2017/18 Bermuda Budget Snapshot

February 27, 2017

National debt

- Gross debt will increase to $2.484bn at March 31, 2017 ($2.398bn net of the $86m sinking fund and is expected to rise to $2.629bn by March 2018;
- New borrowing of $135m will be required to finance the 2017/18 budget deficit; and
- Annual debt service cost is $186m. Servicing the National debt will be more expensive than the budget for any single Ministry. Put another way, 18 cents from every dollar the Government collects as revenue will go toward servicing the National debt.

KPMG Opinion: *There are encouraging signs that Bermuda's economy is moving in the right direction. The Minister's deficit reduction strategy has seen the rate of increase in Bermuda's national debt slow, and the Government remains committed to reducing debt as an overriding priority. Debt Services costs have risen to unprecedented levels. Preventing sustained increases in the national debt is of paramount importance, to maintain Bermuda's sovereign debt rating and avoid further increases in debt service costs. Bermuda's economy faces a more immediate threat in the form of the US border adjustment tax on reinsurance and other goods and services and a reduction in the corporate tax rate in the US. The potential impact on Bermuda's reinsurance sector should capital relocate to the US will be a critical factor in the success of the island's economy.*

Revenues & expenditures

▲ Revenues for 2017/18 are forecast to rise by 4.6% or $45.4m to $1.046bn;

▲ The increase in revenues will be generated from progressive payroll taxes on higher paid employees and larger businesses, a continuing rollback of tax concessions for hoteliers, retailers and restaurants, increases in duties on fuel, alcohol and tobacco, and a new Financial Services Tax;

▲ Total expenditure for 2017/18 is forecast to be $1.177bn or only $19m lower than in 2016/17;

▼ Operating expenditures are projected to be $923m or an increase of $2m from last year. This includes $31.8m to be spent on the America's Cup;

▲ Capital expenditure is set at $67.4m which is $19.5m lower than the 2016/17 forecast; and

▲ There will be a one-off reduction of $25m in funding for the Bermuda Hospitals Board.

KPMG Opinion: *The Government has focused on increasing revenues by broadening the tax base through a new Financial Services Tax, and a progressive payroll tax which provides much needed tax relief for the lower paid. However, little has been done to address the cost of running the civil service, with only a 2% reduction in expenditure forecast over the next three years. Increasing taxes will help to balance the budget and should see Bermuda's debt start to reduce in a few years, but there is more to be done in reforming the public sector.*

Payroll taxes

- A new progressive payroll tax system offers lower taxes for the lower paid;
- Those earning more than $137,000 per annum will pay more from April 1, 2017 and the tax cap has been raised from $750,000 to $900,000;
- Payroll tax is now determined based on the size of the employer's annual payroll and the income of individual employees;
- Employers pay tax according to the size of their annual payroll, as follows:

Over $1 million:	10.25%
Over $500,000:	9.00%
Over $200,000:	7.00%
Below $200,000:	1.75%

- For certain sectors such as schools, charities, religious and cultural organisations the employer's rate is set at 0%;
- Employees will pay according to their income. As income rises each dollar above the previous level is taxed at a higher rate:

	2017/18	2018/19
Up to $48,000	4.75%	4.25%
$48,001 to $96,000	5.75%	5.50%
$96,001 to $235,000	7.75%	9.00%
$235,001 to $900,000	8.75%	11.00%

- Self-employed persons are to be taxed both as an employee and an employer of the business;
- The existing concessions for hoteliers, retailers and restaurants will be withdrawn from March 31, 2017; and
- Payroll taxes will generate $439m in 2017/18 or 41.9% of total Government revenues.

KPMG Opinion: *The Government has continued to use payroll tax as its primary method of raising tax revenues. Most would agree that the progressive payroll tax system is fairer and more equitable. However, increasing the cost of doing business in Bermuda may result in businesses moving their staff to lower cost jurisdictions.*

Other taxes and duties

- Effective April 1, 2017 a new Financial Services Tax is charged on the following financial services providers:

Bank	0.02% of assets
Domestic insurers	2.5% of non-health related gross premiums earned
Money service businesses	5.0% on the aggregate of incoming and outgoing volume

- A General Services Tax will be introduced from April 1, 2018;
- Plans for a single unified customs duty tariff have been aborted, but there are plans to progressively harmonise into fewer rates while increasing the rates for higher bands;
- The duty on fuel will be raised by 5 cents per litre from April 1, 2017. Duty on tobacco and alcohol will also increase; and
- Company annual license fees for certain Permit Companies will be raised from $1,995 to $25,000.

KPMG Opinion: *Broadening the tax base to reduce the economy's reliance on payroll taxes and import duties is essential, and the new Financial Services Tax and next year's General Services Tax should help to achieve this. However the Government needs to be cautious of the impact that these new taxes will have on the cost of doing business in Bermuda, as most businesses will have no choice but to pass on a portion of these costs to their consumers.*

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