

Bermuda Budget Bulletin 2001



Government Budget Intends to “support sustained social and economic progress for the people of Bermuda.”

The firm of PricewaterhouseCoopers is disappointed that the government has failed to control expenditures and has not applied the higher revenue generated by the healthy economy to any debt reduction. This is evidence by an 11.1% increase in per capita expeditured and a 124% increase in per capita capital expenditure.

The Hon. C. Eugene Cox, J.P., M.P., Minister of Finance, brought in his third budget as Minister of Finance with a focus on a stable level of growth and social development.

In this budget, he continued to emphasize the “social focus of the PLP Government is demonstrably shown by the increased resources channelled into human service areas.” He went on to state that the “Government committed itself to a capital programme to rebuild vital infrastructure for the delivery of fundamental services in education, housing and transportation”.

Key Budget Areas

- Economic Performance
- Business
- The Effect on Individuals
- Tourism

Economic Performance

The economy continues to grow at a strong and steady rate. Growth in GDP is estimated at 2.9% for the current fiscal year compared to 3.3% in 99/00.

International business was the largest contributor to economic growth in 2000 which accounted for 2.3% of the 3.3% growth. The number of registered companies rose by 9.5% to 12,567. Expenditures by international firms rose by 12% to \$1 billion. Despite the strong

growth of international companies, this sector reported a small decline in filled jobs.

The growth displayed by the international business sector is offset by the decline in tourism. Tourism continues to show a downward trend. Visitor expenditures are projected to decrease 5% from the previous year. As a result, employment in the hotel and restaurant sectors is down 9%.

Overall, the number of jobs in Bermuda was relatively unchanged, there were significant employment gains in the fields of accounting, computer science, and construction.

The Minister emphasised that continued growth is expected, even with the risk of a mild recession in the United States.

Business

The Minister supported prior year messages of the success the international business community brings to Bermuda and commented that safeguarding Bermuda's reputation in this regard remained a key policy objective.

Some key factors to note include:

- The growth of registered companies in the international business sector continues.
- Growth in the telecommunications and e-commerce fields was worthy of note. Further growth in this sector will be a key factor in Bermuda's future successes.
- The international business sector must continue to grow and diversify.
- Several studies were carried out during the year with broadly favourable outcomes, showing Bermuda as a reputable environment operating on a level consistent with international standards.
- There are no amendments to the rate of Company Fees following last years revisions.

- A theme to the budget was the continuing education of Bermuda's workforce and youth in order to step-up and play a part in the international business sector.

The budget sought to close the gap in payroll tax between local and exempt companies. There was no change in the rate of 12.75%, primarily due to expectations of a continuing strong economy. The cap of \$250,000 on remuneration declaration for payroll tax purposes, introduced in the prior year budget, was reduced to \$225,000. This cap is now in place for both local and exempt companies.

The Minister commented on the current strains being felt by domestic retailers.

Factors contributing to this include:

- Competition from overseas competitors.
- Airline fare wars and reduced airfares.
- Online shopping.

In addition, taxes on fuel imports, duty on cigarettes and tobacco products, beer, wines and spirits and vehicle licence fees will suffer marginal increases. The knock-on effect on consumer spending will further impact the pressure felt by retailers.

Some relief was promised in that duty tariffs generally will not increase and there will be a re-assessment of some rates in order to assist importers administratively. Specifics were not discussed.

There are some 'hidden' impacts on business in the current year budget. Some to note are as follows:

- Departure tax will increase by \$5 to \$25.
- A refuse disposal charge of \$35 per metric tonne for commercial waste delivered to the Tynes Bay Waste Treatment Facility.
- An annual licence for cellular phones of \$24.



The Effect on Individuals

Payroll Taxes

- No change in tax rates
- Review of notional base for certain self-employed individuals
- Flat fees for taxi operators of \$1,500 per annum

Household

- Fuel Imports - Duty increased by 5%
- Cigarettes - New duty rate of 13 cents per cigarette (\$6.00 extra on the retail price of a carton of cigarettes)
- Beer & spirits - Duty increased by 5%
- Motor Vehicles - All licenses increased by 5% with effect from April 2001. In addition, increases of \$50 for cars in classes A-D and

an increase of \$100 for cars in classes E-G

- Motor bikes - All licences to be increased by \$10
- Bus / Ferry Fares - No increases.
- Cell phones - Introduction of annual licencing. Existing 3 year licences will be able to run to maturity. The annual licence is to be \$24 in the first instance.

Property

- Land Tax
 - No across the board increase.
 - Introduction of a new tax band for higher end ARV's (\$90,000 or higher).
- Stamp Duty
 - Adjustments will be made to the rate of tax applicable to convey-

ance or transfer of real property and the rate applicable to settlements

- Rate of tax on first \$100,000. Increased from 2% to 2.5%.
- Upper limit of the third band of value will be reduced from \$800,000 to \$500,000.
- The effect will be that stamp duty of 15% will be charged on that portion of the value of a settlement that exceeds \$700,000 (compared to the previous threshold of \$1 million).

Tourism

Tourism has continued to decline and, in 2000, the number of foreign visitors was 5% below the most recent peak level achieved in 1996. Although tourist arrivals declined by 1.3% from 1999, visitors arriving on cruise ships rose by 7.8%. This overall decline contributed to the reduction of \$6.2 million in visitor expenditure from the prior fiscal year.

The following initiatives are expected to have a positive effect on tourism in the long-term:

- Investment in facilities such as health spas that are not seasonal;
- Implementation of The Hotel Concession Act 2000 which encourages redevelopment of existing hotels and construction of new hotels;

- Establishment of the Conduit Alliance to produce broad principles to drive Bermuda's tourism strategy; and
- Implementation of the Hotel 2000 Initiative

Although the total increase in the budget is only 2%, \$4 million of new funding has been allocated for a variety of projects and new promotional services including:

- \$612,500 for incentive awards for travel agents;
- \$1.1 million for media support programmes for the new air service strategy;
- \$500,000 for a niche marketing programme;
- \$150,000 for on Island project initiatives in association with the Bermuda Experience Network;

- \$304,000 for continued support for overseas appearances by the Bermuda Regiment and local entertainers; and
- \$500,000 for sponsorship of the Society of American Travel Writers Annual Convention

The following taxes are anticipated to have a negative impact on the tourism industry:

- Air passenger tax will be increased by \$5 to \$25 in the coming year;
- A new tax structure that will take effect in 2002 will be implemented for cruise passengers;
- Duty on beer, wine and spirits will be increased by 5%; and
- Duty on fuel imports including crude oil, gasoline, kerosene, diesel and fuel oil will be increased by 5%.



Economic Figures

"The focus is a stable level of economic growth and social development in the country so that Bermudians may realize their collective and individual potential."

"In the coming year, it is anticipated that the International Business sector will continue to be the mainspring of Bermuda's economy."

The economic figures in the table below have been adjusted to reflect actual figures for the prior years.

	99/00	00/01	01/02
Population	60,500*	60,500*	60,500*
GDP (75/76 prices, \$m)	680.9	692.0	708.0
GDP per capita (\$)	11,255	11,438	11,702
% change	1.9%	1.6%	2.3%
Visitor arrivals ('000)	557.1	548.5	543.0
% change on prior year	-9.6%	-1.54%	-1.0%
	99/00	00/01	01/02
Current account (\$m):			
Revenue	551.6	586.9	627.3
Expenditure	511.0	513.5	570.8
Balance	40.6	73.4	56.5
Current account expenditure per capita (\$)	8,446	8,488	9,435
% change	10.8%	0.5%	11.1%
Capital expenditure (\$m)	n/a	50.1	112.3
Capital expenditure per capita (\$)	n/a	828	1,856

* = estimate

% changes relate to original estimate

This briefing is intended as a general guide to the Budget 2001. It is not intended to be comprehensive and should not be used as a basis for decisions. For that purpose advice should be obtained which takes into account all the client's circumstances.

Every effort has been made to ensure the accuracy of the information contained herein. In view of its purpose the reader will appreciate that we, the Bermuda firm, are unable to accept liability for any errors or omissions which may arise.

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