



Bermuda Taxation & Global Compliance

SCOTT STALLARD PHOTOGRAPHY
Headin' Out For De Catch

Taxes come in many forms

 NEW	Airbnb surcharge
	Commercial lease tax for one year
Current	Conveyance fees
	Corporate registration fees
	Customs duty, courier services, excise free - wine and beer
NEW	Dividend and interest tax on local company shares
Current	Estate death tax and stamp duty
	Financial services fees on banks, local insurers
	Foreign exchange purchase fees
NEW	General services tax
	Immigration fees
	International company fees
	Land tax
NEW	Managed services tax
NEW	Notional new salary tax
	Old age contributory pension conversion to 'progressive contribution'
	Payroll tax decrease for employer*
NEW	Rental subsidy to the BTA
NEW	Rental income tax, commercial and residential - ARV progressive
NEW	Sugar tax
	Telecommunications, mobile, government authorisation taxes

Nothing Zero about tax in Bermuda: Martha Harris Myron 2018Dec07 The Royal Gazette

Step Sixteen - Bermuda Domestic Taxation and Global Compliance Impact

Nothing Zero About Tax in Bermuda's Economy!

All governments across the globe assess some sort of taxes in order to operate a country, if you will. Some countries do have low tax rates - due to high valuations from native and natural products, such as sheer volumes of oil supplies to the world - that have the effect of reducing the need for taxation from the local populace to almost nil. Most countries, however, assess taxation in one form or another on their residents and citizens.

Bermuda is no exception, having just as many taxes as other jurisdictions, working out to a marginal tax rate of an average 22% of GDP (Gross Domestic Product).

Our domestic taxes are not based upon progressive outcomes; consequently, those families in the lower earnings brackets are much harder hit than the more upwardly mobile.

Additionally, the customs tax on all goods entering the island are assessed upon arrival, not at the cash register when the goods are sold, leaving retail at a severe disadvantage when left with unsaleable inventory - investors that has been taxed at full value upon entry into Bermuda, but now is worth less than wholesale value or nothing. The retailer must absorb these customs duty costs, not matter what eventually happens with ultimate sale of goods. Although, there have been severe complaints and attempts to change this regressive customs tax, all

efforts to-date have not succeeded.

Further, our taxes are not based upon an income tax system, although the recent spate of new tax initiatives introduced for the first time, a tax on corporate dividends. How that will be accounted for, without the utilisation of a income tax program, remains to be seen.

International Business companies are exempt from corporate income taxation, dividends, and interest until 2035.

The effect of taxing the already heavily taxed.

A tax, by any other name - fees, tariffs, subsidies, registrations, licenses - is still a tax.

Certainly, a multitude of taxes for a country consistently labelled as a zero "tax haven." Little does anyone realise how incorrect this misnomer is!

Oh, and to top off all these taxes, tariff, fees, etc. increases:

- Health insurance rates set to, or have already, increased upwards of 18% for the year.
- It is unknown at this time, what the "real"

cost of the new Bermuda Government single-payer health insurance plan will cost the ordinary Bermuda resident family.

- Home Mortgage interest rate increases announced at end of 2018 by local lending banks.

Taxes, the effect of direct and indirect taxation.

At fiscal year-end, 2018, Government estimated \$147 million generated in increased tax collections based upon new and revised taxes - as below chart - over next three years, per the Tax Reform Commission Report.

How will said tax increases be utilised?

- Reduce annual budget deficit?
- Government Debt principal reduction – wouldn't that be wonderful?
- Consumed by inflation and laggard implementation.
- Upgrading capital transportation and other infrastructures?
- Increasing the sinking fund reserve?

Better question. With our current uncollected government tax liabilities now standing at 140 Million plus (increasing), what are the chances that these new (or increased) taxes (\$147M) will be rationalised?

Your guess is as good as mine.

The Tax calculations. I'm particularly interested in two items:

1. Under the "new" Old age contributory pension progressive changes, will the contributor making larger contributions during work career, at retirement receive the same government pension amount regardless of

the size of their work history contribution, or will those who pay in more, receive more?

If this is how the new legislation is intended to work whereby the work contributor pay more, but receive the same as a lower earning individual, is it fair and equitable, or aren't we just looking at an-other tax?

2. How will the "new" notional (really a dividend) tax) will be assessed against those high-earning professionals who earn a salary, but then receive additional distributions, not subject to payroll tax?

Bermuda employment statistics list an estimated 19% of working population individuals in the International Business senior management and professional categories, assuming earnings in excess of \$96,000 per year. Are IB professionals included in this calculation?

But, are these really distributions? What happens if these professionals are already existing, or become, shareholders in their corporate entities? Wouldn't this notional tax actually legally be defined as a real dividend, not a deemed salary distribution? And won't they be doubly taxed?

And, if that is the case as currently, Bermuda shareholders of local incorporated company shares are not taxed on dividends paid.

Will this reclassification change the entire concept of the notional salary tax?

And if it does, will it mean that all local owners of incorporated companies shares, both publicly-traded and private companies, will be subject to double taxation: a dividend and a salary tax?

Could such a revaluation conflict with two opposing tax positions: zero dividend tax for International Business, but a serious dividend tax on all local incorporated entities?

*Just an interested
observer's curious
investing question.*

Taxation (both increases and decreases) has a direct and indirect effect on an economy.

Increased Taxation (both new taxes and current tax increases) reduces the direct net income received by ordinary Bermuda resident households while indirect tax-passthroughs to them affects their purchasing decisions for food, clothing, retail products, utilities, health needs, services, and entertainment. Households faced with shrinking purchasing power - in ever increasing numbers - will instinctively cut back consumption, trim other costs, or go without.

Renters, both commercial and single tenant-type homeowners, will raise leases.

Exempt companies are always cited as getting a "free ride" with their legislated corporate zero tax until However, they, too, will experience higher costs across the board for personnel, benefits, commercial space, administration, et al. Public companies have an overriding responsibility to their shareholders and investors. They will never hesitate to trim expenses.

Increasing taxes is never an economic accelerator.

History reminds us time and time again. Tax costs are always passed on, because

no one is going to absorb (immediately, or indefinitely) such, some would say arbitrary, tax expenses by accepting smaller profits or no profit at all.

Tax cuts, on the other hand, can (not always) increase household and consumer demand by increasing workers' take-home pay, boost businesses demand by increasing their after-tax cash flow, which can be used to pay dividends and expand activity, and by making hiring and investing more attractive.

Can our community stand the pain of these tax increases?

The supposedly well-heeled will seek alternative methods to transfer assets to other jurisdictions to generate income, completely nullifying their local tax contributions. Those who do not have such choices, Bermuda's middle class, will have to tighten their belts further, while limiting their consumption again, to perhaps nothing but the necessities.

Tell me, then. How does such a tax initiative help rejuvenate an economy?

Meanwhile, Bermuda government expenses continue to rise: a current deficit budget (more deficits projected for next several fiscal years given the Morgan's Point bailout debacle), credit line and higher debt interest increases, financial assistance levels rising, new authority administration costs, continued capital infrastructure assets/services breakdown, etc.

Shouldn't government be focusing on revenue generation through every means possible?

Bermuda & Her Statutory Global Tax Compliance & Reporting obligations

Bermuda is globally respected for its leadership and proven record on compliance and transparency. The jurisdiction has more than 120 treaty partnerships with nations around the world.

Notably, the European Union awarded Bermuda full equivalence with its Solvency II insurance regulatory regime; only one other jurisdiction (Switzerland) has that distinction.

Bermuda also holds qualified jurisdiction status from the National Association of Insurance Commissioners (NAIC) in the US diction.

Bermuda's global business hub comprises numerous markets: insurance and reinsurance; captive insurance; life and annuity insurance; insurance-linked securities; asset management; trusts and private client vehicles; family offices and other high-net-worth services; shipping and aviation registries; ship-finance and ship-management; life sciences, fintech, insurtech, cryptocurrencies and digital assets businesses.

Bermuda has 41 bilateral Tax Information Exchange Agreements (TIEAs) and more than 125 multilateral treaty partners. The island exchanges information with all G20 nations, European Union members states, and other OECD countries. Bermuda has implemented US FATCA and exchanges OECD Common Reporting Standard (CRS) and OECD Country-by-Country (CBC) information with every country around the world that belongs to the OECD's Convention.

The adherence to global transparency, compliance, AML- Anti-Money Laundering and Terrorist, KYC-Know Your Client and related regulations has generated signifi-

cant, and often costly complexity in required documentation for local residents, thousands of whom have multinational, multi-jurisdictional connections to all parts of the globe.

There is no such thing as an individual (or entity) 10-minute bank account opening or a speedy corpo-rate formation (with no underlying beneficiary disclosure) in Bermuda. All applications from individuals and businesses are thoroughly vetted by all Bermuda banks, finance and other services providers.

Our reputation is vital to continued success.

See The Craft of Creating a Lasting Reputation by Martha Harris Myron, 2013Sep21, The Royal Gazette, Bermuda <http://www.royalgazette.com/article/20130921/COLUMN07/130929952&template=mobileart>

All readers of this missive who may have connections elsewhere, should carefully peruse the final chapter of this book on

BERMUDA PONDSTRADDLERS' LIFE™ & THEIR INTERNATIONAL CONNECTIONS

for ramifications of

CROSS BORDER PLANNING CHALLENGES, TAXATION AND COMPLIANCE!



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References & Resources

Bermuda Department of Statistics

Bermuda Job Market Employment Brief 2018 https://www.gov.bm/sites/default/files/9370_EB%20August%202018.pdf

Bermuda Tax Reform Commission

<http://www.royalgazette.com/assets/pdf/RG3952681119.pdf>

The Following Bermuda Legislative Acts Are Listed on either Bermuda Laws out Parliament Bills by year.

Bermuda Payroll Tax Rates Act 1995

<https://www.gov.bm/payroll-tax>

Office of the Tax Commissioner <https://www.gov.bm/departament/office-tax-commissioner>

Bermuda Land Taxes Amendment Act 2019

All homeowners and long-term tenants are required to pay Land Tax twice yearly. You must pay Land Tax if you are: the sole proprietor of a property; a life tenant in a property; a leaseholder for three or more years; a periodic (yearly or monthly) tenant of property owned by the Government of Bermuda. Land tax is assessed on the ARV (annual rental value) of the property.

The Land Tax on Commercial Properties is 12% in respect of the tax periods July 1, 2018 – December 31, 2018 and January 1, 2019 – June 30, 2019.

Bermuda Conveyancing Act 1983

Fees - stamp duty, etc. estimated at around 4% of property sales value. Conveyancing Act 1983 - Bermuda Laws Online

Bermuda Corporate Taxes for Exempt Undertakings

Bermuda imposes no taxes on profits, income, dividends, or capital gains, has no limit on the accumulation of profit, and has no requirement to distribute dividends. All companies pay an annual company fee, based on share capital levels.

The Bermuda government routinely grants Tax Assurance Certificates to exempted undertakings (i.e. exempted companies, permit companies, exempted partnerships, and exempted unit trust schemes) on application to the Minister through the Bermuda Monetary Authority. These Tax Assurances guarantee that any Parliamentary imposition of such taxes will not be applicable to the company and its operations in future years. Currently, the Tax Assurances being granted extend to 31 March 2035.

Bermuda Rental Properties Listed on Airbnb

4.5% Airbnb-Bermuda Guests who book Airbnb listings that are located in Bermuda will pay the following country taxes as part of their reservation: Vacation Rental Fee: 4.5% of the listing price including for all reservations. For detailed information, please visit the Bermuda Tourism Authority website.

Bermuda Custom Duties - a 450-Page Missive!

25% Bermuda Customs Duty Fees - aka Import Tariffs - average 22.5% - 25% on transaction value of imported goods. Food is lower at 5%. Vehicles - exorbitantly high almost double the value of the wholesale vehicle cost.

**Bermuda Domestic Company
Dividends Tax**

5% Interest and Dividends Withholding Flat Tax on Local Companies, both Public and Private.

\$1,000 exemption, annually.

Annual company fees

Varies by size of company

**Bermuda Estate Death Tax
and Stamp Duty**

See STEP Fifteen

**Bermuda Financial Services Tax
Amendment Act 2019**

Banks 00.75%. Domestic Insurers 3.5%. Money service businesses 1% on aggregate income/outgo volume

**Foreign Exchange (Currency) Purchase
Tax Amendment Act 2019**

1.25% of Bermuda dollar value plus bank fees and commissions

Corporate Services Tax

7% on local providers of corporate services on gross revenue earned from exempted entities.

Immigration and Work Permit Fees

Various thresholds of work permit salaries imposed on a sliding scale.

Managed Services Tax -

This tax is assessed on companies offshoring work based on gross volume of work contracted - to a lower cost economy - that could ordinarily be performed in Bermuda.

**Notional Salary Payroll Tax Increases
- new regime based upon progressive
thresholds**

From 1.75% up to 10.25%

**Bermuda Government Old Age
Contributory Pension Fee Structure**

In process of revision to a "more equitable"

type progressive tax assessment.

The Controversial Sugar Tax

5% of Gross Purchase assessed on all sugared drinks, candy and related items.

Telecommunications Tax.

Vacation Rental tax 4.5% of the rack rate

Vehicular and Oil Taxes

New vehicle tax - incredibly punitive, at almost 100% of wholesale value

Oil / fuel tax at estimated 30%

Other Related Taxes Sources:

How Taxes Affect an Economy

US Tax Policy Centre

<https://www.taxpolicycenter.org/>

<https://www.taxpolicycenter.org/briefing-book/how-do-taxes-affect-economy-short-run>