

# ***Tax Facts & Figures: Barbados 2010/2011***

***Direct and Indirect Tax***

January 28, 2011

**pwc**

## A message from our tax leader



Welcome to the latest edition of our Tax Facts & Figures. We hope that this publication will be an ideal reference tool, saving you time and effort to look up personal and corporate tax information.

This edition is current to January 28, 2011.

We will update this web version continually as amendments to relevant legislation are proposed or enacted. Please monitor changes by accessing

our website at [www.pwc.com/bb](http://www.pwc.com/bb)

This information is most effective when used in tandem with professional advice. For further help, please contact any member of the PwC tax team listed or your usual PwC contact.

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## Foreword

This edition of Tax Facts and Figures gives a synopsis of some information on direct and indirect taxes applicable to Barbados for income year 2010/2011. We have also included a summary of contributions due to be made by employers, employees and the self-employed to the National Insurance Scheme. All amounts are in Barbados dollars. Currently the Barbados dollar is pegged to the US dollar at a rate of Bds\$2 – US\$1.

Tax law is complex. Therefore, in seeking to summarise the rules and to explain them briefly in this booklet, it has been necessary to simplify some of the complexities. Remember that in planning your affairs there is no substitute for professional advice.

This publication, which will be updated periodically, contains handy reference tables and other information for individuals and corporations to help them quickly ascertain their income tax liability. As rates and other information may change as a result of legislation or regulations issued after this booklet went to production, the information contained here should be used for guidance only and further information should be sought from PwC. No liability can be accepted for any action taken as a result of reading the contents without consulting us with regard to all relevant factors.

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## ***Individuals – Basis of taxation***

An individual who is both resident and domiciled in Barbados is taxed on worldwide income.

Individuals who are resident but not domiciled in Barbados are taxed on income derived from Barbados and on income from any other sources outside Barbados, to the extent that a benefit is received in Barbados.

An individual becomes resident by spending in the aggregate more than 182 days in Barbados in an income (calendar) year or by being ordinarily resident in Barbados in the relevant income year.

Domicile is a question of intention, and long-term residence does not necessarily determine domicile. In general a non-resident individual is not entitled to personal deductions against income and is taxed only on income arising in or remitted to Barbados.

An individual's gross employment income includes salary, bonuses and commissions, plus the value of all other benefits, whether in money or otherwise, received or enjoyed in that income year in respect of that office or employment.

There is no capital gains tax in Barbados. However, if an individual enters into a series of capital transactions, the Department of Inland Revenue may take the view that he is carrying on a business and assess taxes accordingly.

From income year 2008 the Department of Inland Revenue has instituted an online filing system. Online filing is still optional.

## ***Individuals – Tax rates***

### ***Personal***

From income year 2006, the basic rate of income tax is 20% and the higher rate 35%. The basic rate applies to the first \$24,200 of taxable income and the higher rate to taxable income in excess of \$24,200.

From income year 2007, income from residential property is subject to tax at a rate of 15%.

### ***Tax on interest***

Withholding tax of 12.5% is deductible from local interest over \$100 paid or credited to the account of resident persons. For individuals, this represents their full tax liability on such interest. No tax is withheld from interest paid to pensioners 60 years old and over.

The maximum rate of tax on interest earned by resident persons from Securities of the Government is 12.5%.

Interest received by or credited to a special savings account designated as an “Education Savings Plan Account” is exempt from tax.

### ***Tax on dividends***

Withholding tax of 12.5% is deductible from ordinary dividends paid to resident individuals by local companies if the dividends are paid out of profits derived by the company after June 30, 1992. This represents the individual’s full tax liability on such dividends.

No withholding tax is deductible from dividends paid to resident individuals if paid out of profits derived by the company prior to July 1, 1992. However, such dividends must be grossed up by 15% and are subject to tax at the individual’s marginal income tax rate. A 15% dividend tax credit may be claimed.

Persons exempt from the payment of tax under the Income Tax Act (e.g. charities, pension funds) may claim a refund of the tax withheld from interest or dividend income or may apply to the Commissioner of Inland Revenue for a waiver of the tax.

# Individuals - Allowances

## ***Personal allowance***

From income year 2007, the personal allowance is \$25,000.

Where an individual's spouse had no income during the year, an additional allowance of \$3,000 can be claimed. (This allowance can still be claimed notwithstanding that the spouse has received income during the year, providing it arises out of payment of interest and dividends and does not exceed \$800.)

From income year 2007, the personal allowance for individuals 60 years or over who receive a pension is \$40,000.

Non resident persons are precluded from claiming any allowances in calculating taxable income.

## ***Child allowance***

Up to a maximum of two children: under 18 years or between 18 and 25 years and receiving full-time instruction at an approved educational establishment - \$1,000 per child.

## ***Home allowances***

From income year 2004, a home allowance of up to \$10,000 per owner-occupied property may be claimed annually to cover mortgage interest, insurance premiums, house repairs, renovations, energy saving or water saving devices. From income year 2007, \$2,000 of this may be claimed in respect of the cost of a household energy audit and any conversion systems recommended.

From income year 2002, a retrofitting allowance of up to \$2,500 per owner-occupied property may be claimed to cover expenditure incurred on roof straps and window shutters.

From income year 2007, a deduction of up to \$5,000 per owner-occupied property may be claimed in respect of the cost of the purchase or installation of "environmentally preferred products" in respect of residential property.

## ***Capital allowances***

Initial and annual allowances on expenditure on plant and machinery are available to individuals carrying on a business at rates identical to those available for corporations.

## ***Individuals - Allowances (continued)***

### ***Registered retirement plan contributions***

Contributions by a self-employed person or an employed person on his own behalf to a registered retirement plan - lower of 15% of assessable income or \$10,000. Contributions by an employer and employee to a registered retirement plan - up to 15% of the employee's assessable income.

### ***Registered retirement savings plan contributions***

Lower of 15% of assessable income or \$10,000. Withdrawals prior to maturity will be subject to withholding tax of 25% unless used to purchase a first home.

Where an individual contributes on his own behalf to both a registered retirement plan and a registered retirement savings plan, the maximum amount that may be deducted in total is the lower of 15% of assessable income or \$10,000.

Upon maturity 25% of the benefits payable may be commuted and paid in the form of a tax free lump sum minus any previous withdrawals. The remaining 75% is subject to tax at 20%/35%.

### ***Deeds of covenant (for periods of not less than 3 years)***

Payments to a minor, who is not the child of the settlor or to an incapacitated individual – maximum of 5% of assessable income.

### ***Rental of residential property***

From income year 2006, an amount up to the lower of \$3,000 or 20% of rent paid in respect of a residential property.

### ***Subscriptions to a registered trade union/statutory association***

Maximum of \$240 per annum.

### ***Subscriptions by a Parliamentarian to a political party***

The lesser of 10% of salary or \$5,000.



## Individuals - Deductions from assessable income

### Donations to charities from 2009:

Charity	Less than \$1 million	More than \$1 million
Settlement to a registered charity which is not an exempt charity	Deduction of the amount of the payment made or the market value of the property transferred not exceeding 10% of assessable income	Deduction of the amount of the payment made or the market value of the property transferred not exceeding 50% of assessable income; deduction taken over a 5 year period
Settlement to an exempt charity	Deduction of the total amount of the payment made or the market value of the property transferred	Deduction of the total amount of the payment made or the market value of the property transferred

### Investments in new shares, shares in co-operative societies or mutual funds

Deductions of up to \$10,000 per annum may be claimed for any combination of investments in mutual funds, shares with co-operative societies and/or purchases of new shares issued by a public company that is newly incorporated or is seeking to raise capital. In the case of investments in shares; the issue must be in accordance with a prospectus advertised to the public. In all cases the investment must be held for 5 years; otherwise the deduction previously claimed will be taxable in the year of disposition.

It is proposed that some or all of these deductions will be eliminated with effect from income year 2011.

### Savings in a co-operative society

With effect from income year 2008, annual savings deposited of up to \$3,000 per annum may be deducted. Where withdrawals are made within three years, the deduction previously claimed will be taxable in the year of the withdrawal. It is proposed that this deduction will be eliminated from income year 2011.

### Investments in venture capital funds

A deduction of up to \$10,000 per annum may be claimed for contributions to venture capital funds, innovation funds or approved development financial institutions. The investment in venture capital funds must be held for 5 years; otherwise the deduction previously claimed will be taxable in the year of disposition.

## ***Individuals - Deductions from assessable income (continued)***

### ***Investment of bonus in shares of employing company***

An employee may claim a deduction for annual bonus up to the lower of 75% of their annual bonus or \$7,500 converted into shares of their employing company. The shares must be held for 5 years; otherwise the deduction previously claimed will be taxable in the year of disposition.

### ***Investment of bonus in mutual funds or Government securities***

An employee, whose employer does not permit conversion of a portion of the annual bonus into shares, may claim a deduction for annual bonus up to the lower of 75% of their annual bonus or \$7,500 invested in bonds, debentures, stock of the Government of Barbados or mutual funds, within 4 months of the date on which payment of the annual bonus becomes due. The investment must be held for 5 years; otherwise the deduction previously claimed will be taxable in the year of disposition.

## ***Individuals - Taxable benefits***

### ***Housing***

The maximum taxable benefit where the employer provides the employee with rent-free accommodation is \$48,000 per annum. The employer may pay the tax on this benefit on behalf of the employee.

### ***Motor cars***

Where an employee is provided with a fully maintained motor car, the taxable benefit is 10% of the original cost of the motor car.

### ***Entertainment allowance***

Employees who are required to entertain during the course of carrying out their duties may be paid a tax-free entertainment allowance limited to the lesser of 12.5% of their basic salary or \$7,800 per annum. It is proposed that this allowance will no longer be tax-free from income year 2011.

### ***Travelling allowance***

Employees who are required to use their own motor car to travel during the course of carrying out their duties may be paid a tax-free travelling allowance limited to the lesser of 12.5% of their basic salary or \$7,200 per annum. It is proposed that this allowance will no longer be tax-free from income year 2011.

Employees who use their own motor vehicles to travel in the course of carrying out their duties may be reimbursed based on the distance travelled.

### ***Telephone***

The basic rental charge of an employee's home telephone paid by an employer is not treated as a taxable benefit if the telephone is required to be used during the course of carrying out the employee's duties.

### ***Other***

All other personal payments made on behalf of an employee will be treated as taxable benefits. Such payments include, but are not restricted to: school fees, electricity, water, natural gas and household help.

# Individuals - Special allowances, rebates and tax credits

## Foreign currency earnings credit

Persons carrying on business in Barbados may claim a tax credit of up to 93% of income tax on net profits from foreign currency earnings derived from certain prescribed activities.

## Tax credit on foreign income received by individuals

Individuals who are resident but not domiciled in Barbados who earn income from sources outside of Barbados which is transferred through the Barbados banking system may claim a tax credit of up to 93% of the tax payable on that income.

## Reverse tax credit

A reverse tax credit is available to any employed individual who is resident in Barbados and is not a director of a company that is controlled by 5 or less persons. Annual and monthly earnings must be below certain limits as set out below.

Income year	Annual earnings less than	Monthly earnings not more than	Reverse tax credit
2007	\$15,000	\$1,250	\$800
2008	\$16,500	\$1,375	\$1,300
2009 and subsequent	\$18,000	\$1,500	\$1,300

## Income tax concessions for specially qualified individuals

From income year 2006, specially qualified non-nationals in receipt of a valid work permit for employment in Barbados for a period of not less than 3 years in the international business sector, are granted an exemption from income tax in respect of salary, fees or other emoluments as follows:

Income level	Exemption from income tax
Not exceeding \$150,000	35%
Exceeding \$150,000 but not exceeding \$500,000	50%
Exceeding \$500,000	60%



# Corporations – Tax rates

## Corporate

Types of entities	Rate of tax	Effective from
Regular companies	25%	2006
Small companies*	15%	2007
Manufacturing companies**	15%	2007
Approved developers in special development areas	15%	2007
Life insurance companies (computed on gross investment income)	5%	1985
Companies engaged in the construction of houses***	15%	2010
International business companies, international banks and international societies with restricted liability	2.5% - 1%	1991

\*This concessionary tax rate is available to any small company as defined in the Small Business Development Act.

\*\* This concessionary tax rate is available only to a company registered as a manufacturer with Barbados Customs and Exercise Department.

\*\*\*Selling price of the house must be less than \$400,000, inclusive of land.

## Premium taxes

### • Life insurance companies

From January 1, 2009, resident and foreign life insurance companies pay premium taxes on gross direct premium income as set out in the following table:

	Resident life insurance companies	Foreign life insurance companies
New business written for the income year	6%	6%
Renewal business	3%	5%

## ***Corporations – Tax rates (continued)***

- ***General insurance companies***

From January 1, 2009, premium taxes are 4.75% of the gross direct premium in respect of property insurance business and 4% of the gross direct premium for other general insurance business.

### ***Tax on interest***

Withholding tax of 12.5% is deductible from local interest over \$100 paid or credited to the accounts of resident persons. For resident companies the withholding tax represents a prepayment of corporate taxes and can be credited against the corporate tax liability of the company for the year in which the tax is deducted.

The maximum rate of tax on interest earned by resident persons from securities of the Government is 12.5%.

### ***Tax on dividends***

Dividends, other than preference dividends, received by a company registered in Barbados from another such company are not included in assessable income.

From income year 2007 dividends received by a resident Barbados company from a non-resident entity where the equity interest owned is at least 10% of the non-resident company and the shareholding is not held solely for the purpose of portfolio investments are not included in assessable income.

## ***Corporations - Tax losses***

Tax losses may be carried forward for nine years after the income year in which they are incurred and may be applied in full against future taxable profits. Notwithstanding this, a tax loss incurred by a person in respect of residential property can only be deducted against assessable income earned by that person in respect of residential property. Tax losses cannot be carried back to offset income earned in a prior period. These rules apply to individuals as well as corporations.

The current trading losses (tax loss for the year excluding capital allowances) of a surrendering company may be set off against the profits of a claimant company, where both are members of the same group (defined as where one company is a 75% subsidiary of another, or both companies are 75% subsidiaries of a third company). This is known as group relief. Group relief is not available to a company operating in the international business and financial services sector or any other company which is operating under concessionary legislation.

Losses incurred by a general insurance business may not be set off against profits from any other business, and may only be carried forward for 5 years following the income year in which they are incurred.

Different tax loss provisions may apply to companies to which tax concessions have been granted through specific legislation.

## Corporations - Capital allowances

### ***Investment (incentive allowances limited by statute to certain industries)***

Basic industry	20%
Businesses or persons entitled to export allowance for exports outside of Caricom	40%
Manufacture and refining of sugar	40%
Manufacture of clay and limestone products	40%

Note: This allowance is not deducted from the cost of the asset in calculating tax written down value.

### ***Initial***

Plant and machinery	20%
Industrial buildings	40%

### ***Annual***

Plant and machinery	Various rates
Industrial buildings	4%
Intellectual property	10% of 50% of the amount expended
Certain energy efficient expenditure	20%

### ***Manufacturing***

Capital allowances are more complex for companies involved in the manufacturing sector, which are granted an additional 50% of the annual allowance claimed in an income year. Such companies are also often able to claim investment allowances.

However, please note that any company which is able to claim an investment allowance cannot also claim an initial allowance.



## ***Corporations - Capital allowances (continued)***

### ***Commercial Building Allowance***

A deduction is available in respect of expenditure on a commercial building. The available allowance is calculated at the following rates for each income year:

- 1% of the land tax improved value; or
- 10% of the land tax improved value if the building is registered with the National Trust.

### ***Water Storage Facilities***

An allowance of up to \$3,500 may be claimed for capital expenditure in relation to a water storage facility on any commercial building.

# Corporations - Other allowances, rebates and tax credits

## ***Agricultural cash rebate***

The following rebate may be claimed on agricultural and agro processing equipment that is new or imported into the island for the first time, by persons engaged in agriculture or agro processing:

Sugar cane harvesters	10% or 15%
Other	18%

## ***Export allowance***

A tax credit may be claimed by manufacturing industries, data processing services and companies that purchase wholesale from local producers exclusively for export, and is based on the level of sales outside of Caricom.

## ***Foreign currency earnings credit***

Persons carrying on business in Barbados may claim a tax credit of up to 93% of corporation tax on net profits from foreign currency earnings derived from certain prescribed activities.

## ***Market and research development allowance***

Manufacturing and tourism industries are granted an allowance equivalent to 150% of certain expenditures incurred to develop markets outside of Caricom.

## ***Credit for increasing employees***

It is proposed that a tax credit be offered to any business which over the next 3 years, commencing income year 2011, is able to increase its profits and simultaneously boost its employment by at least 10% of its workforce. The increase in employment must be maintained for 3 years.

The tax credit will be equal to 10% of the cost of wages of the company and will be applied against taxes payable. The credit may be carried forward for 3 years if not utilised.

## ***Corporations - Other allowances, rebates and tax credits (continued)***

### ***Productivity and innovation credit***

It is proposed that a productivity and innovation tax credit which will focus on businesses placing emphasis on investments in the following areas be introduced:

- process innovation – development of new manufacturing process;
- product innovation – development of improved products and services;
- organisational innovation – establishment of a new venture for improved productivity; and
- service innovation – development of new services for local and international markets.

The innovation must have been successfully introduced into the market. The qualifying businesses would be allowed to claim a tax credit equivalent to 25% of its expenditure in the year in which the expenditure was incurred for any of the areas noted above. The credit will be applied against taxable income. If the company has no taxable income, the credit may be carried forward for 3 years. The National Productivity Council (“NPC”) will be responsible for certifying that a business has met the eligibility criteria.

# Individuals and corporations - Withholding taxes

## Resident individuals

%

Interest earned in excess of \$100	12.5 (1)
Interest on Government securities	12.5 (1)
Dividends paid out of profits earned after June 30, 1992	12.5 (1)
Investment withdrawn from a mutual fund within 5 years of being invested	25 (2)
Shares withdrawn from a co-operative society within 5 years of being invested	20 (2)
Savings withdrawn from a co-operative society within 3 years of being deposited	20 (2)

## Non-resident persons

%

Interest on Government securities	Nil
Branch profits remitted or deemed remitted	10 (3)
Covenants	20 (4)
Dividends paid out of taxed profits	15 (4)/(5)
Dividends paid out of tax exempt profits arising from income earned from sources inside Barbados	25 (4)
Dividends paid out of income earned from sources outside of Barbados	Nil
Interest	15 (4)/(5)
Management, administrative or technical fees	15 (4)/(5)
Royalties	15 (4)/(5)
Other services	25 (4)/(5)
Rent	25 (4)/(6)

(1) See sections on personal/corporate taxation of interest and dividends.

(2) Withholding tax should be remitted to the Department of Inland Revenue within 7 days of the tax being withheld.

(3) Withholding tax should be remitted to the Department of the Inland Revenue by June 30th following the end of the income year.

(4) Withholding tax should be remitted to the Department of Inland Revenue by the 15th day of the month following the payment.

(5) This represents the non-resident's full tax liability in Barbados.

(6) A waiver may be granted if the individual habitually files returns and appoints a local agent.

Reduced rates apply under some Double Taxation Agreements.

## ***Individuals and corporations - Exempt income***

The following categories of income are exempt or partially exempt from tax in Barbados:

- 50% of royalties earned in Barbados by authors, songwriters and computer programmers;
- certain severance payments received;
- capital gains;
- inter-company dividends where both companies are either registered or incorporated in Barbados;
- income earned from Caricom countries, which is generally taxed at source;
- dividends paid by a company from profits earned during its tax holiday under the Fiscal Incentives Act;
- dividends received by a resident Barbados company from a non-resident entity where the equity interest owned is at least 10% of the capital of the non-resident company and the shareholding is not held solely for the purpose of portfolio investments; and
- interest on holdings of National Development Bonds, National Housing Bonds and Savings Bonds up to a limit per issue and class of Bond of \$50,000.

## ***Individuals and corporations - Pay as you earn (PAYE)***

### ***Deductions***

Generally, persons paying salaries or wages or other emoluments must withhold tax from remuneration paid to employees. However, this requirement is waived where an employee's salary or wage is less than \$480.77 per week, \$2,083 per month or \$25,000 per annum.

Employers must remit tax withheld from employees' emoluments to the Department of Inland Revenue by the 15th day of the month following that in which the tax was deducted.

### ***Declaration by employees***

Each employee is required to provide his employer with a tax declaration form giving details of his personal allowances and deductions. The employer then allocates a tax code number to determine the tax to be withheld by reference to tax tables provided by the Department of Inland Revenue.

### ***Returns of remuneration***

Every employer is required to furnish employees with a copy of the Statement of Remuneration Paid and Deductions form (A47:009) by February 28 of the year following the year in which the remuneration was paid. Copies of these forms are to be sent to the Commissioner of Inland Revenue by the same date, along with a Summary Statement of Remuneration Paid and Deductions (A47:010). Failure to do so could result in a fine not exceeding \$10 for every day throughout which the failure continues. From 2009, these forms may be filed with the Barbados Department of Inland Revenue electronically.



## Individuals and corporations - National Insurance contributions

Every individual between the ages of 16 and 65, who is gainfully employed in Barbados under a contract of service, must be insured under the National Insurance and Social Security Act. The current pensionable age is 66. This will be increased by a further six months on January 1, 2014 and again on January 1, 2018, until the new standard retirement age of 67 is achieved. Contributions are determined as a percentage of insurable earnings up to a maximum of \$4,090 per month or \$944 per week. Employers must remit National Insurance contributions by the 15th day of the following month. Contributions for self-employed persons should be paid within 15 days after the end of the calendar quarter for which they are due. The National Insurance contribution rates and other collections of the National Insurance office are currently as follows:

Employed persons in the private sector	Total %	Employee %	Employer %
<b>Between 16 and 65 years</b>			
National Insurance	13.50	6.75	6.75
Non-contributory	4.00	2.00	2.00
Employment injury	0.75	-	0.75
Unemployment	1.50	0.75	0.75
Severance fund	0.50	-	0.50
Training levy	1.00	0.50	0.50
Catastrophe fund	0.10	0.10	-
	21.35	10.10	11.25
<b>Under 16 or 65 years and over</b>			
Employment injury	0.75	-	0.75
Training levy	1.00	0.50	0.50
Catastrophe fund	0.10	0.10	-
	1.85	0.60	1.25
<b>Self-employed persons</b>			
National Insurance	13.50		
Non-contributory	2.00		
Training levy	0.50		
Catastrophe fund	0.10		
	16.10		

# Individuals and corporations - Important dates

## Filing of returns

Corporations with fiscal years ending between January 1 and September 30

March 15 of the following year

Corporations with fiscal years ending between October 1 and December 31

June 15 of the following year

Individuals

April 30

From 2009, both corporations and individuals can file their returns for income year 2008 and onwards electronically with the Barbados Department of Inland Revenue.

## Payment of taxes

### • Corporations

Corporations with fiscal years ending between January 1 and September 30 must make a prepayment of corporation tax for the income year in which the fiscal period ends on or before September 15 of that year. The prepayment is 50% of the net corporation tax payable for the preceding income year. The remainder of corporation tax due (if any) must be paid on filing of the corporation tax return by March 15 of the following year.

Corporations with fiscal years ending between October 1 and December 31 must make two prepayments of corporation tax, for the income year in which the fiscal period ends, on or before December 15 of that year and March 15 of the following year. The prepayments are each 50% of the net corporation tax payable for the preceding income year. The remainder of corporation tax due (if any) must be paid on filing of the corporation tax return by June 15 of the following year.

It is possible to apply for waivers or reductions of these prepayments, provided certain conditions are met.

### • Individuals

Individuals earning more than 25% of their total assessable income from business or rent must pay three instalments, each representing 25% of the preceding year's income tax liability, on June 15, September 15 and December 15. The balance must be paid on filing of the income tax return on April 30 of the following year. Other individuals may pay 50% of the income tax due on filing the income tax return on April 30 and the remainder on September 30.



# ***Individuals and corporations - Penalties and interest***

## ***Corporations***

The penalty for failure to deliver the corporation tax return by the due date is \$100.00, plus 5% of the corporation tax due. Interest is assessed at 1% per month on the corporation tax and penalties outstanding.

The penalty for non-payment of corporation tax by the due date is 5% of the corporation tax due. Interest is assessed at 1% per month on the corporation tax and penalties outstanding.

The penalty for failing to make a prepayment of corporation tax by the due date is 10% of the corporation tax prepayment due. Interest is assessed at 0.5% per month on the corporation tax prepayment and penalty outstanding.

## ***Individuals***

The penalty for failure to deliver an individual income tax return by the due date is \$100.00, plus 5% of the income tax due. Interest is assessed at 1% per month on the income tax and penalties outstanding.

The penalty for late payment of income tax by the due date is 5% of the income tax due or \$10, whichever is greater. Interest is assessed at 1% per month on the income tax and penalties outstanding.

## ***Withholding taxes***

The penalty for non-payment of withholding tax by the due date is 10% of the withholding tax. Interest is assessed at 0.5% per month on the withholding tax outstanding.

## ***Penalty for tax evasion***

A person who knowingly evades or attempts to evade payment of tax is liable to pay an amount not exceeding 100% of the amount of the tax evaded, or sought to be evaded as a penalty.

## ***Individuals and corporations - Penalties and interest (continued)***

### ***Waiver of penalties and interest***

The Government has extended the waiver of interest and penalty program for another year effective December 1, 2010. The 50% waiver of interest and penalties due applies to the National Insurance, Land Tax, Income Tax and VAT departments. Specific qualifying provisions apply for each department.

## Specific legislation

### ***Exempt Insurance Act***

Objective: to encourage the development of Barbados as an international financial centre. Exempt insurance business is business for which both the risks and the premiums originate outside of Barbados. An Exempt Insurance company is taxed at 0% for the first 15 years, after which only the first \$250,000 of assessable income is subject to tax, at a rate of 8%<sup>1</sup>. Taxable income of less than \$250,000 is to be treated as taxable income of \$250,000.

An annual licence fee of \$20,000 is payable no later than January 31 in each calendar year.

### ***Fiscal Incentives Act***

Objective: to encourage the development of the manufacturing sector by granting tax holidays of between 11 to 15 years to enterprises producing products approved by the Minister responsible for Industry.

### ***Housing Incentives Act***

Objective: to encourage developers who implement low income housing projects by granting corporation tax, import duty, withholding tax and other concessions. Approved developers are subject to tax at a rate of 15%.

### ***International Business Companies Act***

Objective: to encourage the development of Barbados as an international financial services centre by providing incentives such as reduced corporation taxes, exemptions and benefits for international manufacturing and international trade and commerce from within Barbados. Companies licensed under the International Business Companies Act are subject to corporate tax rates at between 2.5% to 1%.

An annual licence fee of \$850 is payable no later than December 31 in each calendar year.

<sup>1</sup> This amendment has not yet been legislated

## ***Specific legislation (continued)***

### ***International Financial Services Act***

Objective: to encourage the development of Barbados as an international financial services centre by providing incentives such as reduced corporation taxes, exemptions and benefits for international banking carried on from within Barbados. Companies licensed under the International Financial Services Act are subject to corporate tax at rates between 2.5% to 1%.

An annual licence fee of \$100,000 is charged to licensees who accept third party deposits, while licensees who accept related-party deposits are charged \$50,000. The annual licence fee is payable no later than December 31 in each calendar year.

### ***Shipping (Incentives) Act***

Objective: to encourage the development of Barbados' shipping activities by granting corporation tax, import duty, withholding tax and other concessions to approved shipping companies for a period of 10 years.

### ***Small Business Development Act***

Objective: to encourage the development of the small business sector through granting corporation tax, import duty, withholding tax and other concessions. Qualifying companies are subject to corporate tax at a rate of 15%.

### ***Societies with Restricted Liability Act***

Objective: to encourage the development of Barbados as an international financial services centre by providing incentives such as reduced corporation taxes, exemptions and benefits for international trade and commerce from within Barbados. International Societies with Restricted Liability are subject to corporate tax at rates between 2.5% to 1%. Other Societies with Restricted Liability are subject to corporate tax at the same rate as that for regular business companies.

An annual licence fee of \$850 is payable no later than December 31 in each calendar year.

## ***Specific legislation (continued)***

### ***Special Development Areas Act***

Objective: to encourage the development of special areas in Barbados by granting corporation tax, import duty, withholding tax, land tax, property transfer tax and other concessions. Qualifying companies are subject to corporate tax at a rate of 15%.

### ***Tourism Development Act***

Objective: to encourage the development of the tourism industry by allowing for the offset of certain capital expenditure against assessable income and granting import duty, withholding tax and other concessions.

### ***Concessions for International Holding Companies***

Legislation was passed, effective November 23, 2009, to exempt from the payment of Property Transfer Tax and Stamp Duty any transfer of shares to a person who is resident outside of Barbados, whether or not the transferor is resident in Barbados, where the assets of the company concerned, consist of foreign assets and its income is derived solely from sources outside Barbados.

### ***Exchange controls***

Barbados has an exchange controls system and most inflows and outflows of foreign currency require approval by the Exchange Control Authority (ECA). The ECA has delegated the authority for the approval of certain transactions within limits to the commercial banks.

Non-residents must register funds coming into Barbados to make investments in order to facilitate repatriation of those funds at a later date. However, as of 2007, exchange controls have been removed with respect to the repatriation of the proceeds of sale of a property owned by a non-resident if the sale is to another non-resident and there is no net foreign exchange loss to the country.

## Specific legislation (continued)

### DOUBLE TAXATION AGREEMENTS (DTAs)

	COUNTRY	DATE OF SIGNATURE	ENTRY INTO FORCE
1	The United Kingdom	March 26, 1970	–
2	Canada	January 22, 1980	–
3	USA	December 31, 1984	–
	1 <sup>st</sup> Protocol to USA/B'dos DTA	December 18, 1991	–
	2 <sup>nd</sup> Protocol to USA/B'dos DTA	July 14, 2004	December 20, 2004
4	Finland	June 15, 1989	August 20, 1992
5	Norway	November 15, 1990	July 3, 1991
6	Sweden	July 1, 1991	December 1, 1991
7	Switzerland	1954 Agreement extended to Barbados by virtue of Agreement between Switzerland and the U.K.	1963
8	CARICOM	July 6, 1994	July 7, 1995
9	Venezuela	December 11, 1998	January 2001
10	Cuba	June 17, 1999	March 16, 2000
11	China	May 15, 2000	October 27, 2000
	Protocol to China/B'dos DTA	February 10, 2010	June 9, 2010
12	Malta	December 5, 2001	June 19, 2002
13	Mauritius	September 28, 2004	January 28, 2005
14	Botswana	February 23, 2005	August 12, 2005
15	Austria	February 27, 2006	April 1, 2007
16	Kingdom of the Netherlands	November 28, 2006	July 12, 2007
	Protocol to Netherlands/B'dos DTA	November 27, 2009	Awaiting ratification
17	Republic of Seychelles	October 19, 2007	April 21, 2008
18	Republic of Mexico	April 7, 2008	January 16, 2009
19	Republic of Ghana	April 22, 2008	Awaiting ratification
20	Luxembourg	December 1, 2009	Awaiting ratification
21	Panama	June 21, 2010	Awaiting ratification by Panama
22	Portugal	October 22, 2010	Awaiting ratification
23	Spain	December 1, 2010	Awaiting ratification

Note: As at December 31, 2010, Barbados has 18 double taxation agreements in force. There are 23 signed treaties, but those with Ghana, Luxembourg, Panama, Portugal and Spain are awaiting ratification before they can enter into force.

A significant part of Barbados' international business landscape is facilitated through its expansive treaty network which signifies Barbados' commitment to preventing fiscal evasion and avoiding double taxation whilst assisting multinational corporations with managing the funds required for global development.

### BILATERAL INVESTMENT TREATIES (BITs)

	COUNTRY	DATE OF SIGNATURE	ENTRY INTO FORCE
1	The United Kingdom	April 7, 1993	April, 1993
2	Venezuela	July 15, 1994	October 31, 1995
3	Germany	December 2, 1984	May 11, 2002
4	Switzerland	March 29, 1995	June 26, 1995
5	Italy	October 25, 1995	July 21, 1997
6	Cuba	February 19, 1996	August 13, 1998
7	Canada	May 29, 1996	January 17, 1997
8	China	July 20, 1998	October 1, 1999
9	Mauritius	September 28, 2004	June 28, 2005
10	Ghana	April 22, 2008	Awaiting ratification
11	Belgium/Luxembourg Economic Union	May 29, 2009	Awaiting ratification

Note: As at December 31, 2010, Barbados has signed 11 bilateral investment treaties (BITs) but 9 are in force. Those with Ghana and the Belgium/Luxembourg Economic Union are awaiting ratification before they can enter into force.

## *Other taxes - Value Added Tax*

Persons operating under Barbados' VAT regime must be registered for VAT. From December 1, 2010, the threshold for VAT registration is \$80,000 (previously \$60,000), but voluntary registration is permitted for persons whose annual turnover is less than \$80,000. VAT is levied at the rate of 17.5% from December 1, 2010 (previously 15%) on the value of a wide range of goods and services imported or supplied in Barbados by VAT registered persons. A number of services, including financial services, real estate, medical services, and education, are exempt. Intergroup transactions are taxable.

Certain supplies are zero-rated, including exports, basic food items, prescription drugs, crude oil, and the supply of certain items to the international financial services sector, e.g. legal and accounting fees. There is a concessionary rate of 7.5% applicable to the supply of accommodation by guest houses, hotels, inns, or any similar place, including a dwelling house normally let or rented for use as a vacation or holiday home.

Registered persons may deduct input tax from their output tax in calculating the tax payable for that VAT accounting period. Where input tax exceeds output tax, the registrant will be entitled to a refund of VAT.

Every registrant is required to file a VAT return with the Comptroller within 21 days after the end of each taxable period, whether or not he makes a taxable supply during the taxable period. The penalty for failing to file a return within the time prescribed is \$100.

Every registrant shall, within 21 days after the end of each taxable period, pay to the Comptroller all output tax payable by him for that period. A registrant who defaults in paying the total amount of output tax payable by him for a taxable period by the day prescribed shall, in addition to the amount of output tax in default, pay to the Comptroller:

- (a) penalty equal to 10% of the amount of the output tax in default; and
- (b) interest at 1% for each month or part of a month during which any amount of tax and penalty remain unpaid, on the largest amount of tax and penalty that was due and unpaid at any time in that month.

## Other taxes - Land tax

The following rates are effective for the period commencing April 1, 2008.

### Improved land

On which there is a dwelling house that is used exclusively for residential purposes:

On first \$150,000	Nil
On amounts between \$150,000 and \$400,000	0.10% of the improved value
On amounts between \$400,000 and \$1,000,000	0.45% of the improved value
On amounts exceeding \$1,000,000	0.75% of the improved value

On the improved value of each parcel of land on which there is a building other than a residence	0.65% of the improved value
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### Unimproved land

On the site value of each parcel of unimproved land:	0.60% of the site value
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The following concessions have been granted for land taxes:

- for villas, land tax is calculated and payable on only 75% of the improved value of the property;
- for hotels, as defined by the Tourism Development Act, land tax is calculated and payable on only 50% of the improved value of the property;
- for pensioners occupying their own homes, land tax is calculated and payable on only 50% of the improved value of the property in excess of \$150,000 (effective from April 1, 2008); and
- for land used for agricultural purposes, a rebate of 50% of the land tax paid is granted.

A 10% discount is granted if the land tax is paid within 30 days from the date of the tax demand notice or 5% if it is paid within 60 days.



## Other taxes (continued)

### Property transfer tax

Shares of companies listed on the Barbados Stock Exchange	Exempt
Shares of private companies*	2.5% of value or amount of gross consideration above \$50,000
Land with a building	2.5% of value or amount of gross consideration above \$150,000
Land with no building	2.5% of value or amount of gross consideration
Leases of 25 years or more or short-term leases that are continuously renewed for a period equal to 25 years or more	2.5% of value or amount of gross consideration

### Land development duty

Where a person disposes of property situated in a specially designated development area within 15 years of the date specified by statute, duty may be charged. This may be at rates of up to 50% on the excess of the value of the consideration over the improved value at the specified base date, plus certain other expenses and an amount representing capital appreciation of the property.

### Stamp duty

On sale of shares of companies listed on the Barbados Stock Exchange	Nil
On sale of real estate, leases and shares in public companies*	\$10 per \$1,000 or part thereof
On mortgages	\$3 on each \$500 or part thereof

\*Any transfer of shares to a person who is resident outside of Barbados, whether or not the transferor is resident in Barbados, where the assets of the company concerned, consists of foreign assets and its income and is derived solely from sources outside Barbados, will not be subject to transfer taxes in Barbados.

## ***Other taxes (continued)***

### ***Customs duty***

Customs duty is levied on a wide range of imported goods at rates specified in Part 1 of the First Schedule of the Customs Act. Barbados' Customs Tariff is based on the Common External Tariff of the Caribbean Common Market (Caricom) with special derogations for certain items, e.g. spirituous beverages. Customs duty is calculated on either an "ad valorem" basis or at specific quantitative rates. The ad valorem rates for most items vary between 0% and 20%, but certain goods regarded as luxury items are subject to higher rates (e.g. jewellery-60%). In addition, a select group of items that are produced within Barbados and Caricom (including some agricultural products) are subject to a duty rate of 60% when imported from outside the region.

Manufacturers and agriculturists, including persons involved in fishing and horticulture, are exempt from the payment of duty on inputs (including packaging materials, machinery, equipment and spares) imported for use in their businesses.

The various departments and institutions, international bodies and organisations listed in Part II-B of the Customs Tariff are exempt from the payment of customs duty. Specific goods (e.g. computers), also mentioned in Part II-B, are exempt from customs duty.

### ***Environmental levy***

The environmental levy was abolished effective December 1, 2010. The levy was in force in Barbados and its main purpose is to defray the cost of the disposal of refuse generated by the use of goods imported into Barbados. The general rates were either 2% or 3% of the CIF value of all goods, both imported and local, but some items were subject to specific rates, e.g. motor vehicles \$1,500 per vehicle and \$300 for other vehicles. Certain persons were exempt from the payment of this levy, including those organisations listed in Part II-B of the Customs Tariff, the international financial services sector, manufacturers and the diplomatic corps.

## ***Other taxes (continued)***

### ***Excise tax***

Excise taxes existed in Barbados prior to the introduction of VAT in 1997, but these were confined to products of the rum industry. From January 1, 1997, four categories of goods (both locally manufactured as well as imported) became subject to excise taxes. These are motor vehicles, spirituous beverages, tobacco products and petroleum products. Most excisable goods are subject to the tax at a specific rate, with the exception of motor vehicles, which are subject to ad valorem rates.

A few persons and goods are exempt from excise taxes. These include motor vehicles imported by the diplomatic corps, and other organisations exempt from customs duty under Part II-B of the Customs Tariff, goods imported for temporary use or for a temporary purpose that will be re-exported within 3 months and goods (other than spirits) intended to be used as raw materials for the manufacture or production in Barbados of other taxable goods.

## Tax services

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To assist in keeping our clients abreast of recent developments in the area of taxation, PricewaterhouseCoopers prepares and distributes to its clients frequent bulletins. In particular, we prepare a report on the annual budget, which gives details on any proposed taxation changes.

Specialist taxation services include:

- corporate domestic and international tax planning;
- corporate tax compliance;
- personal tax advice and compliance;
- employee remuneration and benefits planning;
- advice and assistance in connection with tax objections, investigations, etc.;
- VAT planning and compliance, customs and stamp duty advisory services;
- structuring and restructuring of domestic, regional and international operations;
- advice on fiscal incentives and incentive legislation;
- advice on international financial services sector legislation;
- severance payments.

For further details, regarding any of the above services, please contact any of the following tax partners or directors:



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