

Bermuda Budget 2019 Snapshot

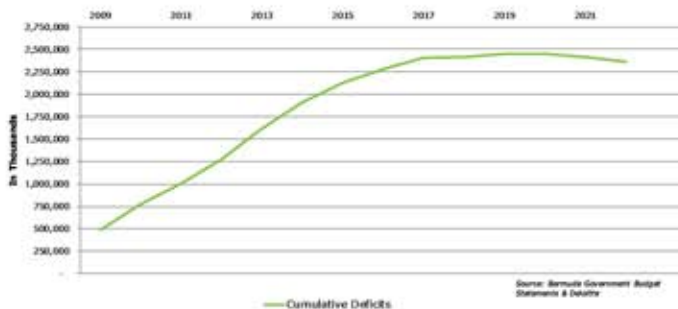
“The Challenges We Face”

- The Hon. Curtis L. Dickinson, JP, MP

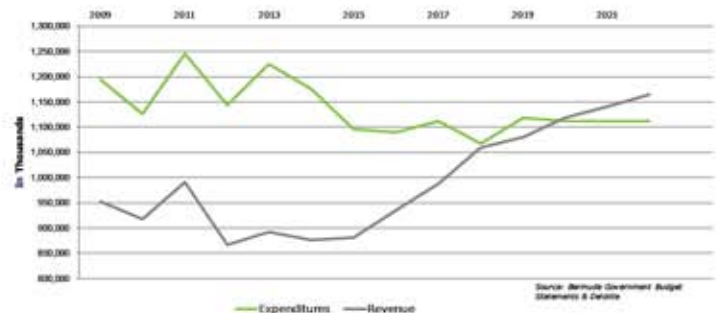


Reversing the Tide. In his first budget statement, Minister of Finance Curtis Dickinson has forecasted a \$7.4M budget surplus for 2019/20. Notably, Government will forgo a contribution to the sinking fund, but if otherwise achieved would be the first Government surplus in over 20 years. Due to uncertainty from external pressures, the Minister has resisted calls for significant structural tax reform, instead opting for tax increases within the existing structure and freezing government expenditures.

Cumulative Deficits



Revenues & Expenditures



Government Budget

- 2019/20 current account surplus of \$189m
- 2019/20 budget surplus estimated to be \$7.4m
- No forecasted contributions to the sinking fund going forward
- \$180m of sinking fund to be used to pay down debt
- Average inflation rate of 1.4%
- Lowered 2018 GDP growth estimate from 1.5%–2.0% to 0.5%–1.0%

Financial Taxes

- Foreign currency purchase tax to increase from 1.0% to 1.25%
- Tax increase from 2.5% to 3.5% on non-health gross premiums earned
- Bank gross assets tax to increase from 0.005% to 0.0075%
- Company discontinuance fees will now be equal to their annual fees

New Government Programs

- Pilot mortgage guarantee program to be introduced where Government would guarantee private bank mortgages in exchange for lower interest rates
- Plans to establish a government-backed mortgage lender for public sector employees
- Government committed to advance the National Health Plan to reduce the cost of health insurance
- The regulatory authority is in the final stages of producing the Integrated Resource Plan

Other Taxes

- Land tax to increase from 7% to 9.5% on commercial properties
- Land tax to increase from 7% to 8% on tourist properties
- Land tax to increase on residential properties with ARV greater than \$44,000, will decrease for ARV less than \$22,000
- Second phase of sugar tax to be implemented and the scope of products to be increased
- Stamp duty on residential and commercial leases to be increased
- Increased government resources for tax collection and enforcement
- Taxes on cruise ship passengers and larger ships to increase
- Office of the Tax Commissioner to recharge their credit card fees on payments received
- Tobacco and alcohol taxes to increase

Payroll Tax

- No implementation of considered changes due in part to uncertainty related to Economic Substance requirements
- Targeted payroll tax relief specific to retail businesses with annual payroll greater than \$500,000
- No employer payroll tax for 3 years for businesses that hire local musicians and entertainers
- Mandatory E-filing for all gross annual payrolls in excess of \$500,000



Bermuda | Economic Substance Requirements

Summary:

In December 2018, the Bermuda Government passed the Economic Substance Act 2018 (Act) that introduces increased substance requirements for certain Bermuda-resident entities. The measures in the Act apply from 1 January 2019 (with a six-month transitional period for existing entities) and affect Bermuda companies (including local companies, permit companies and overseas companies), limited liability companies (LLCs), and/or partnerships (entities) that are engaged in “relevant activities”.



Relevant activities:

- Banking
- Insurance
- Fund management
- Financing
- Leasing
- Headquarters
- Shipping
- Distribution and service center
- Intellectual property
- Holding entity



Economic substance requirements

- Managed and directed in Bermuda
- Core income-generating activities (CIGA) are undertaken in Bermuda with respect to the ‘relevant activity’
- Maintains adequate physical presence, adequate full-time employees with suitable qualifications, and incurs adequate operating expenditure in Bermuda in relation to the ‘relevant activity’



Annual economic substance declaration

- All affected entities must file an annual economic substance declaration with the Bermuda Registrar of Companies



Penalties for noncompliance

- Graduated penalties to be applied for failure to meet economic substance requirements
- The Act provides for the Registrar to apply to the court to make an order to strike-off the entity from the companies register



How can we assist?

Bearing in mind the effective date of 1 January 2019, Deloitte can assist potentially affected entities assess the application of the Act and take steps to ensure compliance with the economic substance requirements as follows:

1. **Classify structures on an entity-by-entity basis to flag those that undertake a ‘relevant activity’**
2. **Conduct a gap analysis to consider the current and future compliance for those entities that undertake ‘relevant activities’**
3. **Consider the means by which compliance with the economic substance tests will be documented and evidenced**
4. **Consider any operational or structural changes that may be required to meet the substance requirements outlined including recruitment of new staff and assessing qualifications of existing staff**