Many erroneous claims are made about the Cayman Islands as a financial jurisdiction. In particular, it is alleged that Cayman facilitates tax avoidance, resulting in tax revenue losses for the European Union and less developed countries. As this study demonstrates, these claims are directly contradicted by the evidence, which shows that:

- Cayman is ranked by the World Bank as among the top 25% of all jurisdictions for quality of its governance.
- Cayman meets high international standards for the collection of information on beneficial ownership and is signatory to numerous bilateral and multilateral agreements that ensure such information is shared as appropriate with security and tax authorities in other jurisdictions, while also providing strong privacy protections.
- Cayman's good governance, strong laws, flexible regulation, and true tax neutrality facilitate the supply of trillions of dollars of capital to countries across the world, including the US and many EU member states, in a highly cost-effective way.
- These investments enhance innovation and economic development, thereby contributing to additional employment and tax revenues.

The study combines a detailed review of scholarly research and publications from the European Union (EU), Organisation for Economic Cooperation and Development (OECD), International Monetary Fund (IMF), Financial Action Task Force (FATF), United Nations Conference on Trade and Development (UNCTAD), and other national and international bodies, with ample data and several case studies.

Why Entities Choose to Domicile in Cayman

Trade and investment are engines of innovation and growth. Underpinning both are effective institutions: good governance (especially, political stability and the rule of law), a high-quality legal system that protects owners of assets, and effective and adaptive legislation and regulation. Cayman combines all of these attributes with others that make it unique:

- Its legal framework, based on the common law, combined with its status as a politically stable British Overseas Territory provide strong assurances and protections to investors.
- Its flexible and responsive legislative and regulatory systems enable the development of innovative products that can be adapted to the needs of investors.
- Its simple, straightforward tax neutrality, which results from the fact that it does not impose any tax on companies or on capital gains.
- Its geographical proximity to the US and connections to markets around the world, combined with a deep pool of local expertise enable the rapid deployment of capital in response to opportunities.
- Its implementation of global reporting and compliance standards, as well as tax information exchange and other international agreements, minimizes the likelihood that Cayman entities are used for money laundering, terrorist financing, or tax evasion. This reassures both investors and overseas regulators and tax authorities.

While some EU jurisdictions, such as Luxembourg and Ireland, offer some similar attributes, a key reason that both collective investment vehicles (**CIV**s) and multinational enterprises (**MNE**s) choose to domicile entities in Cayman rather than the EU is that Cayman offers true tax neutrality at minimal cost. By contrast, EU jurisdictions are at best able only to facilitate a facsimile of tax neutrality through the use of special structures and double taxation treaties; moreover, these special structures are highly limiting and come with additional costs.

How Cayman-Domiciled Entities Benefit EU Member States and Other Jurisdictions

The ability to pool capital from multiple jurisdictions in a truly tax neutral way is a key reason Cayman is domicile to over 23,000 CIVs, including about 80% of all international hedge funds. An example is IFM GIF, a $14 billion fund domiciled in Cayman that pools assets from Australia, the US and other jurisdictions. 12 of IFM GIF's 27 assets, representing many billions of dollars of investments, are in the EU. Many of these investments quite literally facilitate trade, through the improvements they have made possible in port facilities, roads and airports. They also generate revenue for governments from tariffs and taxes. To take just one example, DCT Gdansk, Poland's largest port, is estimated to generate about $2 billion per year in government revenue. And IFM GIF's investments also benefit the millions of individuals whose pension funds it invests, ensuring a more financially secure retirement.

Cayman and other tax neutral financial centres also facilitate the provision of trillions of dollars of funding to infrastructure and other projects in less developed countries. While some detractors, such as UNCTAD, claim that such financing mechanisms deprive the governments of less developed countries of tax revenue, studies from the Overseas Development Institute suggest that the opposite is the case: by facilitating economic activity that otherwise would not happen, the use of tax neutral jurisdictions both increases economic activity and increases domestic tax revenue in less developed countries – to the tune of hundreds of billions of dollars per year. Moreover, UNCTAD has actually advocated for the use of precisely such structures—because they enable countries with poor institutions to benefit from jurisdictions with good institutions, such as Cayman!

MNEs domiciled in Cayman likewise generate huge benefits for other jurisdictions. The evidence suggests that MNE's use Cayman entities primarily to pool funds in joint ventures or hold funds so that they can be deployed swiftly as opportunities arise—essentially a treasury function. Doing so enables MNE's to increase their returns on investment, which benefits both the economies in which they operate and the economies in which their headquarters are domiciled.

Cayman-Domiciled Entities Do Not Harm Other Jurisdictions

Despite the evident benefits that Cayman entities generate in the EU and jurisdictions around the world, Cayman continues to be accused of facilitating tax avoidance and thereby reducing the amounts of tax other governments raise. Yet there is no evidence that Cayman-domiciled MNEs adversely affect EU tax receipts. Indeed, there is little evidence that MNEs use Cayman-resident entities for tax avoidance. Ironically, even the Cayman-domiciled companies accused of such behaviour in a recent Tax Watch UK report actually pay significant amounts of tax in the UK and presumably also in other countries in which they operate.

Moreover, to the extent that governments are concerned about the erosion of their tax base and the shifting of profits to low-tax jurisdictions, they have many mechanisms available to them to limit such behaviour—and over the past two decades they have increasingly implemented such mechanisms. Cayman has co-operated fully with this effort, being an early adopter of tax information exchange agreements, Common Reporting Standards (CRS), and other elements of the OECD's Base Erosion and Profit Shifting (BEPS) project.

By offering a cost effective way to enable entities to avoid double and triple taxation, while ensuring through Tax Information Exchange Agreements (TIEAs) and other agreements that information on those entities is reported to the tax authorities in other jurisdictions, Cayman thus facilitates greater levels of economic activity in the EU and elsewhere than would otherwise be the case. And this additional economic activity leads to increased government revenue through a wide range of taxes, helping facilitate the supply of public goods.

In sum, Cayman is an honest and responsible partner that improves access to capital in the US, UK, EU and other jurisdictions. Attempting to limit the ability of CIVs and MNEs to domicile in Cayman would almost certainly reduce the availability of capital and increase its cost, thereby undermining trade, investment, innovation, and economic growth, as well as reducing other jurisdictions' government revenue, to the detriment of all.

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