



# A brave new world

## Barbados' revised corporate tax regime

PwC's Tax Insights

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# Introduction

On November 20, 2018, the Prime Minister of Barbados, the Honourable Mia Mottley, gave a ministerial statement to the House of Assembly, which boldly changed the island's entire corporate tax landscape. After the country signed on to the Inclusive Framework on Base Erosion and Profit Shifting (BEPS), the Government of Barbados was bound by commitments made to the OECD and the EU to amend or abolish its international business sector framework by the end of 2018. Many regimes that were attractive to international clients, including international business companies (IBCs) and international societies with restricted liability (ISRLs), were deemed potentially harmful and therefore not in line with the OECD's BEPS agenda.

The key problem for Barbados was that it was imposing a relatively high rate of tax on domestic entities and a much lower rate on entities in the international business sector, known as ring fencing. After much consultation with various stakeholders, the Prime Minister made the decision to proceed with tax convergence. Corporate tax rates will be converged so that domestic and international businesses will be subject to the same tax rates. This would deal with the OECD's concerns on ring fencing of the current so-called preferential regimes.

## Rate change

Barbados has dealt with this issue by offering one corporate tax regime to all taxpayers, excluding those carrying on insurance business, effective from January 1, 2019. The new rates of corporate tax follow a regressive path so that higher levels of taxable income are subject to lower rates of tax. These rates are set out in the following table:

Taxable income BDS\$	Rate %
Less than \$1,000,000	5.5%
More than \$1,000,000 but less than \$20,000,000	3.0%
More than \$20,000,000 but less than \$30,000,000	2.5%
More than \$30,000,000	1.0%

## Rate change (cont'd)

With respect to entities carrying on insurance business, the Insurance Act will be amended to provide for three classes of licenses, as follows:

Class	Type of business	Tax rate (applied to taxable income)
1	Entities insuring related party risks	0%
2	Entities insuring or reinsuring third party risks	2%
3	Brokers and managers	2%

Entities carrying on domestic general insurance business will see a significant decline in their corporate tax rate, whereas those carrying on international general business will suffer a small increase.

In the case of domestic life insurance entities, who are currently subject to tax at a rate of 5% on their gross investment income, this new regime will change both their rate of tax, which will now be 2%, as well as their tax base, which will now be taxable income. These entities will need to change the way in which they compute their tax liabilities in order to determine the impact of the new regime to their bottom line.

## Winners and losers

This change will affect clients differently, but it is clear that most domestic businesses will experience a decline in their corporation tax liabilities and the hope of the Government is that this windfall will be ploughed back into the businesses in the creation of new jobs and investments.

The international sector, we also believe, will be pleasantly surprised by the changes. While there has been increase of the existing rates, the new rates still represent one of the most competitive corporate tax regimes in the world. The OECD announced earlier this month, a new crackdown on jurisdictions that offer no or nominal tax rates, so we expect those jurisdictions to fall under greater scrutiny in the coming months (see further below).

# Grandfathering

The Government has confirmed that IBC/ISRL entities that were established and licensed prior to October 17, 2017 will benefit from a transitional period to June 30, 2021. This means they can continue to enjoy the existing tax rates until that date.

However, there has been one unexpected announcement about grandfathered entities. From January 1, 2019 the lowest tax rate applicable to these entities will be increased from 0.25% to 1%, so that grandfathered and non-grandfathered taxpayers earning taxable income above BDS\$30M (US\$15M) will be taxed at the same minimum rate. This will reduce (but not eliminate) the benefit of being grandfathered.

Although the legislation is yet to be published, we think it is now very unlikely that entities established and licensed after October 17, 2017 will benefit from grandfathering. Instead, they will be subject to the new regime being introduced.

## Additional changes

We have set out below a summary of the other key features of the revised tax regime for fiscal periods commencing after January 1, 2019:

- IBCs/ISRLs will convert to regular Barbados companies, unless grandfathered;
- all entities can elect to take a credit for foreign taxes paid in another jurisdiction which will be restricted such that the minimum tax payable will now be 1%, instead of 0.25%;
- entities earning 100% of their income from foreign currency will receive a Foreign Currency Permit and continue to benefit from non-corporate tax concessions, including exemptions from withholding taxes on payments to non-residents and freedom from exchange controls;
- the tax credit for foreign currency earnings will be abolished;
- the only allowances that will be deductible for tax purposes will be annual allowances, renewable energy allowances, and research and development allowances; and
- tax losses brought forward available for offset in an income year will be restricted to 50% of the taxable income in the year in which the tax loss is utilised instead of 100% as is currently the case.

## Other proposals

The Prime Minister advised that the start date for the taxation of online transactions had been pushed back from December 1 to December 15. She stated that the Government had now procured the entity that would provide these services to the Barbados Revenue Authority and would shortly introduce into Parliament the appropriate legislation to facilitate this.

The Prime Minister also announced plans to introduce a new regime for the betting and gaming sector, but did not provide any further details on the proposed new regime.

# Legislation

One of the main issues will be the passage of the relevant legislation to affect these changes. The timeline, based on our commitments to the OECD, is extremely challenging and there is a considerable number of statutes which will require major changes. We understand that the drafting of the legislation is currently in progress and hope this is completed speedily and with the relevant consultations, so that these changes can be approved by Parliament and become effective as soon as possible in 2019.

## OECD November 2018 publication

The OECD working group which is mandated to look at tax regimes across the world has published a further document this month, entitled "[Resumption of Application of Substantial Activities Factor to No or Nominal Tax Jurisdictions](#)".

This is an announcement of an expansion of the working group's remit to now apply "substance" tests to all corporate tax regimes and not just those that offer preferential rates to foreign investors. It is designed to level the playing field so that taxpayers with mobile business activities (such as the earning of royalties or interest) can no longer automatically benefit from no tax or low tax rates.

The activities associated with a presence (such as a financing operation or holding of intellectual property) in a jurisdiction will become crucially important to all global structures.

We believe this increase in scope will unleash unprecedented change in how multinationals structure their affairs, and further points to the end of the era of "tax havens".

### What should you do next?

Contact us to discuss how these changes impact you. Our team is here to help:

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