land mass is about 100 sq. miles.

The population at the end of 1999 was 34,000 and consisted of about 20,000 Caymanians, the rest being resident expatriates. There is no racial disharmony and the population consists of many different ethnic and mixed groups. Education is compulsory up to age 16 and most pupils leave school with a reasonable education. Further education is most often pursued off the Island.

Climate

The climate is tropical with two distinct seasons and no extremes of temperature. The winter season, from December to April, is the most pleasant with warm temperatures (80 F), lower humidity and low rainfall. The summer months are the Hurricane season with higher temperatures (90 F), greater humidity and increase rainfall. However apart from the occasional hurricane the climate is never unpleasant.

Political and legal system

The Cayman Islands are a British Overseas Territory administered by the Cayman Islands Government, of which the Queen's appointed representative, the Governor, is head. The Islands are governed under a constitution which gives executive and legislative power to the Governor, an Executive Council and a Legislative Assembly.

The Executive Council is composed of the Governor as chairman, three appointed senior Civil Servants and five members of the Legislative Assembly elected by that body. Each member of the Executive Council administers a portfolio of Government business. The Executive Council meets weekly and advises the Governor on all internal matters.

The Legislative Assembly comprises the Speaker who is president and elected by the members of that body, the three appointed members of the Executive Council and fifteen elected members. Elections are held every four years. Additional information is available at the government website www.gov.ky

Language

The official language is English, however there is a small minority of Spanish speakers.

Industry

Finance and tourism are the key sources of income for the Cayman Islands.

Monetary System

The local currency is the Cayman Island Dollar which is pegged to the United States Dollar at the rate of CI\$ 1 = US\$ 1.20. However all major currencies will be accepted by the banks and the US Dollar is used freely in every day transactions.

Economy

The Cayman Islands economy is dependant on tourism and the financial industry. There are no significant exports and almost all goods are imported. The major source of imports is the U.S.A. The government has usually balanced its budget or provided a surplus over the last ten years. Official debt is almost equalled by official reserves. Annual inflation is usually slightly in excess of that in the U.S.A.

Tourism

The tourism trade is the largest employer of labour and is of major importance to the islands economy. The unspoiled beaches, clear waters, world renowned diving, extremely pleasant weather, lack of crime and friendliness of the Caymanians have all contributed to attracting over one million tourists annually.

Natural resources

There are no known natural resources apart from sun, sand and sea.

Living standards

Salaries are high but the cost of living is also high due to transport costs and import duties. There are many sporting activities both for spectators and participants. In particular scuba diving and other water sports are extremely well catered for. Some of the more prominent land based sports are football, rugby, cricket, squash, tennis, running and cycling. There are also branches of several service clubs including Rotary, Lions & Kiwanis.

International relations

All international relations are reserved to the United Kingdom Government. However, the single most important country for the Islands is the U.S.A. Relations with the U.S.A. are currently governed by a mutual assistance treaty which sets out the assistance which each country will afford the other in the pursuit of crime, with the exception of tax related offences.

National income

The per capita gross domestic product is one of the highest in the Caribbean and in the world.

Business environment

Economy

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Foreign Investment

Government policy encourages free enterprise and foreign investment in both land and business. The only restrictions are that Caymanians must be preferred for jobs and business ownership if they are capable of doing the job or providing the finance. Expatriate staff require work permits. There is complete freedom from exchange controls.

Export industry

There is no viable export industry. All foreign earnings are from tourism and the finance industry. Statistics on foreign earnings are hard to come by due to the confidential nature of all business in Cayman and a reluctance to give even generalised information to Government. However, it is fairly evident that foreign earnings outweigh foreign spending.

Property ownership

Property ownership is unrestricted and any property may be purchased by an individual or a company. There is a land registration system which provides that all land is entered on a register maintained by the Cayman Islands Government. Details of the owner and any charges are recorded. The title of the purchaser is thus certain once it is registered. Nevertheless it is advisable for purchasers and vendors to utilize the services of a lawyer. Condominiums are regulated by the Strata Titles Registration Law which establishes a strata corporation which is owned jointly by the condominium owners and has the duties of maintaining and insuring the common parts of the development. An investor should be aware that stamp duty of 7 ½ to 9% is payable on the value of any transaction for the sale of land and buildings. However, there are no annual property taxes.

Government incentives

There are import duty concessions available for companies which meet certain investment and employment criteria. These companies can either cater for the export or local market.

To encourage development on the smaller islands of the Caymans Brac and Little Cayman the Government has removed import duties on building materials and stamp duty on land transfers. These concessions are for one year only but have been continued on an annual basis each year since introduction.

Finance

Commercial Banking

Commercial banking in the Islands is highly sophisticated and is served by a number of full service banks. The majority of the licensed banks are engaged in offshore business.

Cayman Islands Monetary Authority

The function of a central bank is undertaken by the Cayman Islands Monetary Authority (CIMA) who issue the local currency and hold sufficient assets to back all the local notes and coin in circulation. Most of these assets are held as US Treasury notes. CIMA is also the regulatory body that oversees the financial service industry. For further information refer to www.cimoney.com.ky.

Stock Exchange

A stock exchange was established in 1997. The exchange provides listings mainly for mutual funds but also lists local companies and some international equities and specialist debt issues. The total capitalization of the market is over US\$35 billion. Further information is available at www.csx.com.ky.

Doing Business in the Cayman Islands

The Cayman Islands are described as the world's most sophisticated and most successful offshore financial centre. Today Grand Cayman ranks as the world's fifth largest financial centre, after London, New York, Tokyo and Frankfurt.

Diligence against criminal activities

The Cayman Islands Bankers Association, to which the great majority of active banks belong, has introduced strict rules concerning due diligence regarding new customers and the acceptability of cash. The OFC Report 1996/97 notes that "The Cayman Islands have become, and remain, a world leader in offshore jurisdictions with regard to the screening of clients and the sources of funds." All other sector associations (mutual funds, company managers etc.) have adopted codes of conduct in regard to the acceptance of new clients and the ongoing monitoring of their activities. Government has now issued an overall code of conduct for the financial industry to which the individual codes are expected to conform. This code of conduct is mandatory.

The Cayman Islands has been a forerunner in signing international treaties and adhering to best industry practices to ensure the integrity of its offshore financial industry. When transgressions are discovered the penalties are now severe both for the miscreant and the service provider.

The Mutual Legal Assistance Treaty of 1986 with the United States, provides for the disclosure of information regarding general criminal matters, but excluding taxation.

The Misuse of Drugs Law (2000 revision) imposed criminal offences for money laundering activities related to drug trafficking.

The Proceeds of Criminal Conduct Law 2001 imposes penalties for money laundering offences in the Cayman Islands. Guidance notes relating to anti-money laundering procedures have been issued by CIMA and can be found at their website www.cimoney.com.ky.

Business entities

Summary

The following are the principal forms of business entity through which business may be conducted:

- Companies-
 - Exempt
 - Ordinary Non-resident
 - Ordinary Resident
- Foreign Corporations
- Partnerships & Limited Partnerships
- Sole Proprietorships
- Trusts

Companies

Companies incorporated in the Cayman Islands are governed by the Companies Law and its amendments. This also regulates foreign corporations with a place of business in the island. Companies are the usual form of business entity for doing business either in the Island or for conducting offshore business from the Islands. An ordinary resident company is usually used for doing business locally, and must be used for owning local land or ships registered on the local Shipping Register. Ordinary non-resident or exempt companies are used for conducting offshore business. The main differences being that an exempt company can obtain a 20 year tax exemption and has less filing formalities. All companies may be either limited by shares or limited by guarantee; companies limited by guarantee are rare and are not considered here. Two variations on the exempt company are the limited life company and the limited duration company. These variations have been introduced primarily for the tax benefits available to this type of company in the U.S.A. but they may have uses in other jurisdictions.

Foreign Companies

Foreign companies may register a place of business in the Cayman Islands to conduct offshore business. In the case of Banks a foreign bank may have set up a branch operation by this method.

Statutory Requirements

The statutory requirements for all companies include:

- maintaining registers of members, directors and charges
- maintaining accounting records and minutes of meetings

- maintaining a registered office or place of business in the islands
- filing and annual return and payment of the annual statutory fee

The annual return for a foreign company is merely the payment of the appropriate fee. The annual return for ordinary companies (resident and non-resident) includes details of shareholders, directors and changes in shareholders since the last return. An exempt company merely files a return stating that it has not conducted business in the islands. No details of shareholders and directors are required.

All companies are required to make a return of the appointment of directors and company secretary and any changes within fourteen days. The initial subscribing members are shown on the Memorandum and Articles of Association. Changes of members are not filed except as required in the annual return. There are no residency qualifications for directors. There is no requirement for an exempt company to hold an annual meeting for members, however all ordinary companies must hold an annual meeting of members.

The registers, which must be kept at the registered office in Cayman, for exempt companies are not open to inspection by the general public. The registers of members and directors of an ordinary company may be inspected by a member of the public. The register of charges is open to inspection by all creditors of the company. All records held by the Registrar of Companies are closed and only open to inspection by Court Order.

Formation procedures

One or more persons subscribe their names to the Memorandum and Articles of Association as the first shareholders. These documents set out the name of the company, its objects, the location of the registered office, the authorised share capital and the by-laws for running the company. The proposed name is usually first cleared as available and acceptable with the Registrar of Companies, although it cannot be reserved. The Memorandum and Articles together with the appropriate fee are then submitted to the Registrar, who registers the company. A certificate of incorporation is issued after which the company is legally in existence. An exempt company may obtain a certificate of undertaking exempting it from taxes for a period of 20 years.

Company fees

The following fees are payable to the Government on incorporation and thereafter annually on the 1st of January.

Exempt Company

Share capital up to US\$50,000	US\$585
Share capital between US\$50,000 up to US\$1million	US\$820
Share capital between US\$1million up to US\$2million	US\$1,730
Share capital over US\$2million	US\$2,460

Ordinary Non-Resident Company

Share capital up to US\$50,000	US\$500
Share capital over US\$50,000	US\$705

Ordinary Company

Share capital up to US\$50,000	US\$305
Share capital over US\$50,000	US\$420

Foreign Companies

Initial Registration	US\$1,060
Annual Fees	US\$1,060

Note:

More detailed information is available on the information required, together with our fee structure for the incorporation and management of companies.

Bank and trust licence fees

The initial and annual fees are as follows:

	Initial	Annual
"A" Bank and/or Trust Licence	US\$600,000	US\$480,000
"B" Bank and/or Trust Licence	US\$84,000	US\$68,000
Restricted "B" Bank and/or Trust Licence	US\$54,000	US\$44,000
Trust Licence	US\$84,000	US\$72,000

Note an "A" class licence will only be granted to a major international bank and allows unlimited business either on or off the Island. A "B" class licence allows unlimited business off the island and a restricted "B" class licence allows business off the Island with a very restricted list of depositors agreed with the Inspector. All annual fees are due and payable on January 1 in each year. Company fees as set out above will also be payable.

Insurance company licences

The initial and annual fees which are the same are as follows:

"A" class	US\$36,000
"B" class	US\$8,400

Note "A" class licences relate to full insurance companies and "B" class licences relate to captive insurance business. There are other licences relating to managers, brokers, agents and sub-agents. All annual fees are due and payable on January 1 in each year. Company fees as set out above will also be payable.

Mutual fund licences

The initial and annual fees (which are the same) are US\$2,400. Company fees (if applicable) as set out above will also be payable.

Further Information

More detailed information can be obtained from the government website:

www.caymanfinance.gov.ky

Labour

Social conditions

As a result of its unique history, the Cayman Islands enjoy social stability and racial harmony with little crime and virtually no unemployment.

Labour relations and conditions

Industrial disputes are unknown. The country has a shortage of labour. The Government has, however, always permitted, through the issue of work permits, the finance and tourism industries to employ suitable qualified individuals as required.

Foreign residents

Immigration to the Islands is controlled. For residence without seeking employment an application giving personal details must be submitted together with a certificate of health, a police clearance certificate and evidence of financial standing. An investment in the Islands of at least US\$180,000 must be made, this is usually made by the purchase of a residence. This type of resident is encouraged. To obtain a resident's permit with a right to work, a work permit is required. This requires a similar application procedure as above but without the requirement to purchase a property. The authorities must also be convinced that there is no Caymaninan who would be capable and available to fill the position. A work permit is restricted to a particular employer and a particular job. Any changes require a new application.

Auditing and accounting

Audits

Except for banks, insurance companies, management companies and mutual funds, any company may waive the requirement for an audit by agreement of all the shareholders. As there is no statutory filing requirement for accounts and no taxation authority it is unusual for a company not to waive the requirement, unless it has a wide spread of ownership or is owned by another entity with its own audit requirement

Auditors

All banks, trust companies, insurance companies and mutual funds must appoint auditors to report to the members on their financial statements, which must also be submitted to the regulatory authorities. Other companies may appoint auditors and companies such as large hotels, utilities etc. would normally be audited. Auditors of financial service entities must be approved by the Monetary Authority.

Accounting and auditing standards

Companies are required to maintain proper books of account which give a true and fair view of the state of the company's affairs and explain its transactions.

There are no accounting or auditing standards laid down either by government or the Cayman Islands Society of Professional Accountants, consequently companies may elect to be audited and prepare financial statements to the standards of another country. Usually the standards chosen are those of the country most closely associated with the owners, but in the case of regulated companies they must be acceptable to the authorities. The standards most often adopted are international and those of the U.K., U.S.A. or Canada.

Accounting profession

All accountants in the Islands who are members of a well established foreign accountancy body are eligible for membership of the Cayman Islands Society of Professional Accountants. This body has not attempted to lay down Auditing or Accounting standards; nor does it regulate the profession, however loss of membership of the overseas body would result in loss of membership of the Society. The Society represents the opinions of the profession to Government and comments on proposed legislation affecting finance and business.

Training and qualification is often undertaken by the larger firms by sending Caymanians to their offices in the other countries. Due to the nature of the business transacted in the Islands all the major firms are established or represented in the Islands and provide a full range of services.

Taxation

Direct taxation

There is no direct taxation on income, profits, capital gains or inheritances of any person, partnership or corporation. Nor are there any withholding taxes on any dividend, distribution or interest payment. However two recent laws have introduced a pension scheme and a health insurance scheme for all resident employees. Employers and employees have to contribute equally to these schemes, which are privately run but regulated by Government.

Other taxation

The major indirect taxation sources are as follows

- stamp duty is levied on all transfers of land and buildings at 7 ½ to 9% of the purchase price
- excise duties are levied on tobacco and alcohol
- import duties averaging around 20% are levied on most imports into the Islands
- vehicle Road Tax is levied annually but not at punitive rates
- hotel accommodation tax is levied at 10% on all accommodation charges
- airport departure tax is levied on departure on all travellers and is included in the airline ticket
- company fees are levied annually on all companies at fixed rates
- banking, insurance licence and mutual fund fees are levied annually at fixed rates
- various other licence fees are charged, such as Work Permit fees, Trade and Business licences, driving licences.