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ECONOMIC SUBSTANCE FREQUENTLY ASKED QUESTIONS (FAQs)

These FAQs provides general guidance on the economic substance requirements applicable in Barbados. It does not replace the provisions of the Income Tax Act, Cap. 73 (as amended).

1. Where can I find the legislation relating to Barbados' economic substance requirements?

The Economic Substance Requirements in Barbados are set out in *the Income Tax Act, Cap. 73*, as amended by the *Income Tax (Amendment) Act, 2025*.

You can access the legislation on the Barbados Revenue Authority (BRA) website or using the following link [Income Tax Act, Cap. 73- Barbados Revenue Authority](#).

2. Which companies are subject to the Economic Substance Requirements?

The Economic Substance Requirements apply to companies that carry on one or more relevant activities (as defined below) in Barbados and earn gross income from those activities.

3. From when do the Economic Substance Requirements apply?

Economic Substance requirements have been in effect for some time, but the new requirements apply starting from the 2025 income year. Companies must comply for each applicable income year and report the necessary information for the current rules in their annual corporation tax returns.

4. What are the relevant activities?

The following activities are now classified as relevant activities and are subject to Economic Substance Requirements:

- (a) Intellectual Property (IP) Business
- (b) Insurance Business
- (c) Shipping Business

5. Does Economic Substance apply to branches or permanent establishments (PEs) of non-resident companies?

Yes. Economic Substance Requirements apply to any entity carrying on relevant activities in Barbados, including branches or permanent establishments (PEs) of non-resident companies, if they are tax resident in Barbados or otherwise required to report income under the *Income Tax Act, Cap. 73* (as amended).

6. What are the economic substance requirements for companies in Barbados?

Where the economic substance provisions of the *Income Tax Act, Cap. 73* applies to a company, the company must satisfy the following requirements in respect of each relevant activity:

- (a) Be directed, managed and controlled in Barbados.
- (b) Have, in proportion to the nature and scale of its activities:
 - (i) an adequate number of qualified employees physically present in Barbados;
 - (ii) adequate operating expenditure incurred in Barbados; and
 - (iii) adequate physical premises in Barbados.
- (c) Carry out all of its core income-generating activities (CIGAs) in Barbados.
- (d) Where any CIGA is performed in Barbados by another person (including a service provider), the company must be able to monitor and control the carrying out of those CIGAs in Barbados.

7. What does “directed, managed, and controlled in Barbados” mean?

A company is regarded as being directed, managed, and controlled in Barbados, where

- (a) strategic decisions are made by the board of directors in Barbados;
- (b) board meetings are held in Barbados at an adequate frequency;
- (c) a quorum is physically present in Barbados; and
- (d) minutes and records are maintained in Barbados.

Virtual or overseas meetings alone will generally not be sufficient to satisfy this requirement.

8. What is a core income-generating activity (CIGA), and how is it determined?

A Core Income-Generating Activity (CIGA) refers to the essential activities that a company must undertake to generate income from a relevant activity, as defined under *Section 52F* of the *Income Tax Act, Cap. 73* (as amended). The Act specifies the applicable CIGAs for each relevant activity.

A company is not required to perform all listed CIGAs. However, it must conduct sufficient CIGAs in Barbados to satisfy the economic substance requirements set out under Division VA of the Act, having regard to the nature of the relevant activity and the company's overall operations.

9. Are there any exemptions from the economic substance requirements?

The economic substance requirements do not apply to a company for an income year where the company:

- (a) does not carry on any relevant activity;
- (b) carries on a relevant activity but does not earn any gross income from it; or
- (c) is subject to tax at the rate of 9% or more.

In addition, the economic substance requirements do not apply to trusts, foundations or partnerships.

10. Do the economic substance requirements apply to a company being liquidated?

Yes. Where a company in liquidation continues to carry on a relevant activity from which it earns gross income, it must satisfy the economic substance requirements for that activity.

When the powers of directors cease upon the appointment of a liquidator,

- (a) the liquidator of the company will be required to demonstrate that the company is directed and managed in Barbados; and
- (b) for this purpose, the liquidator is treated as the board of directors.

11. What happens if a company carries on more than one relevant activity from which it earns gross income in an income year?

The company must satisfy the economic substance requirements separately for each relevant activity during that income year.

12. Do the economic substance requirements apply if a company only carries on a relevant activity for part of an income year?

Yes. Where a company carries on a relevant activity and earns gross income for only part of an income year, the economic substance requirements will apply for relevant activities during that part of the income year.

13. Is there any transitional or grace period for newly incorporated companies?

No. The economic substance requirements apply from the date a company begins carrying on a relevant activity.

Compliance will be assessed proportionately for the period during which the relevant activity was carried on in the income year.

14. Are there any exemptions where a company is unable to meet economic substance requirements due to exceptional circumstances?

There is no automatic exemption from the economic substance requirements.

However, where a company is affected by exceptional or unforeseen circumstances beyond its control, such as natural disasters, public health emergencies, or other extraordinary disruptions, the circumstances will be considered on a case-by-case basis, having regard to the specific facts and supporting evidence.

Note: The Barbados Revenue Authority may issue separate guidance on how economic substance requirements are applied in exceptional circumstances. This guidance will provide clarity on temporary flexibility without creating a general exemption.

15. Can a company outsource its activities and still meet economic substance requirements?

Yes. A company may outsource certain activities, including core income-generating activities (CIGAs), for example, through service providers, provided that:

- (a) The activities are performed in Barbados; and
- (b) The company is able to monitor and control the outsourced activities.

Outsourcing does not exempt a company from fulfilling its obligations, particularly the requirement to carry out CIGAs in Barbados.

16. How is compliance with the economic substance requirements assessed?

Compliance is assessed through information provided in the company's annual corporation tax return filed via the Tax Administration Management Information System (TAMIS). Companies are required to complete the relevant economic substance section within the return and submit supporting documentation sufficient to demonstrate compliance.

The information which a company must provide includes:

- (a) each relevant activity carried on by it;
- (b) its gross income from each relevant activity;
- (c) the operating expenditure incurred by it on each relevant activity;
- (d) its CIGAs for each relevant activity;
- (e) details of its premises in Barbados;
- (f) the number of board meetings held at which a quorum was present in Barbados; and
- (g) the number of its qualified employees in Barbados.

The Authority may request additional information where necessary.

17. What are the filing dates for the economic substance reporting?

Economic substance information is reported annually as part of a company's corporation tax return filed through TAMIS. The filing date for economic substance reporting is therefore the same as the statutory due date for filing the company's tax return for the relevant income year, as prescribed under the *Income Tax Act, Cap. 73* (as amended).

- Where a company's financial period ends between **January 1** and **30 September**, the corporation tax return, including economic substance information, is due on or before **15 March** of the following year.
- Where a company's financial period ends between **October 1** and **31 December**, the corporation tax return, including economic substance information, is due on or before **15 June** of the following year.

There is no separate stand-alone filing or declaration for economic substance outside of the Corporation tax return.

18. What happens if a company does not satisfy the economic substance requirements?

Where a company fails to satisfy the economic substance requirements for a relevant activity in an income year, the Revenue Commissioner may:

- a) apply the standard Corporation tax rate of 9% in place of any preferential rate; and
- b) assess or reassess the company's taxable income to reflect non-compliance with economic substance obligations.

19. Can a company appeal a determination of non-compliance?

Yes. A company that disagrees with a determination made by the Revenue Commissioner may object or appeal in accordance with the objection and appeals procedures set out in the *Income Tax Act, Cap. 73* (as amended), including applicable time limits.

20. What documentation should a company maintain to demonstrate compliance?

As required under *Section 52C* of the *Income Tax Act, Cap. 73* (as amended), companies are required to maintain records sufficient to demonstrate compliance with the economic substance requirements. Such records include:

- Employee records (number, qualifications, presence in Barbados);
- Details of expenditure and physical premises in Barbados;
- Board meeting minutes showing management and control in Barbados;
- Records of CIGAs carried out and any outsourced activities;

- Contracts or agreements with service providers performing CIGAs.

These records may be subject to audits or review by the Barbados Revenue Authority.

21. How long must economic substance records be retained?

Companies are required, unless the Commissioner otherwise directs, to retain all records and supporting documentation relating to economic substance compliance for a period of up to 5 years after the end of the relevant income year before the disposal of such records under *Section 75(5)* of the *Income Tax Act, Cap. 73* (as amended) and any other applicable legislation.

Such records must be made available to the Barbados Revenue Authority upon request.

22. Does participation in other tax incentive or concession regimes affect economic substance obligations?

No. Participation in any tax incentive, concession, or special regime does not exempt a company from complying with the economic substance requirements.

Companies benefiting from tax incentives must still demonstrate that real economic activity is carried on in Barbados in accordance with the economic substance provisions set out in *Section 52B* of the *Income Tax Act, Cap. 73* (as amended).

23. How does Barbados' economic substance regime interact with international standards?

Barbados' economic substance regime aligns with OECD/G20 BEPS Action 5, ensuring that profits reported in Barbados are supported by real economic activity carried on in Barbados.

24. If my business is subject to Country-by-Country Reporting (CbCR), will I also be required to comply with the Economic Substance Regulations?

Yes. Compliance with Country-by-Country Reporting (CbCR) does not exempt a company from the economic substance requirements.

25. Does the international shipping income exclusion under the *Corporation Top-Up Tax Act, 2024-16* require economic substance in Barbados?

Yes. The exclusion for international shipping income and qualified ancillary international shipping income applies only where the ***qualifying entity*** demonstrates that the strategic or commercial management of all ships is effectively carried on from within Barbados.

The exclusion is therefore conditional. It is not available solely by virtue of incorporation, registration, or ownership of ships.

26. What constitutes “strategic or commercial management” of ships effectively carried on from within Barbados?

The requirement focuses on where substantive management functions are exercised. This generally includes:

- Strategic fleet and investment decisions
- Commercial chartering and operational oversight
- Senior management control and supervision
- Board-level decision-making relating to shipping activities

These activities must be genuinely carried on in Barbados and supported by appropriate personnel, decision-making authority, and operational presence. Mere formal presence or passive ownership will not satisfy the requirement.

27. What happens if the economic substance requirement is not met in relation to international shipping?

If the entity cannot demonstrate that strategic or commercial management is effectively carried on from within Barbados:

- The international shipping income exclusion does not apply.
- The entity becomes subject to tax under the ordinary corporation tax regime (9% in Barbados), rather than benefiting from the international shipping regime.

The consequence is not a penalty, but the loss of access to the statutory exclusion due to failure to satisfy the management-in-Barbados condition.

28. What happens if a qualifying insurance entity under the *Corporation Top-up Tax Act, 2024-16* fails the economic substance requirement?

If the entity cannot demonstrate that its core insurance management is effectively carried out in Barbados:

- It loses access to preferential lower corporate tax rates and is taxed at the standard 9% corporation tax rate in Barbados.
- If the effective tax rate is below 15% for the fiscal year, the entity may be required to pay Top-up Tax to bring the effective rate up to the 15% minimum.

The consequence is entirely tax-based; no fines or other regulatory penalties are automatically applied.

29. If my business is subject to Ultimate Beneficial Owner (UBO) reporting, will I also be required to comply with the Economic Substance Regulations?

Yes. UBO reporting and economic substance serve different purposes and must be complied with independently:

- (a) UBO reporting identifies the natural persons who ultimately own or control a company (transparency/AML).
- (b) Economic substance requirements ensure the company conducts real business activity in Barbados.

30. Is there a link between Economic Substance and Transfer Pricing?

Yes. Economic Substance requirements ensure that business activity occurs in Barbados, while Transfer Pricing rules ensure that profits are appropriately allocated to where the activity occurs.

Note: Compliance with one regime does not automatically satisfy the other, but the failure to meet one may serve as an indication of non-compliance with the other. Each regime must be applied independently.

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