

**Ministry Of Finance**

# **Pre-Budget Report**

**Fiscal Discipline With Sensitivity**

***“In order for Bermuda to succeed, we need to return our economy to a path of balanced growth that creates jobs, provides rising income and assists our budget challenges. It is our belief that a better environment must be created in which Bermudian businesses can thrive, opportunities for Bermudians can be created, and in which capable, qualified Bermudians can earn opportunities to work, train and succeed at every level.”***

**– Progressive Labour Party 2017 Election Platform**

# **Purpose of Pre-budget Report**

The objective of the Pre-budget Report is to increase the public awareness of a government's fiscal and budget policy objectives, and to establish a benchmark for evaluating the conduct of fiscal and budget policy.

# Principles of our Fiscal Policy

- Prudently manage the financial risks
- Maintain the government debt and contingent liabilities at prudent levels
- Ensure that fiscal policies contribute to the achievement of adequate national saving

# Principles of our Fiscal Policy

- Promote fairness and equity in both spending and taxes
- Exercise Fiscal Discipline
- Maintain the integrity of the tax system
- Ensure that policy decisions have regard to their financial effects on future generations

# Consideration When Preparing The Budget

- Economic Growth
- Fiscal Discipline
- Direct Outcome of Governments Economic & Social Policies

# Consideration When Preparing The Budget

- Shrinking Tax Base
- Deficit Reduction
- Prudent Management Of National Debt
- Rating Agencies

# Consideration When Preparing The Budget

- Lower US Corporate Tax Rate
- External Threat (EU, OECD, CFATF)
- Aging Population
- Rising Health Care Costs



# **EU Substance Is the Greatest Challenge and Threat That Bermuda Faces**

**The Legislation that the Government laid in Parliament was to protect Bermuda as an International Business.**

**We are one of 41 Jurisdictions that has to address the European Code Of Conduct concern.**

**Failing would risk Bermuda being on the list of non cooperative Jurisdictions.**

# **EU Substance Is the Greatest Challenge and Threat That Bermuda Faces**

**Economic Substance is the criteria by which we will be judged.**

**The world is changing and Bermuda is not isolated from this change.**

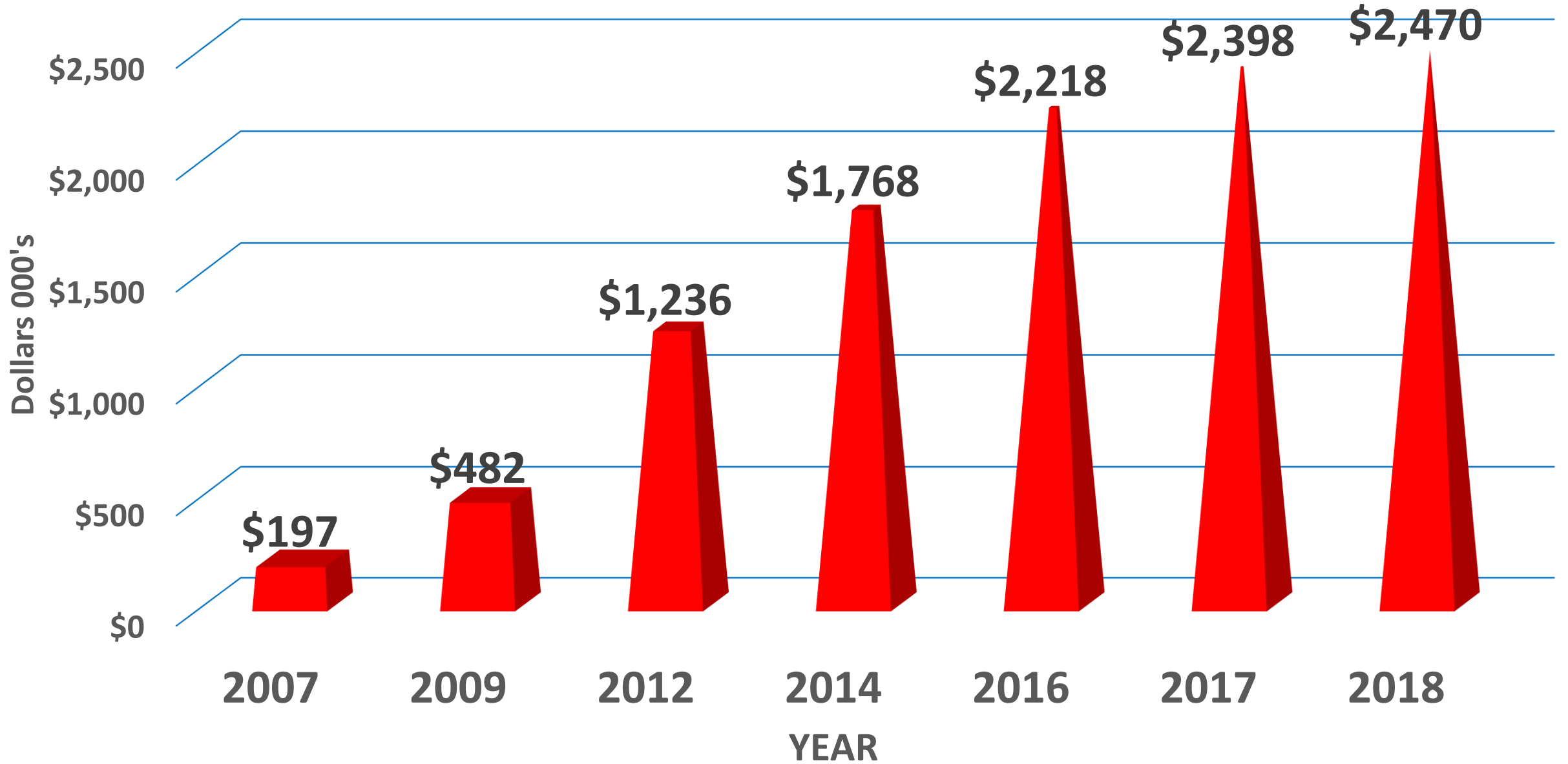
**This is not just an EU issue, it is an OECD (Organisation for Economic Cooperation and Development) issue.**

# **WHAT IS ECONOMIC SUBSTANCE?**

- **Physical Presence In Bermuda**
- **Income Generation in Bermuda**
- **Control from Bermuda**
- **Employees from Bermuda**

**This Could Be Good For Bermuda.**

# Debt Net Of Sinking Fund



# TOTAL FILLED JOBS

40,213

38,097

35,443

33,475

33,481

33,653

2008

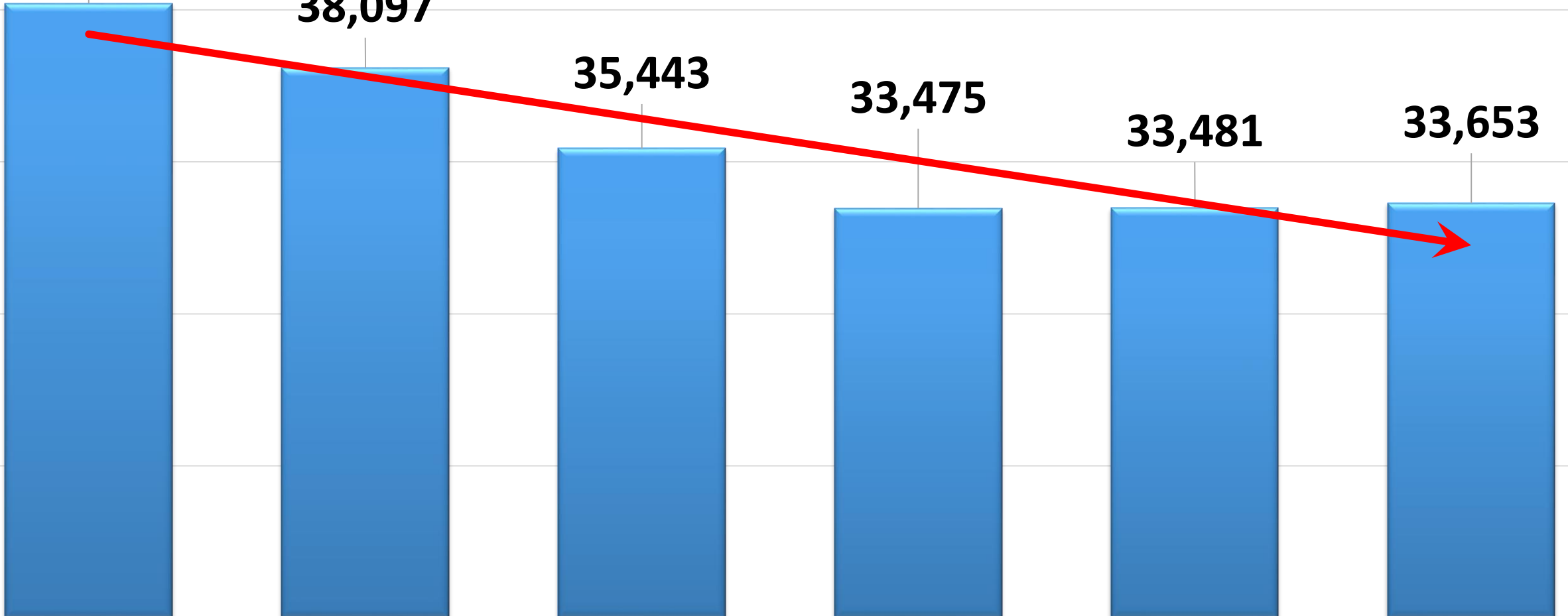
2010

2012

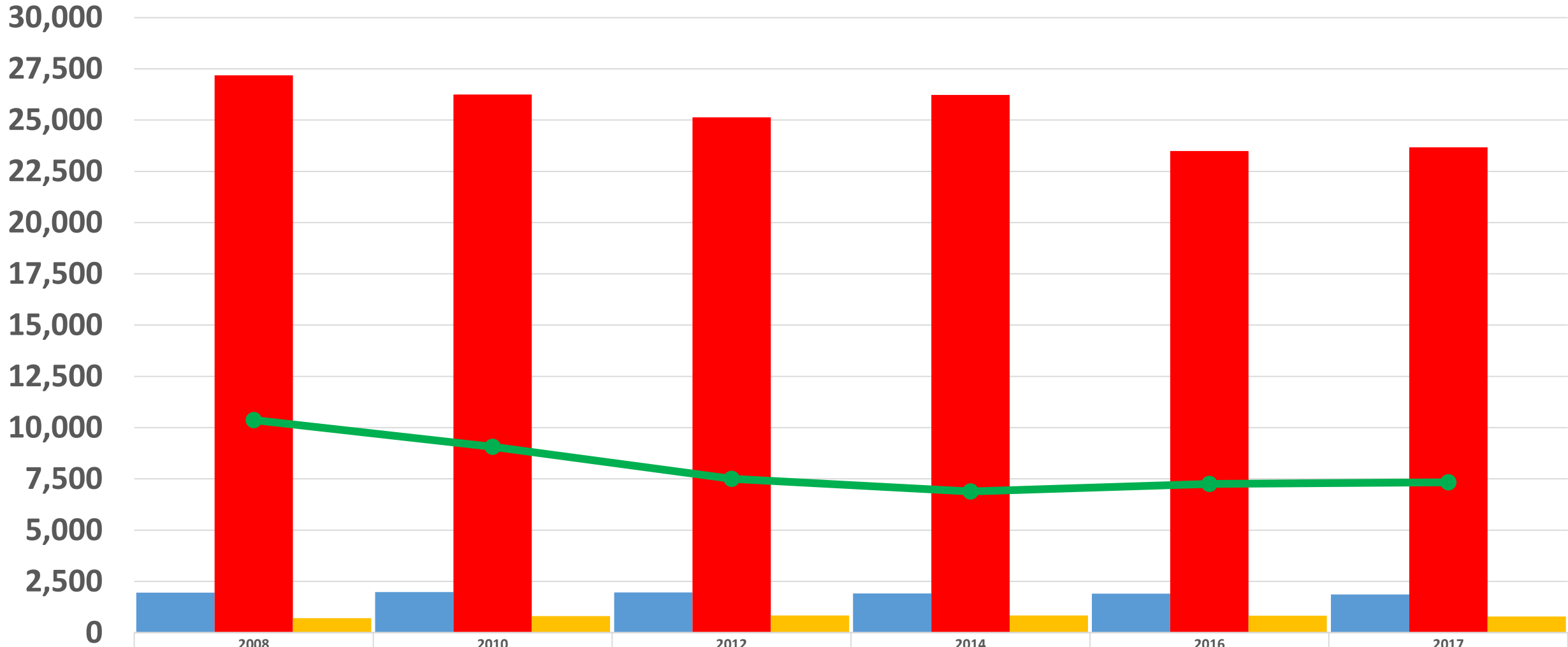
2014

2016

2017



## Employment By Status



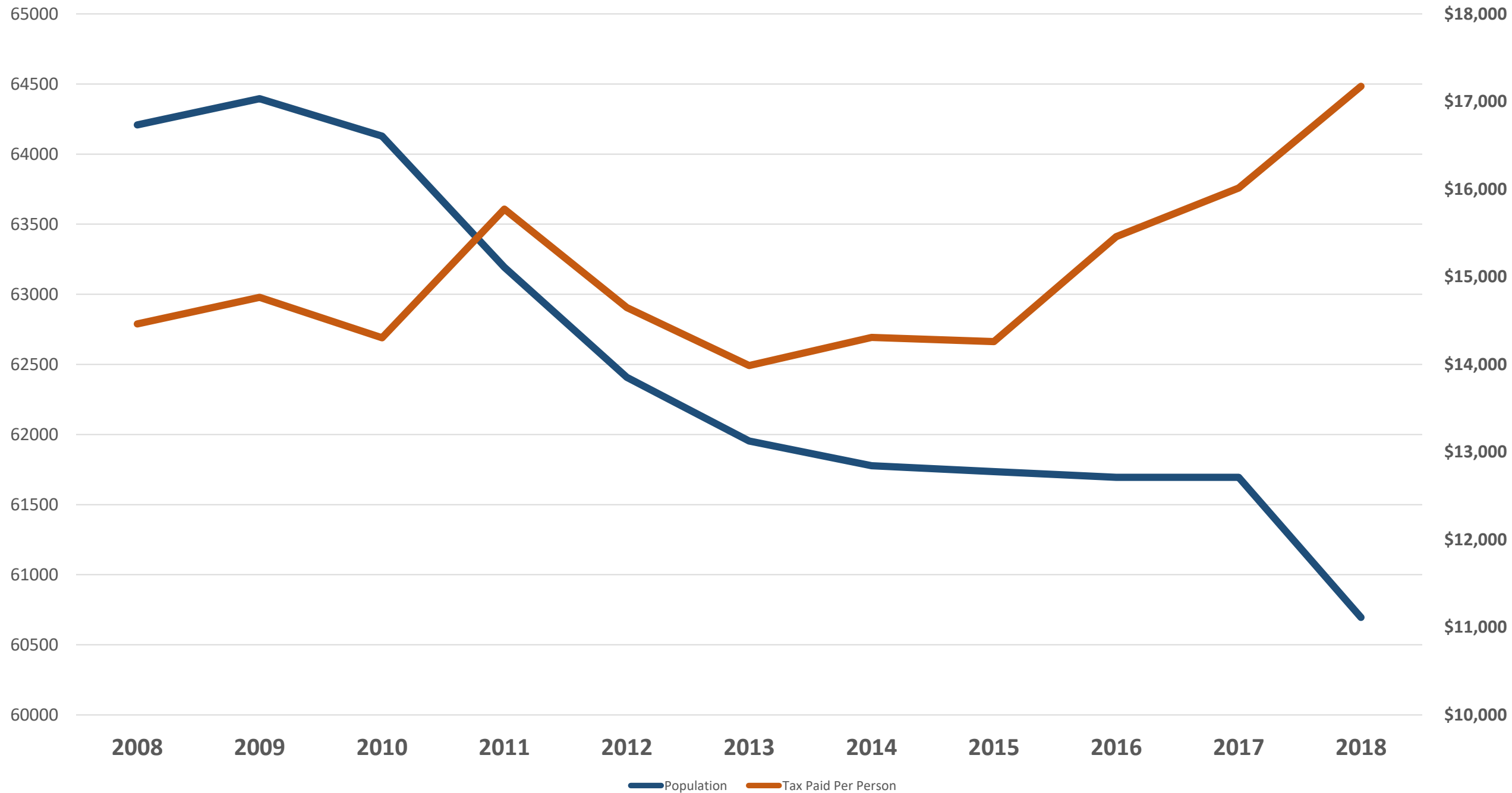
<span style="color: blue;">■</span> Spouse	2008	2010	2012	2014	2016	2017
<span style="color: red;">■</span> Bermudian	1956	1979	1968	1919	1902	1862
<span style="color: yellow;">■</span> PRC	27180	26247	25132	26226	23494	23667
<span style="color: green;">●</span> Non- Bermudian	710	806	842	838	826	786
	10367	9065	7501	6885	7259	7338

# **FACTS**

Between 2008 – 2017

- **3,209 Less Bermudians Working**
- **3,513 Less Foreign Workers**
- **\$60 - \$70 Million Tax Revenue Less Per Year**

Population Versus Tax Paid Per Population



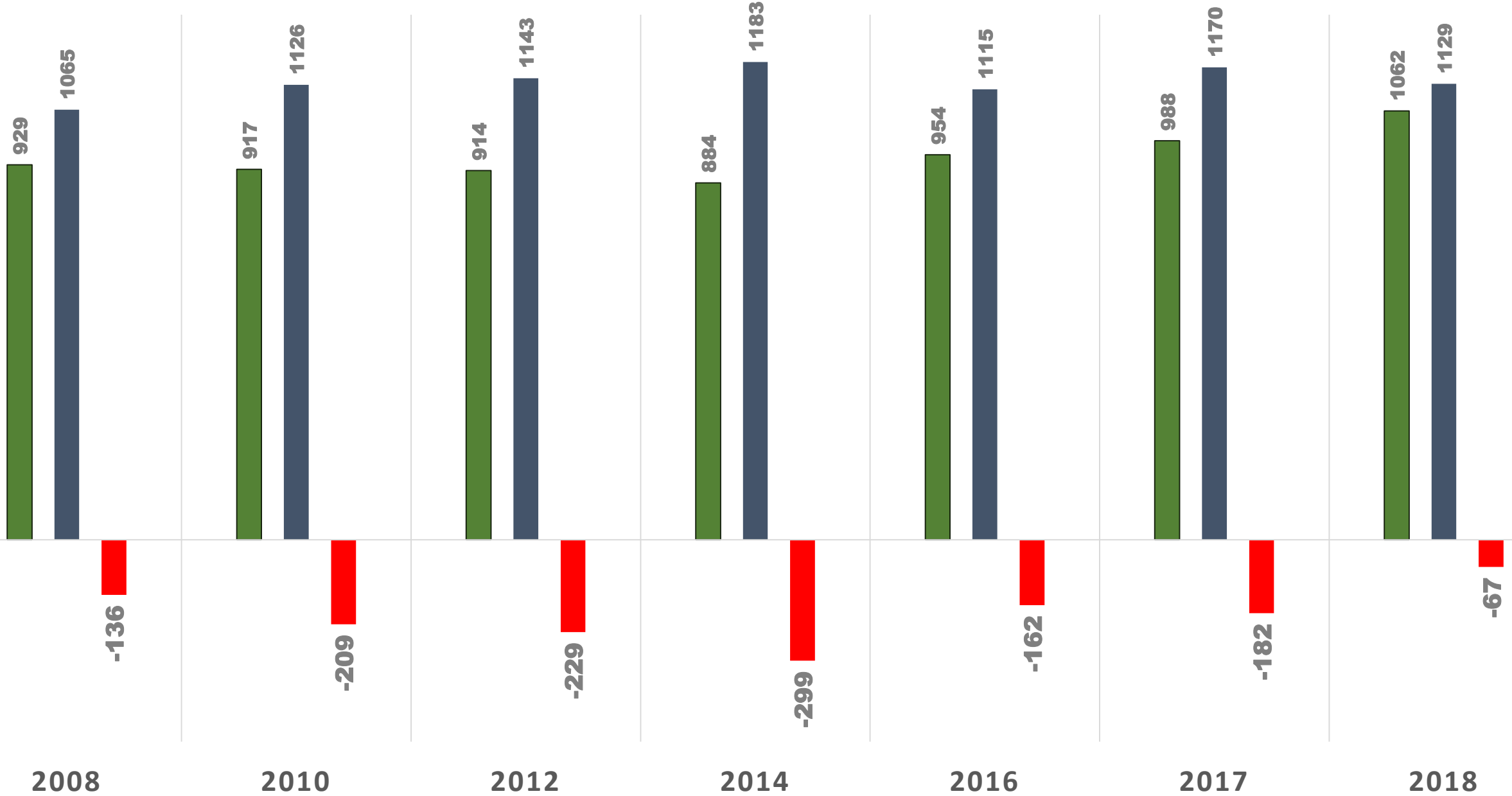


# REVENUE, EXPENDITURE AND SURPLUS (DEFICIT BY YEARS)

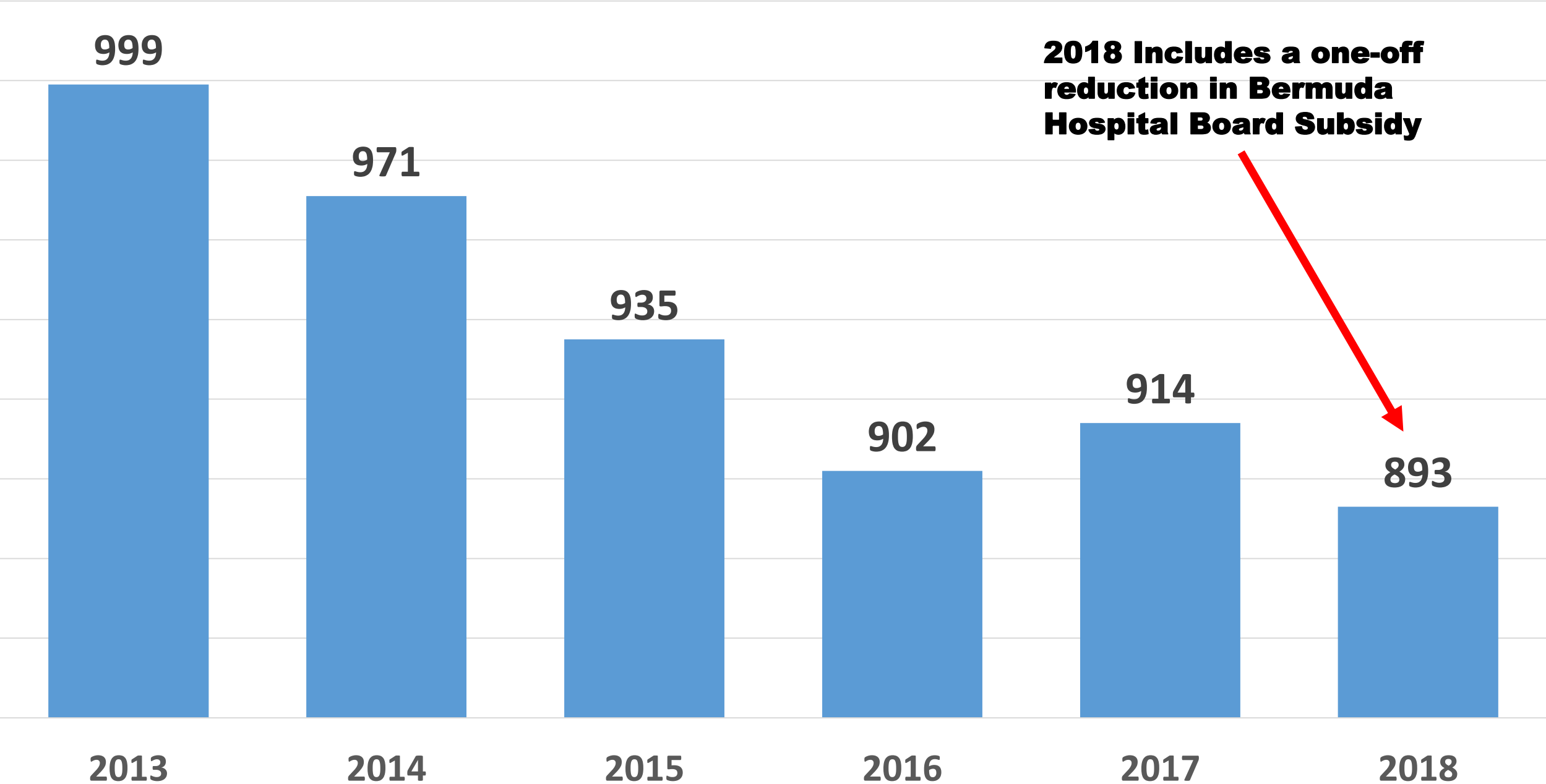
Revenues

Expenditures

Deficit



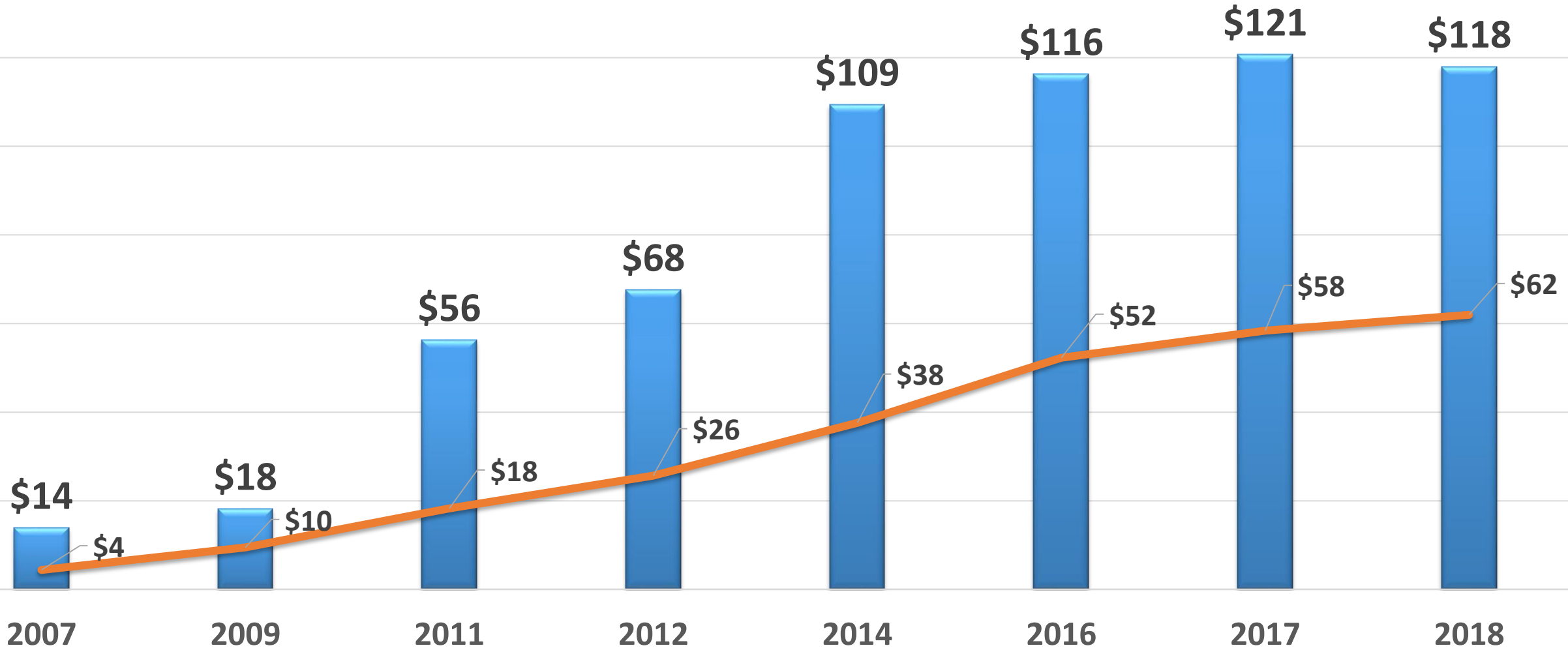
# Current Account Expenditure By Year



**2018 Includes a one-off reduction in Bermuda Hospital Board Subsidy**

# INTEREST EXPENSE -VS-SINKING FUND

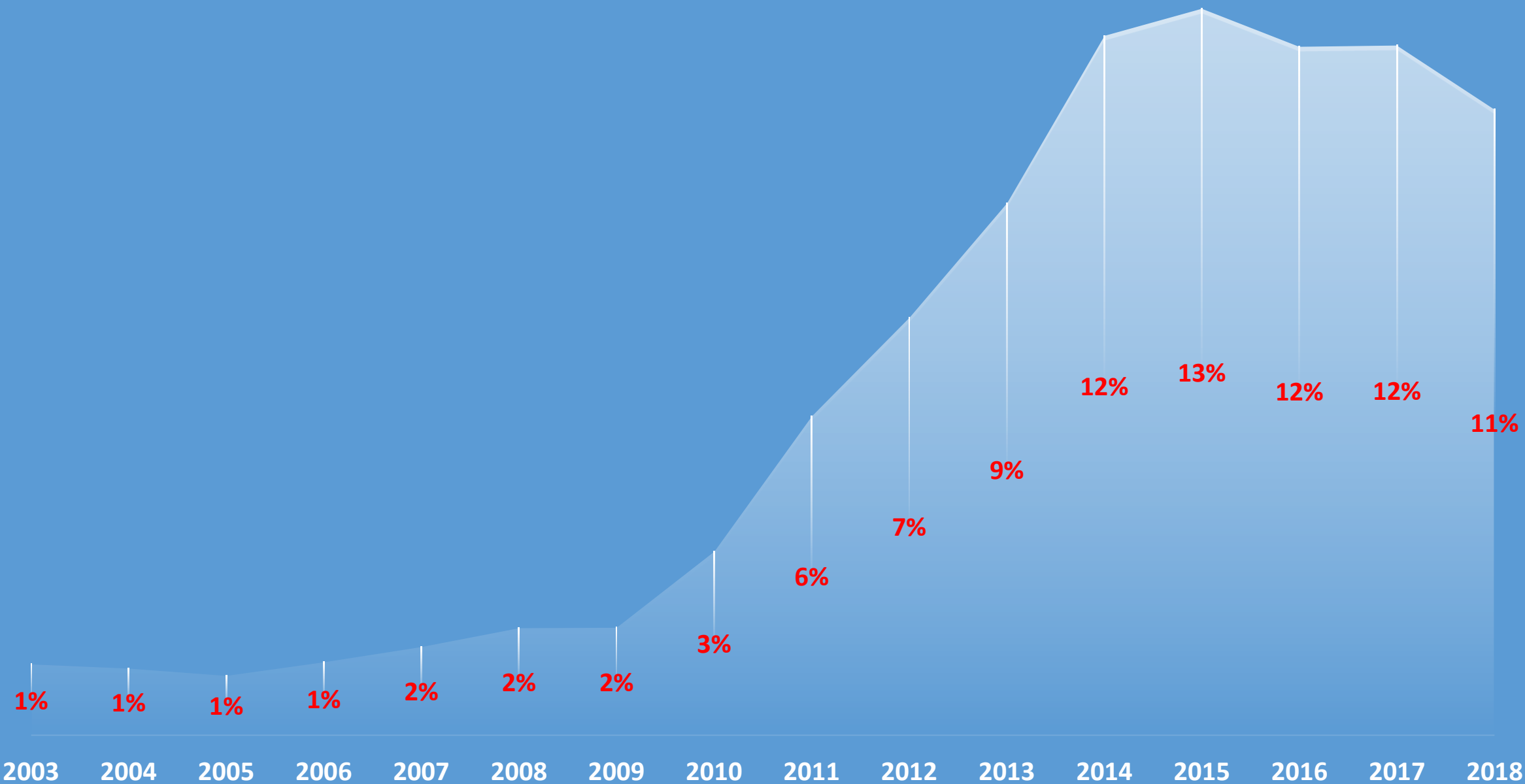
\$000's



Axis Title

 Interest expense  Sinking fund contribution

# INTEREST AS A PERCENTAGE OF REVENUE



# **Framing the 2019/20 Budget**

- **Taxation**
- **Sensitivity**
- **Deficits and High Debt Levels**
- **Fiscal Strategy to Halt the rise of debt**

# **Policy Options Under Consideration for the 2019/20 Budget**

## **Economic Substance Incentive Program**

**The Government will extend the relief for exempted companies as part of the Economic Substance program. This program will provide two year employer payroll tax concession for additional jobs created in Bermuda.**

# **Policy Options Under Consideration for the 2019/20 Budget**

## **Retail Industry Payroll Relief**

- The Government is very much aware of the pressure on certain segments of this sector.**
- In an effort to maintain and increase employment levels in this sector, the Government is considering providing some form of targeted payroll tax relief to specified businesses in this sector, whose annual payrolls are greater than \$1 million.**

# **Policy Options Under Consideration for the 2019/20 Budget**

## **Rental Tax – Commercial and Residential**

- The Government is considering taxing commercial and residential rents in line with the recommendation of the TRC report.**
- It is propose that the tax will be charged on the ARV of the property.**



# **Policy Options Under Consideration for the 2019/20 Budget**

## **Financial Service Tax**

**We are considering increasing the Financial Service  
Tax on Insurance premiums.**

# **Policy Options Under Consideration for the 2019/20 Budget**

## **Foreign Currency Purchase Tax (FCPT)**

**We are considering increasing the FCPT from 1% to  
between 1.25% to 1.75%.**

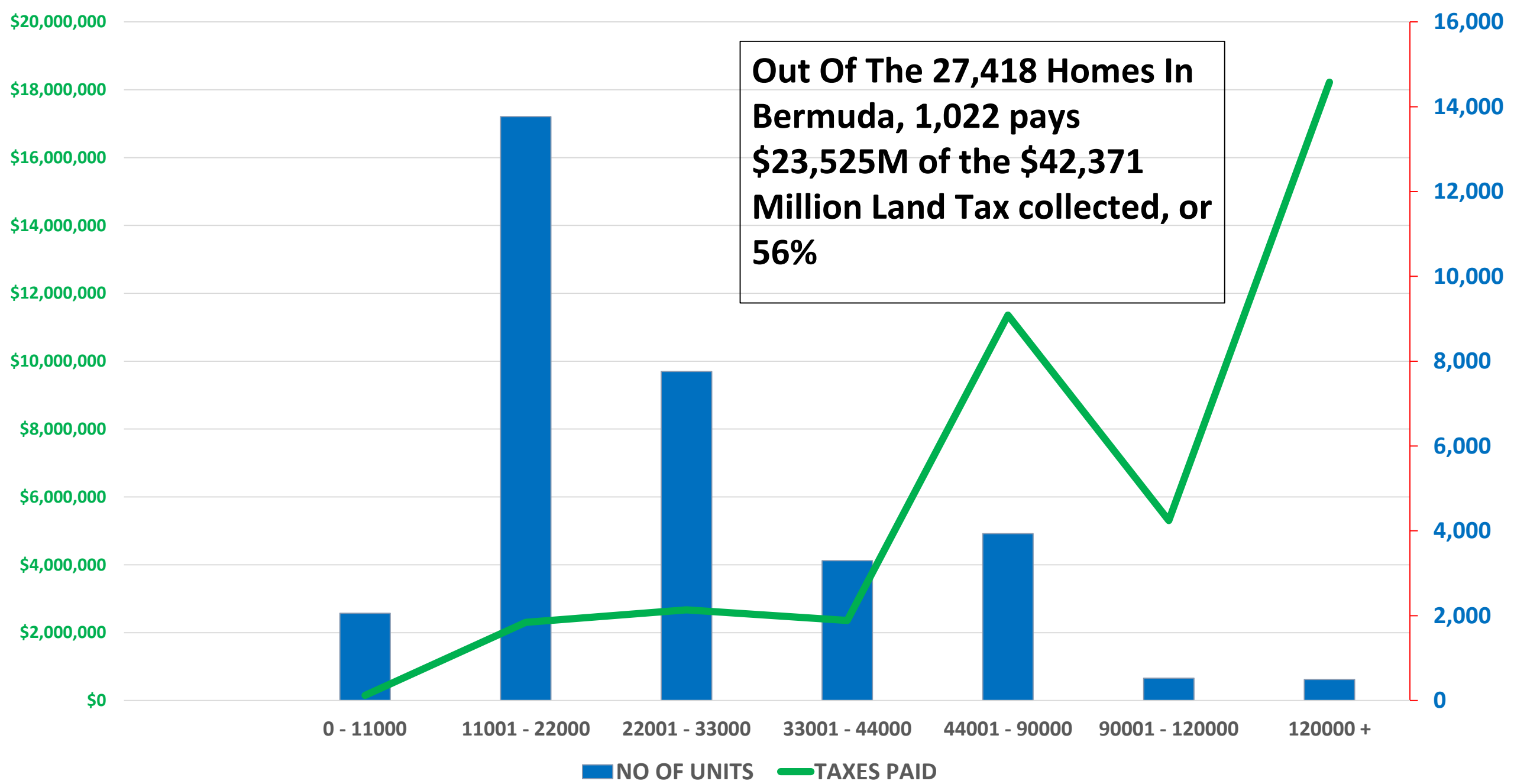
# **Policy Options Under Consideration for the 2019/20 Budget**

## **Land Tax**

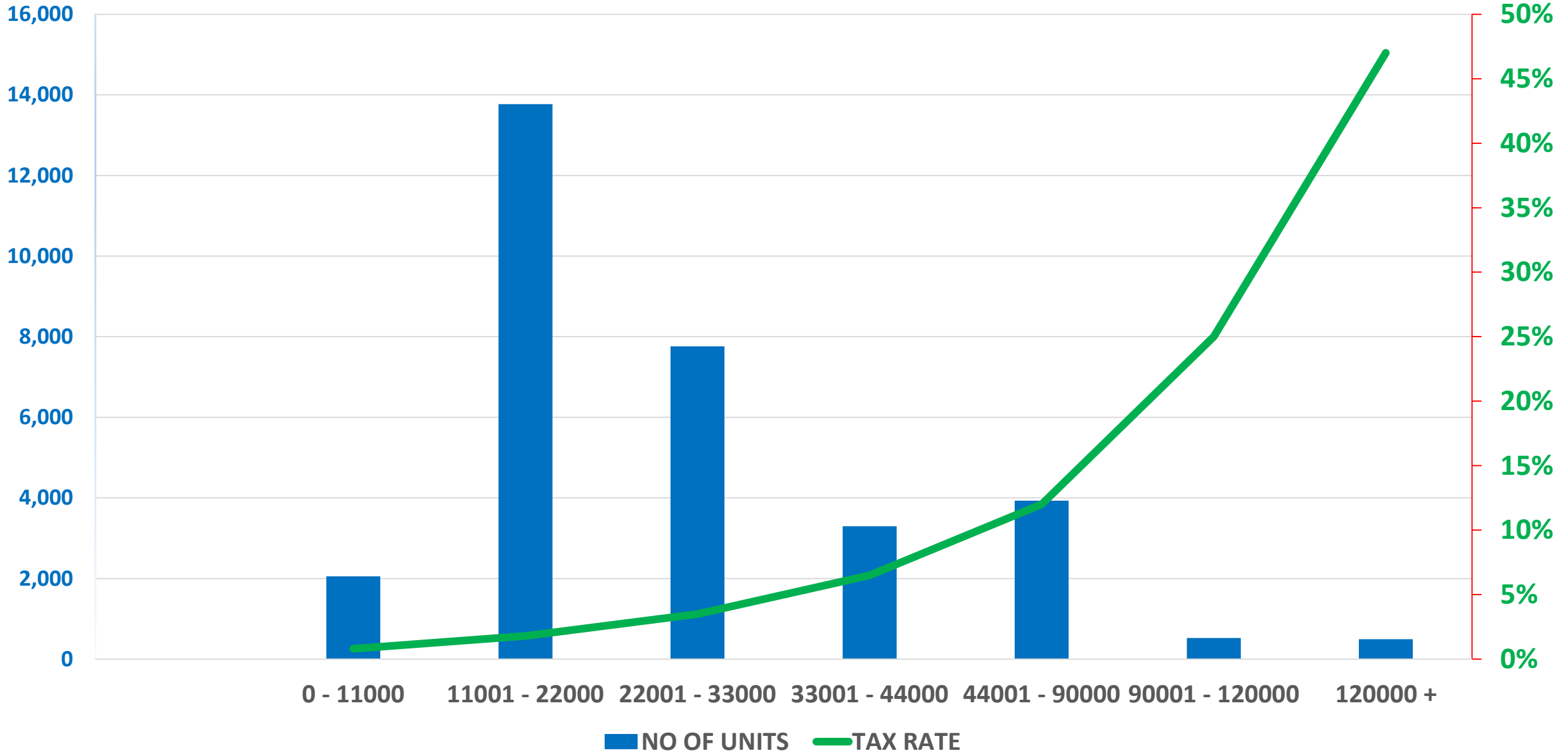
**We are considering amending the land tax rate structure for residential properties by increasing the taxes for properties with an ARV of under \$22,800, to a flat rate of \$250 per annum.**

This Chart Shows The Number Of Units in Land Tax Band Versus The Revenue Collected

**Out Of The 27,418 Homes In Bermuda, 1,022 pays \$23,525M of the \$42,371 Million Land Tax collected, or 56%**



This Chart Is Very Interesting it Shows the number Of Units  
In Each Land Tax Band Compared to The The Tax Rate  
This Shows That Our Tax Rate Is Very Progressive



Here Is Another Chart That Shows Land Tax Bands With Average Land Tax Paid in those Bands and The Percentage of Tax Rate



<span style="color: green;">■</span> TAX RATE	0 - 11000	11001 - 22000	22001 - 33000	33001 - 44000	44001 - 90000	90001 - 120000	120000 +
<span style="color: red;">—●—</span> AVERAGE LAND TAX PAID YEARLY	0.8%	1.8%	3.5%	6.5%	12.0%	25.0%	47.0%
	\$73.86	\$167.38	\$344.16	\$715.85	\$2,887.46	\$10,081.56	\$36,741.83

■ TAX RATE    —●— AVERAGE LAND TAX PAID YEARLY

# **Policy Options Under Consideration For The 2019/20 Budget**

## **Tax Collection & Accounts Receivable**

**The Government will enhance the links between IT systems in government departments to place more restrictions on individuals, homeowners and business who are not current with their tax obligations. These links will also assist the OTC in identifying employers who may be underreporting taxes to better direct resources for enforcement.**

# **Policy Options Under Consideration For The 2019/20 Budget**

## **Tax Collection & Accounts Receivable**

- **The Government will be looking at all accounts that are listed as “provision for bad debt”.**
- **These accounts will be analysed and those accounts that are deemed collectible and do not have payment plans in place will be handed over to the Debt Enforcement Unit in the Attorney General’s Chambers to take action.**
- **The Government is considering implementing a Tax Amnesty Programme.**



# **Policy Options Under Consideration For The 2019/20 Budget**

## **Government Efficiency**

**Controlling Public Sector expenditure remains a focus of the Government. Whilst there has been some success in cutting costs, it has become increasingly difficult to implement further reductions under the current Government structure and the across-the-board expenditure cuts in previous budgets.**

# **Policy Options Under Consideration For The 2019/20 Budget**

## **Government By The Numbers**

**The Government proposes to set the total current account appropriation, less debt service, at approximately \$929 million. The amount is equal to the budgeted expenditure for the current 2018/19 fiscal year (total current expenditure will remain unchanged).**

# **Policy Options Under Consideration For The 2019/20 Budget**

## **Government By The Numbers**

**It is critical that we maintain and strengthen our infrastructure and stimulate economic activity, therefore the Government plans to set capital expenditure at a prudent level of about \$60 million.**

# Summary Of Revenue Under Consideration

- Land Tax
- Rental Tax
- Financial Service Tax
- Foreign Currency Purchase Tax

**To Learn More About The Pre-Budget  
go to  
[www.gov.bm/prebudgetreport](http://www.gov.bm/prebudgetreport)**