

BERMUDA

Tax Reform Commission



2018



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Bermuda Tax Reform Commission

October 29, 2018

The Premier of Bermuda and Minister of Finance
The Hon. E. David Burt, JP, MP
The Cabinet Office
105 Front Street
Hamilton HM 12

Hon. Premier,

In accordance with section 7 of the Tax Reform Act 2017, it is my pleasure to submit to you the Final Report of the Tax Reform Commission.

On behalf of all Commissioners, I wish to convey to you our thanks for the opportunity to serve as members of the Tax Reform Commission.

We trust that the recommendations contained in the report will assist you and your government in meeting its social and fiscal obligations.

Sincerely,

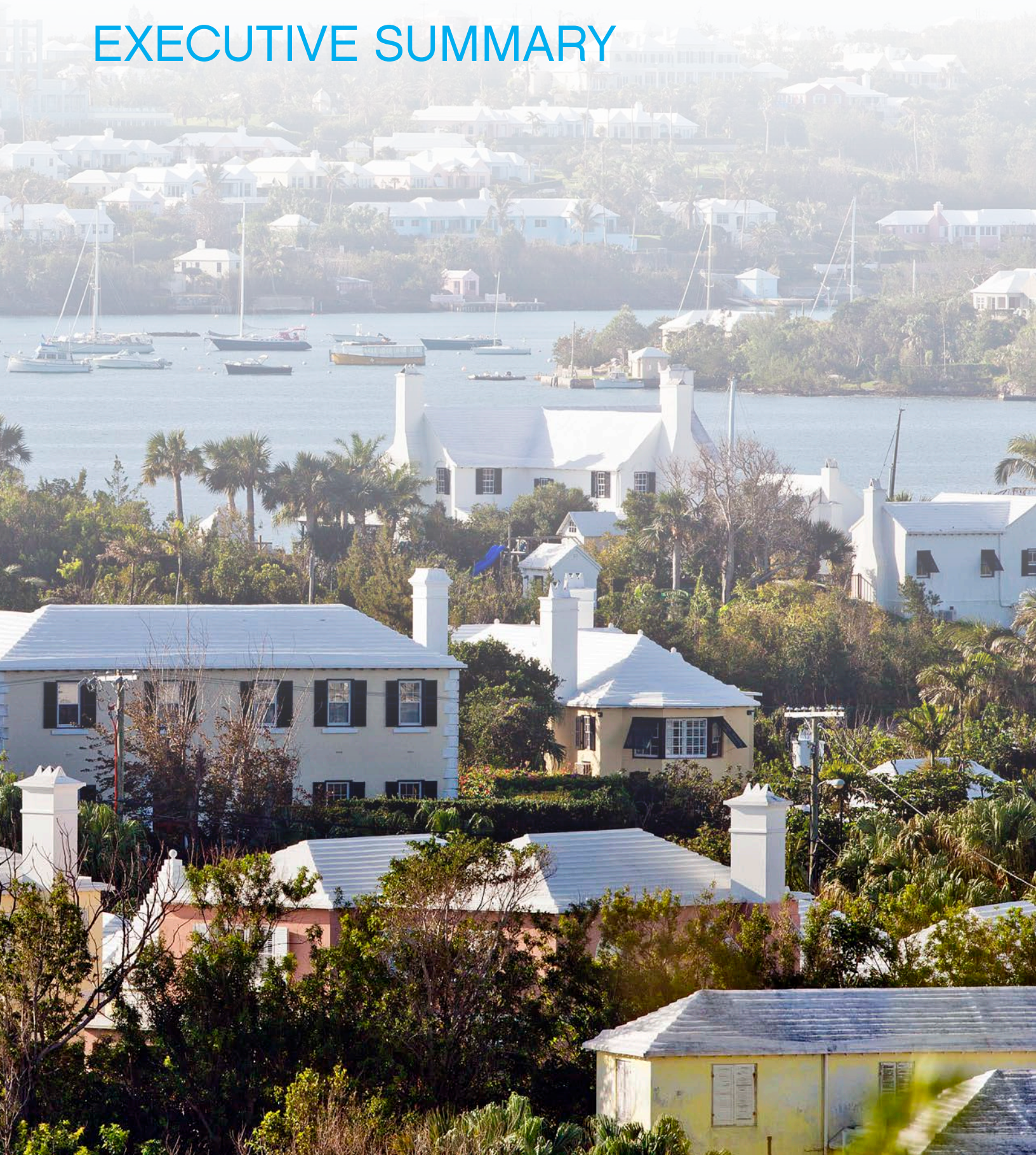
A handwritten signature in dark ink, appearing to read 'Ronald Simmons', with a long horizontal flourish extending to the right.

Ronald Simmons, JP, CPA, CA

Chairman
Tax Reform Commission

SECTION ONE: ONE

EXECUTIVE SUMMARY



1.1 EXECUTIVE SUMMARY

- 1.1.1 The Commissioners would like to state that it has been a privilege to serve as members on the Tax Reform Commission (TRC).
- 1.1.2 Over the past nine months the Tax Reform Commission met on average twice a week spending approximately 400 hours conducting extensive research and due diligence to understand what options were needed to modernize Bermuda's tax system and provide proposals for the administrative aid which will be needed to support the recommendations contained within the Tax Reform Commission's Report to the Finance Minister.
- 1.1.3 In presenting this report, the Commissioners would like to express their sincere thanks to the experts who provided their wise counsel (Her Majesty's Revenue and Customs (HMRC), International Monetary Fund (IMF)/Caribbean Regional Technical Assistance Centre (CARTAC)) and to the 50+ stakeholder groups, comprising over 500 individuals.
- 1.1.4 The Commissioners would like to extend their thanks to the expert modelling assistance provided by the Bermuda Ministry of Finance, the Association of Bermuda Insurers and Reinsurers (ABIR), the International Monetary Fund (IMF) and the Bermuda Department of Statistics. The Commission would also like to extend a special thanks to the management and staff of Ironshore Bermuda for providing administrative and operational support.
- 1.1.5 The Commission considers that if the tax policy recommendations are implemented, an additional yield of approximately \$147 million could be generated over a 2-3-year period. Such an outcome would raise government revenue to approximately \$1.26 billion (20% of Gross Domestic Product (GDP)) by 2020, compared to 17% of GDP in 2017.
- 1.1.6 The Executive Summary presents the proposed new taxes and suggested reforms to existing tax measures that the Commission recommends should be implemented:

1.1.7 SUMMARY TABLE REVENUE PROJECTIONS

NOTE		BUDGET	ESTIMATE	ESTIMATE	CHANGE
	REVENUE TYPE	2018 - 2019	2019 - 2020	2020 - 2021	2018 - 2020
TOTAL		\$1,089,861,000	\$1,206,984,778	\$1,236,984,778	\$147,123,778
Target Revenue: 20%GDP		\$1,225,000,000	\$1,225,000,000	\$1,225,000,000	
Excess (Shortage) over Target		\$ (135,139,000)	\$ (18,015,222)	\$11,984,778	
The above revenue projection includes in their calculations all taxes and fees. A full list of the revenue projection can be found in section 4 of the appendix on pages 56-58.					

1.1.8 SUMMARY TABLE PROPOSED NEW TAXES

NEWLY PROPOSED TAXES							
Description of Tax	Intent of Measure	Impact	Current Revenue 2018/19 \$m	Revenue Change \$m	Revenue Projection 2019/20	Revenue Projection 2020/21	Time Frame
Commercial Rental Tax	Progressive Tax based on Annual Rental Value (ARV)	Property Owners	N/A	\$14.8m	\$41m	\$41m	Within 12 months.
Residential Rental Tax			N/A	\$26.2m			
General Services Tax	Flat Tax base on value of local services	Final User	N/A	\$27.5m		\$27.5m	Within 24 months.
Withholding Tax - Managed Services	Flat Tax base on overseas services provided locally	Companies	N/A	\$27.5m	\$27.5m	\$27.5m	Within 12 months.
Withholding Tax – Dividend & Interest	Flat Tax on value of dividends/interest	Recipient	N/A	\$2.5m		\$2.5m	Within 24 months.
Total Proposed New Taxes				\$98.5m	\$68.5m	\$98.5m	
Note: Proposed new taxes are taxes that are not currently implemented. The figures in the tables may differ slightly to the revenue projection spreadsheet because these projections are based on 24-month timeframe. The revenue projection spreadsheet is based on financial year end.							

1.1.9 PROPOSED EXISTING TAXES TO BE REFORMED

Description of Tax	Intent of Measure	Impact	Current Revenue \$m 2018/19	Revenue Change \$m	Total Revenue \$m 2019/20	Total Revenue \$m 2020/21	Time Frame
Payroll Tax -	Eliminate rate for \$48k under	Employee Earnings	\$454m	(\$38m)	\$430m	\$430m	Within 12 months.
	Provide relief by lowering rates	Reduction in payroll cost					
Tax on owner-manager declared dividend	Dividends for owner-managers. in scope of Payroll Tax	Owner-managers	N/A	\$15m	*	*	Within 12 months
Custom Duty	Reduce cost of staple food items and children's clothing	Final Users	\$235m	(\$2.1m)	\$233m	\$233m	Within 12 months.
Excise Tax	Increase excise tax on wines and beer	Final Users					
Land Tax	Restructure Land Tax	Property Owners	\$78.3m	(\$10.1m)	\$68.2m**	\$68.2m	Within 12 months.
Financial Services Banks and Insurers	Generate additional revenue from bank and insurance fees	Financial Services Firms and Customers	\$8.9m	\$6.1m	\$15m	\$15m	Within 12 months.
Foreign Currency Purchase Tax	Increase rate to 1.75%	Individuals And Companies	\$22m	\$16.5m	\$38.5m	\$38.5m	Within 12 months.
International Company Fees	Align fees with a company's assessed capital by increasing the number of bands	Companies	\$68.5m	\$25.5m	\$94m	\$94m	Within 12 months
Immigration Fees	Generate more revenue	Companies	\$16.5m	\$3.5m	\$20m	\$20m	
Total***			\$883.2	\$16.4m	\$898.7m	\$898.7m	
* Absorbed within payroll tax.							
** Land Tax revenue has been adjusted down due to the one year 5% increase levied on commercial properties in 2018/19.							
*** Total subject to rounding error.							

SECTION ONE: TWO

INTRODUCTION



1.2 INTRODUCTION

- 1.2.1 The Tax Reform Commission was formed under the Tax Reform Act 2017 with the objective of advising the Government of any measures to improve Bermuda's system of taxation and revenue collection, in accordance with the functions set out in section 5 of the Act and the Terms of Reference prescribed by the Premier and Minister of Finance, the Honourable E. David Burt, JP, MP.
- 1.2.2 The Tax Reform Commission was given the following mandate by the Minister of Finance:
- Examine Bermuda's tax system and determine any measures that may be taken to best enable a system of taxation and revenue collection that is equitable, effective, efficient, competitive and transparent;
- Increase public sector revenue yield from 17% of GDP to a minimum of 20%-22% of GDP; and
- Prepare and submit a report and recommendations in accordance with section 7 of the Tax Reform Act.
- 1.2.3 For the avoidance of doubt, the Commission has not addressed Government spending directly. This was not part of the Commission's remit. However, due to overlap of cross-cutting issues, some of the recommendations submitted by the Commission have touched on Government expenditures.
- 1.2.4 The Commission met with more than 500 people representing of 50+ stakeholder groups including members of the public, unions, local business, international business and community advocacy groups, Civil Servants, Parliamentarians and others.
- 1.2.5 As a result, the Commission was made aware of their expectations for systematic tax reform. These stakeholder groups consistently stated that Bermuda's economic sustainability is intrinsically linked to tax reform, including urgent reform of the tax collection, compliance and enforcement procedures.
- 1.2.6 A recurring theme across almost all of the stakeholder groups was that Bermuda's tax structure was neither fair nor equitable.
- 1.2.7 There was a consensus amongst stakeholder groups that Bermuda's tax structure placed a disproportionate burden of tax on those least able to pay.
- 1.2.8 Stakeholders expressed irritation that individuals and businesses were avoiding their tax obligations without being held to account. These stakeholders placed great emphasis on the need to improve Bermuda's tax collection, compliance and enforcement systems.
- 1.2.9 In comparing tax/GDP ratios in other countries the Commission found that Bermuda was lagging behind its main competitor jurisdictions as well as the rest of developed economies.
- 1.2.10 In comparable international financial centres in the Caribbean and elsewhere, tax/GDP ratios have converged to 20%-24% of GDP compared to Bermuda's ratio of 17% of GDP. In OECD countries the tax/GDP ratios are in the range of 24%-28% of GDP.
- 1.2.11 It is acknowledged that if the tax to GDP ratio included regulatory fees collected by the Bermuda Monetary Authority, the Tourism Authority and other authorities or agencies, then Bermuda's tax/GDP ratio could approximate to 18% of GDP which would still place Bermuda a few percentage points behind other jurisdictions.

- 1.2.12 Many of these competitor jurisdictions have undergone their own tax reforms since the onset of the international financial crisis in 2008.
- 1.2.13 Taxation reform involves an examination of a country's tax base to determine how equitably the overall tax burden is divided amongst tax payers, to assess the sustainability of existing tax measures, and to identify new revenue opportunities that do not create any risk of collateral damage to the economy.
- 1.2.14 Questions that have to be considered may include the following:
- Are the tax measures fair? Are they simple and easily understood?
- Do all tax payers contribute their fair share to the public purse?
- Is the tax base broad and resilient enough to withstand global and local economic or other shocks to the system?
- Are the tax collection processes and compliance being enforced?
- 1.2.15 In theory and in practice, tax measures may be applied to income or consumption streams in a modern economy. Tax measures may also be applied to the accumulation of wealth.
- 1.2.16 A reformed Bermuda tax base can be broadened and made more equitable by introducing new tax measures directed at all forms of income generated from economic activity – labour income, business profits, rental income, royalties, dividends and interest earnings.
- 1.2.17 Alternatively, a reformed Bermuda tax base can also be broadened by introducing new tax measures directed at consumption of goods and services such as clothing, footwear, alcohol, tobacco products, consumer durables, leisure services, personal services and household services.
- 1.2.18 The majority of developed economies have a combination of taxes on income and taxes on consumption. Many of these countries have developed modern and effective tax collection processes and administrative procedures for the collection of their country's tax revenues, supported by rigorous compliance and enforcement programmes.
- 1.2.19 In Bermuda's case, the tax structure is primarily consumption-based and remains largely tied to 19th and 20th century tax management systems that present constraints on a tax reform process in Bermuda.
- 1.2.20 In addition, the tax assurance regime for international companies (*Exempted Undertakings Tax Protection Act 1966* with an expiry date in 2035) presents an obstacle to the introduction of a comprehensive system of corporation taxes and personal income taxes in Bermuda.
- 1.2.21 Going forward with this type of tax policy direction would require the elimination of the tax assurance regime (no extension beyond 2035) for international companies and the negotiation of international income tax treaties with Bermuda's major trading and commercial partners in order to address the territorial issue of double taxation.
- 1.2.22 However, it is possible to take introductory steps towards embracing rental income, interest and dividends as part of Bermuda's tax base.
- 1.2.23 The consolidation of businesses and the reduction in the workforce presents another challenge. It has resulted in a smaller pool of residents for tax purposes. Since 2008, Bermuda's workforce has declined by over 6,500 people as a result of the emigration of expatriates and Bermudians which represents approximately \$250m of lost payroll tax revenue.

- 1.2.24 The reasons for the exodus of Bermudians and expatriate workers remain contentious. The central points of debate include, inter alia, the perception that there is a lack of suitable employment opportunities for Bermudians with qualifications and relevant skill sets, the difficulties that highly-skilled expatriate workers often experience when dealing with the Department of Immigration, mainly with respect to the work permit process and related matters, and the belief that such difficulties inhibit the free flow of 'job creators' into Bermuda.
- 1.2.25 The Commission is aware that there are other reform workstreams underway led by other Government-appointed groups, including Bermuda First that is focused on future growth opportunities for Bermuda and the Immigration Reform Working Group that is charged with recommending amendments to the Bermuda Immigration and Protection Act 1956 based on sound principles. The Commission is unequivocal in its view that a workable alignment between tax, growth and immigration policies is required if the best possible outcomes for Bermuda in the areas of future economic growth and financial stability are to be attained.
- 1.2.26 Another issue of paramount importance relates to the government current account deficits that have grown significantly over the past number of years. As a result, Bermuda's growing public debt has reached an unsustainable level at some 43% of GDP on a narrow economic base. The current position poses a significant risk to Bermuda's investment-grade sovereign credit rating.
- 1.2.27 The Commission considers that removing the risk of a rating downgrade via a sound debt reduction strategy supported by additional revenue yield is prudent.
- 1.2.28 The Commission takes note also of the international pressure by the European Union for Bermuda to address companies on Bermuda's company registry that are deemed to be without 'economic substance'; and market challenges from competitor jurisdictions that are targeting international business in Bermuda.
- 1.2.29 Despite these challenges and constraints, several opportunities remain for a tax reform process in Bermuda which can achieve the goals of making the impact of taxation on taxpayers fairer and more equitable, broadening the tax base, and increasing tax revenue with the support of modernized tax collection, compliance and enforcement procedures.
- 1.2.30 The Commission took note of the development of the legal and governance frameworks for gaming and fintech. However, given that both initiatives were in the early stages of development, the Commission considered that it was premature to set out tax policy options at this time.
- 1.2.31 The Commission recognizes that numerous reports on tax reform dating back some forty years have not been implemented by previous governments. The most recent reports were compiled by the Caribbean Regional Technical Assistance Centre (CARTAC) in 2015 and 2017.
- 1.2.32 The Commission has no authority to ensure that any proposals submitted for consideration to reform Bermuda's tax structure are implemented; the ultimate decision will be determined by the Bermuda Government.

SECTION ONE: THREE

PROPOSED NEW TAXES

THE DETAILS



1.3 PROPOSED NEW TAXES:

1.3.1 TAX ON RENTAL INCOME - COMMERCIAL AND RESIDENTIAL

TRC Advice: Introduce a tax on rental income as a means of generating revenue and broadening Bermuda's tax base.

Details: Recommend a flat tax of 5% be levied.
Use the existing Annual Rental Value (ARV) administrative framework for efficiencies.
Rental tax will not apply to a home owner's primary residence.

Commercial: Applicable to all commercial rental units.

Residential: Applicable to individual rental units with an ARV over \$22k.
Applicable to owners with individual rental units whose ARVs are \$22k or less but have a combined aggregate ARV exceeding \$90k.

Hotels & Vacation

Rentals: Hotel Occupancy tax to be reduced to 5% from 7.5% as recommended by CARTAC in 2015.
The tax applies to all property units that cater to tourists and visitors.

Impact:

Description of Tax	Intent of Measure	Impact	Current Revenue 2018/19 \$m	Revenue Change \$m	Total Revenue \$m
Commercial Rental Tax	Flat tax on ARV	Owners	N/A	\$14.8m	\$41m
Residential Rental Tax			N/A	\$26.2m	

Reference: Section 2.2 of the report provides additional details on rental income tax on both commercial and residential properties.

Timeframe: Implementation within 12 months.

Discussion:

- The Commission took note that 'Real Estate and Renting Activities' constitute the second largest sector of Bermuda's economy, accounting for 16.4% of GDP in 2016. The contribution of this sector to GDP has been relatively consistent in this range since 2010.
- Broad estimates of rental income generated in this sector approximate \$500 million.
- The income generated from property ownership is relatively immobile.
- Historically, such income has been free of tax.
- Bringing such income into Bermuda's tax base broadens and strengthens the tax base and is generally fair in terms of overall economic and social impact.
- The Hotel Occupancy tax should be reduced and aligned with the commercial rent tax to enhance capital allocation decisions. Consistent tax rates will remove arbitrage opportunities by investors when choosing between commercial or hotel development.

1.3.2 GENERAL SERVICES TAX

TRC Advice: Introduce a General Services Tax (GST) along the lines recommended by CARTAC in 2017.

Details: A 5% tax levied on services.

Applicable to businesses with annual turnover of more than \$250,000 (calculated on a 2-year rolling basis).

The turnover threshold reduces the administrative burden for small businesses and the Office of the Tax Commissioner.

Impact:

Description of Tax	Intent of Measure	Impact	Current Revenue 2018/19 \$m	Revenue Change \$m	Total Revenue \$m
General Services Tax	Flat tax on the value of services	Final user	N/A	\$27.5m	\$27.5m

Reference: Section 2.3 of the report provides additional details on General Services Tax.

Timeframe: Medium term: Phased in over 18 - 24 months.

Discussion:

- Internationally, taxes on sales and/or services have been introduced by many governments to broaden their tax bases and to generate additional revenue.
- In Bermuda in 2017, final consumption of services by residents and visitors was \$2.5 billion. Allowing an exemption for essential services, e.g. medical care, education services, elder care and child care, etc., a tax base in the region of \$600 million-\$850 million could be available as an additional source of revenue.
- Consumption based taxes are increasingly being introduced where individuals are taxed on how much they consume.
- Since consumption tends to be funded out of disposable income, such taxes are considered fair and equitable to the extent that essential goods and services are exempt from tax.
- The tax base being recommended by the Commission is wider than the range of services targeted in the CARTAC proposal and is based on an analysis of final consumption included in the Government's GDP accounts.

1.3.3 **MANAGED SERVICES TAX**

TRC Advice: Introduce a Managed Services Tax.

Details: This tax applies to services outsourced by local companies to foreign service providers. Such services are a direct substitute for services that could be, and in many cases, were provided locally.

- The movement of these services from Bermuda has resulted in a loss of tax revenue through payroll tax; loss of economic activity through consumption and housing for example.

- Additionally, this tax applies where a resident international company engages the services of foreign service providers who conduct business while in Bermuda and are paid for the services provided thereto.
- Included in these services is accounting, audit, tax, actuarial, investment, legal, pension advisory, consultancy and IT outsourced to foreign suppliers.
- Recommend that these services be taxed at 7.5%.

Impact:

Description of Tax	Intent of Measure	Impact	Current Revenue 2018/19 \$m	Revenue Change \$m	Total Revenue
Managed Services Tax	Flat tax on the value of foreign services	Companies	N/A	\$25m	\$25m

Reference: Section 2.4 of the report provides the additional details on the Managed Services Tax.

Timeframe: Medium term: Phased in over 18 - 24 months.

Discussion:

- The TRC commissioned a report to establish the size of the Managed Services' tax base. The report showed the tax base size to be approximately \$600m; excluding 'Other' (unspecified items) from the base, the figure shrinks to \$400m.
- Levying a GST tax rate of 7.5% equates to approximately \$25m in revenue, after allowing for leakage.
- Managed services are defined as local and resident International companies that hire the aid of foreign entities/ persons who provide a service to these entities for remuneration. The services they provide benefit these entities and the payment they receive are monies that leave Bermuda's economy but are not subject to any tax.

1.3.4 INTEREST AND DIVIDEND WITHHOLDING TAX

TRC Advice: Introduce a withholding tax on interest and/or dividend income that is attributable to local companies.

Details:

- Interest income and dividends paid by all local companies will be assessed a 5% withholding tax.
- To be withheld at the source and forwarded to Government and certified by the Company Secretary.
- Entities that have an exemption under the Exempted Undertakings Tax Protection Act 1966 are out of scope for purposes of this withholding tax.
- The Commission recommends a \$1,000 exemption on annual dividends (private & publicly listed companies) and interest.

Impact:

Description of Tax	Intent of Measure	Impact	Current Revenue 2018/19 \$m	Revenue Change \$m	Total Revenue
Interest and Dividend Withholding Tax	Flat tax on the value of dividends & interest	Recipient	N/A	\$2.5m	\$2.5m

Reference: Section 2.5 of the report provides additional detail on interest and dividend distributions.

Timeframe: Implementation within 12 - 24 months.

Discussion:

- The withholding tax on dividends and interest will extend and strengthen Bermuda's tax base by embracing a previously untapped source of revenue for Government. Many residents have overseas investment portfolios and the flow of dividends and interest therefore will include distributions from assets from overseas. Such flows will not be subject to the withholding tax as the tax will apply to distributions from local companies engaged in economic activity in Bermuda.
- The flow of annual interest income sourced from local entities in 2016 is estimated at \$47million.
- The flow of annual dividends from local companies in 2016 is estimated at \$12.5million.
- The tax is withheld or deducted from the interest and/or dividend income due to the recipient.

SECTION ONE: FOUR PROPOSED TAXES TO BE REFORMED THE DETAILS



1.4 REFORMS TO EXISTING TAXES AND FEES:

1.4.1 PAYROLL TAX

TRC Advice: Amend Payroll Tax Rates Act as follows:

Details: Reduce the employer's portion of payroll tax by 1% for current rates ranging from 7% to 10.25%.

- Create a new payroll band between \$200k and \$350k at a tax rate of 3.5% to assist small business growth.
- Create a band between \$350k and \$500k at a tax rate of 6.75% to encourage business growth.
- Extend to all companies whose taxable remuneration is \$1 million or more, the benefit that they should not be charged the employers portion of the payroll tax on any new jobs net of total jobs as at March 31st, 2018. This does not apply to those who currently receive tax exemptions.
- Reduce the employee's payroll tax rate from 4% to 0% for individuals earning \$48k or less per annum. The 2016 Census results on income indicated that 27% of all households earned less than \$36k per annum.

Impact:

Description of Tax	Intent of Measure	Impact	Current Revenue 2018/19 \$m	Revenue Change \$m	Total Revenue
Employer's Portion	Lower rates	Reduction in payroll cost	\$454m	(\$38m)	\$416m*
Employee's Portion	Reduce tax rate on earnings up to \$48k	Employee Earnings			
* Excludes approximately \$15m arising from owner-managers 'declared dividends'					

Timeframe: Implementation within 12 months.

Discussion: The Government has stated its policy preference to reduce the rate of payroll tax on the employer's side, to encourage employment.

- The Commission concurs with Government's policy direction in seeking to stimulate employment growth.
- A reduction in payroll tax sends a message that the Government is working with employers by reducing the cost of employment and thereby, the cost of doing business in Bermuda.
- The Commission recognizes also the social obligation towards low income earners by recommending elimination in their payroll tax obligation, for persons earning up to \$48k per annum.

1.4.2 CUSTOMS DUTY, EXCISE TAX

TRC Advice: Amend the Customs Tariff as follows:

- Reduce customs duty on "staple foods" and children's clothing to zero percent.
- Increase duty on beer and wines to mitigate the loss of revenue from staples and children's' clothing.
- Streamline the customs tariff for local businesses.
- Increase the tax on imported items delivered by courier service.

Details: Reduce all food staples and children's clothing to 0% duty rate which translates to a \$14m reduction in revenue.

- Raise the rate of duty on wine from \$5.00/litre of alcohol to \$10/litre of alcohol; raise duty on beer from \$1.26/litre of alcohol to \$1.75/liter of alcohol.
- Increase the duty on items brought in by residents via courier to 25%, consistent with the rate for accompanied goods by arriving passengers at the airport.
- Streamline the tariff book used by retailers in line with the codes used by the Courier Companies to make the administrative process simpler for local businesses.

Impact:

Description of Tax	Intent of Measure	Impact	Current Revenue 2018/19 \$m	Revenue Change \$m	Total Revenue
Customs Duty	Reduce cost of staple food items and children's clothing	Importer	\$235m	(\$2.1m)	\$233m
Excise tax	Increase excise tax on wines and beer	Consumers			

Reference: Section 2.7 of the report provides additional detail on Customs Duty and provides information on the purpose of excise tax.

Timeframe: Implementation within 12 months.

Discussion:

- Import duties have two distinct purposes: to raise income for the Bermuda government and provide protection to local producers.
- The Commission recognizes the economic challenges in the retail sector arising from online shopping and purchases. It is a global challenge and some governments have enacted taxes on online commerce to protect employment levels in the retail sectors. Raising the tax on goods brought in by courier is a move in this direction.
- The zero rates on staple foods and children's clothing is intended to lower the cost of essential items for low income households through a reduction of the tax burden.
- Excise taxes on alcohol and tobacco, as examples, are often referred to as "sin taxes" and are meant to change a behavior in a positive way. The proposed increase in the duty on wines brings the rate closer to the rate on spirits (\$31.35 per litre of alcohol).
- These taxes have increased regularly over the past ten years.
- The tariff book used by retailers has been referred to by local retailers as cumbersome and overly bureaucratic. Their suggestion is to bring it in line with the codes used by the Courier Companies which will make the administrative process simpler for local businesses.

1.4.3 LAND TAX – RESIDENTIAL & COMMERCIAL

TRC Advice: Amend the land tax rate structure for residential properties by levying a flat tax of \$500 for an ARV under \$22k.

Details: Replacing the bands under \$22k with a \$500 flat rate provides for a more equitable distribution of the land tax burden.

- The Tax Reform Commission recommends that Commercial Land Tax rates should be increased from 7% to 8%.
- The Tax Reform Commission recommends that Tourist Properties' rates should be increased from 7% to 7.5%.

Impact:

Description of Tax	Intent of Measure	Impact	Current Revenue 2018/19 \$m	Revenue Change \$m	Total Revenue
Land Tax	Rebalance the rate structure for more revenue	Owner	\$78.3m	(\$10.1m)	\$68.2m*

***Note** Due to one-off 5% increase in land tax for commercial properties in 2018. The 5% increase is eliminated from 2019 going forward.

Reference: Section 2.8 of the report provides additional detail on Land Tax.

Timeframe: Implementation within 12 months.

Discussion:

- Property owners with units valued under \$22k presently pay a maximum land tax of \$286 per annum per unit compared to an average land tax burden of \$1,116 across all 31,730 residential units. The existing rate structure is not fairly weighted.
- A considerable number of the units falling under the \$22k ARV are investment/rental units as opposed to owner occupied units.
- Property taxes are generally the obligation of the owner of the property and should not be passed on to tenants.
- The current land tax system is progressive where higher valued properties pay progressively higher taxes with the rate increasing from 3.5% at 22,001 ARV to 47% for ARVs over \$120,000.

1.4.4 FINANCIAL SERVICES FEE

TRC Advice: Increase financial services fee on banks and insurance premium fees.

Details: Recommend bank fee to be increased by 0.075 or 75 percentage points.

Recommend increasing insurance premium fee by 2.5 percentage points.

This fee is the obligation of the insurer.

As such, the insurer will collect 2.5% from the policyholder and pay a matching 2.5%.

Impact:

Description of Tax	Intent of Measure	Impact	Current Revenue 2018/19 \$m	Revenue Change \$m	Total Revenue
Financial Services Tax	Generate additional revenue from an adjustment to bank and insurance fees	Financial Services/Bank and Local Insurers.	\$8.9m	\$6.1m	\$15m

Reference: No additional reference.

Timeframe: Implementation within 12 months.

Discussion: Bermuda's financial services sector can effectively charge whatever rates they wish, since the sector's pricing is not regulated.

- Competition is limited to a handful of choices the consumer must pick from, all with similar fees.
- The fees these entities pay are relatively low compared to many other financial centers.
- Many jurisdictions have recently increased their financial services tax with the recognition and acceptance of the implications associated with such increases.
- The Commission discussed Bermuda's financial services sector and considered that keeping in line with adjustments that have taken place in other key financial centers that an increase in banking fees and insurance premium fees was appropriate.

1.4.5 FOREIGN CURRENCY PURCHASE TAX

TRC Advice: Increase the Foreign Currency Purchase Tax.

Details: Increase FCPT to 1.75% from 1%.

Impact:

Description of Tax	Intent of Measure	Impact	Current Revenue 2018/19 \$m	Revenue Change \$m	Total Revenue
Foreign Currency Purchase Tax	Generate additional revenue	Individuals and businesses	\$22m	\$16.5m	\$38.5m

Reference: No additional reference.

Timeframe: Implementation within 12 months.

Discussion: FCPT is a stable and reliable revenue source supported by an efficient collection mechanism. The proposed increase is not considered to be disruptive to Bermuda's economy.

1.4.6 INTERNATIONAL COMPANIES FEE – ASSESSED CAPITAL REFORM

TRC Advice: Introduce seven new fee bands into the existing fee structure:

The fee assessed would be more in-line with the size of the companies' assessed capital.

Details: The number of bands based on the amount of assessed capital should be expanded as shown below.

- Currently some of the bands for assessed capital are very broad giving rise to companies at the low and high ends of the band paying the same fee, e.g. in the existing band of over \$12m - \$100m containing more than 700 companies, all of the companies pay the same annual fee of \$10,980.
- Provides for a more progressive fee structure.
- The Commission recognizes that the majority of companies impacted by this reform consist of Registered Companies/Entities without a physical presence in Bermuda.

Impact:

Description of Tax	Intent of Measure	Impact	Current Revenue 2018/19 \$m	Revenue Change \$m	Total Revenue
Adjustment to fees	Make fees representative of a company's assessed capital.	Company	\$68.5m	\$25.5m	\$94m

Reference: No additional reference.

Timeframe: Implementation within 12 months.

Discussion: Two bands in the existing fee structure for assessed capital are impacted by the proposed change: the band over \$12m - \$100m; and, the band \$100m+ to \$750m and over. The former is enlarged to three bands, and the latter is enlarged to four bands, each with a sliding fee scale.

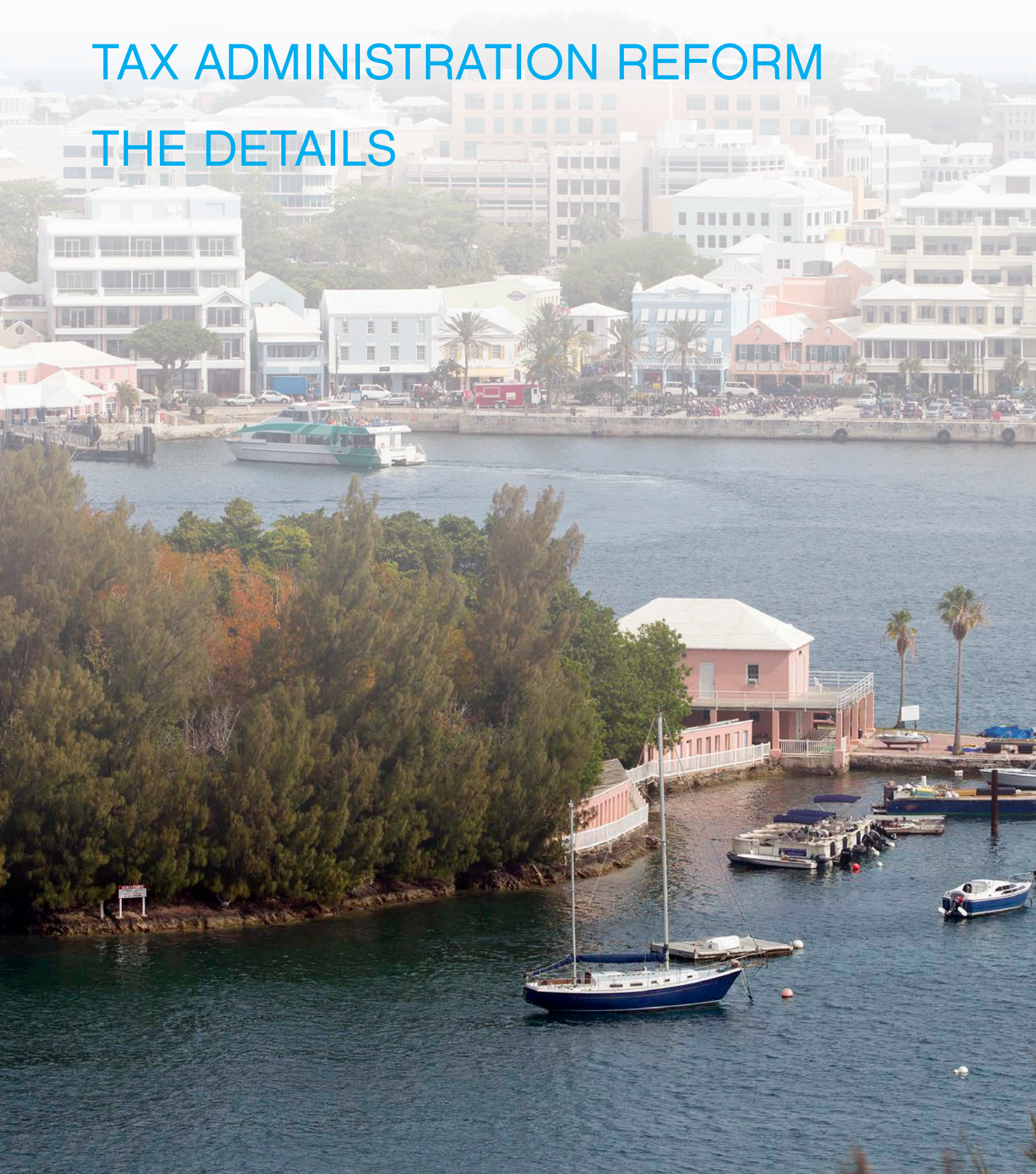
	Assessed Capital Bands	Number of Companies*	Annual Fee	Total Revenue
Exempted, Assessed Capital	\$12,000,001 – \$30,000,000	222	\$14,500	\$3,211,750
Exempted, Assessed Capital	\$30,000,001 – \$56,000,000	221	\$18,000	\$3,987,000
Exempted, Assessed Capital	\$56,000,001 – \$100,000,000	271	\$20,000	\$5,420,000
Exempted, Assessed Capital	\$100,000,001 – \$250,000,000	280	\$26,000	\$7,280,000
Exempted, Assessed Capital	\$250,000,001 – \$500,000,000	280	\$36,000	\$10,080,000
Exempted, Assessed Capital	\$500,000,001 – \$750,000,000	178	\$45,000	\$7,987,500
Exempted, Assessed Capital	\$750,000,001+	177	\$55,000	\$9,762,500

* The number of companies in each banded as been estimated.

SECTION ONE: FIVE

TAX ADMINISTRATION REFORM

THE DETAILS



1.5 ADMINISTRATIVE RECOMMENDATION

1.5.1 STRENGTHENING TAX ADMINISTRATION IN BERMUDA

TRC Advice: Provide the Office of the Tax Commissioner with additional resources to strengthen collection, compliance and enforcement procedures in the short term; OTC is under-staffed and under-resourced. TRC concurs with the recommendations on tax administration presented by CARTAC in its 2015 Report – *Reforming the Tax System and its Administration for Fiscal Consolidation*.

- Over the longer term of 2 – 5 years, the TRC recommends:
- A single autonomous revenue tax authority be created by combining the tax revenue collection departments (HM Customs, Office of the Tax Commissioner and the Department of Social Insurance) under a single authority to improve efficiency, compliance, enforcement and revenue collection.
- Develop a technology integration strategy to access the legacy systems to obtain consolidated taxpayer data and to provide a comprehensive taxpayer profile and user experience.
- Develop and implement a Strategic Communications Campaign together with an Education and Awareness Campaign.
- Use the Social Insurance Number as a unique identifier which provides a consolidated profile of each individual over the age of 18 years.
- Policy-making and border control should remain a separate entity within Government.

Discussion: In most developed countries, tax collection and administration is carried out in traditional fashion by line departments within the Ministry of Finance (MOF). Bermuda has adopted this model.

- However, over the past decade there has been an accelerating trend towards establishing Semi-Autonomous Revenue Authorities (SARA) and in more recent times, Autonomous Revenue Authorities (ARA).
- Under a SARA or an ARA, the tax administration function has been taken out of the MOF and granted to the entity.

Reference: Section 3.0 of the report provides expanded details on the case for establishing a revenue authority.

Timeframe: Longer term - Phased over 2 – 5 years.

APPENDIX: SECTION TWO

EXPANDED DETAIL

PROPOSED NEW TAXES



2.0 APPENDIX: NATURE OF TAX REFORM

- 2.1.1 The objective of amending tax policy should be to make sure that any recommended changes to the current tax structure moves the economy and its citizens forward by ensuring that everyone feels as if their tax dollars benefit them through the efficient delivery of public programmes and services.
- 2.1.2 Such programmes and services include public education, public health services and waste management services, policing services, fire department, immigration services and financial assistance and so on. This is not an easy objective to meet.
- 2.1.3 In the context of Bermuda there is a strain on the country's ability to adequately provide Government services that the public need and expect at a standard comparable to what is provided in the private sector.
- 2.1.4 For example, Bermuda has an aging population who will require increased health benefits; this will increase the cost of health care.
- 2.1.5 It also has a declining population which means a shrinking tax base, needed to pay for Government services.
- 2.1.6 The Commission understands this dynamic and recognizes that provisions need to be in place that makes allowances for the change in demographics.
- 2.1.7 In recent years Bermuda's public expenditure has been higher than its revenue which meant the country has had a deficit, which has been funded by borrowing.
- 2.1.8 This has caused Bermuda's national debt to grow to \$2.5bn, or 43% of GDP in 2017.
- 2.1.9 It has become apparent to the Commission that a critical element of Bermuda's economic sustainability is to grow Bermuda's population.
- 2.1.10 Since 2008, Bermuda's population declined by over 6,500 people consisting of workers whose companies downsized and Bermudians who left to seek employment outside of Bermuda and other reasons. This represented over \$250m of revenue that flowed through Bermuda's economy.

2.2 APPENDIX: IMPLEMENTING RENTAL INCOME TAX

- 2.2.1 Bermuda's tax system taxes some forms of income but not others, and creates incentives for some forms of investment, particularly in housing, incentivising individuals to purchase properties and rent them out.
- 2.2.2 The Commission provides a distinction between residential properties that are listed by the owner as their primary residence and those that are not.
- 2.2.3 If a residential property owner can provide evidence that their property is listed as their primary residence the property will not be subject to rental income tax.

Timeframe: Implementation within 12 months

Support: The Commission believes that there is very little additional infrastructure or systems development that this newly recommended tax needs before being implemented.

The Commission believes the existing Land Tax framework and methodology can be leveraged to administer this tax

METHODOLOGY

PROPOSED COMMERCIAL RENTAL INCOME BY BAND				
BAND	ARV	TOTAL	RATE	REVENUE
Commercial Land Tax		\$295,679,900	5%	\$14,783,995
Total Residential Rental Income				\$26,200,410
Total Rental Income Tax				\$40,984,405

PROPOSED RESIDENTIAL RENTAL INCOME BY BAND			
BAND	ARV	RENTAL RATES	REVENUE IN BAND
1 & 2	\$ 1 - \$22,000	0.00%	-
3 & 4	\$22,001 - \$44,000	5.00%	\$16,542,640
5 & 6	\$44,001 - \$120,001	5.000%	\$14,269,290
7	\$120,001 & above	5.000%	\$4,121,950
Discount owner occupied by		(25%)	(\$8,733,470)
Total Residential Rental Income Tax Revenue			\$26,200,410

2.3 APPENDIX: IMPLEMENTING A GENERAL SERVICES TAX

- 2.3.1 Recent studies by the International Monetary Fund and the World Bank suggest that there has been a move towards consumption-based in order to supplement income taxes. Sales taxes on goods and services or value-added taxes have increased their share of government revenue.
- 2.3.2 Governments are also trying to develop fairer forms of taxation that place less of a burden on individuals on the lower end of the socio-economic ladder than those with the ability to pay who do so based on how much they consume.
- 2.3.3 Representatives from the Commission met with economists from the IMF and experts from Her Majesty's Revenue and Customs (HMRC).
- 2.3.4 During these meetings the overriding view was that they supported the introduction of a goods and service tax in Bermuda.
- 2.3.5 This support has been reinforced by many of the studies and reports reviewed by the Commission.
- 2.3.6 Although Bermuda has long had a consumption-based tax system, there are many deficiencies in the administrative, compliance and enforcement systems and procedures.
- 2.3.7 The Commission met with the Retail Sector of the Chamber of Commerce.
- 2.3.8 They strongly advocated for the introduction of a sales tax on goods, which would enable them to better manage their cashflow.
- 2.3.9 As a sector their overall sales and revenue has declined due, in part, to a reduced customer base.
- 2.3.10 As a sector they asserted that paying import tax upfront before they have an opportunity to recoup any part of their expenses compromises their cashflow.
- 2.3.11 A Sales tax would free up cashflow and allow the sector to remit tax to the Government on goods that have been sold and not on their total inventory as is the status quo.
- 2.3.12 However, the Bermuda Government prefers to collect tax at the point of entry as it is more efficient to administer, and revenue is more predictable.
- 2.3.13 The Commission recognizes the difficulty in immediately migrating from the current customs import duty paid at the point of entry to a tax paid when a consumer makes a purchase. A mutually agreed transition period would be necessary.
- 2.3.14 Bermuda lacks the administrative apparatus needed to effectively and efficiently administer its current tax obligations; moving to a sales tax on goods regime will present added challenges.
- 2.3.15 The Commission recommends that sales tax on goods should be considered for future implementation.

- 2.3.16 However, the Commission recommends implementing a GST rate of 5% to be applied to non-essential services.
- 2.3.17 Applicable to businesses with annual turnover in excess of \$250,000 (calculated on a 2-year rolling basis)
- 2.3.18 Having the turnover limit reduces the administrative burden of small businesses and the Office of Tax Commission.
- Timeframe:** Medium term: Within 24 months.
- Support:** In order to successfully implement a GST, an effective registration and filing system supported by clear guidance needs to be in place to assist those responsible for remitting payment to the Government.
- The analysis shown in the table below is based on data extracted from Bermuda's GDP accounts in 2017. The data represent spending on services by residents and non-residents. Base 1 shows total spending on all services.
 - Bases 2 and 3 show the spending for sub-sets of selected services. A final adjustment of 22% of the column totals is applied to exclude small businesses from the proposed tax. Subsequently the taxable base for a GST ranges from approximately \$600 million to approximately \$850 million.

General Services Tax			
Final Consumption of Services 2017 (\$m)			
	Base 1	Base 2	Base 3
Cleaning, repair and hire of clothing	8.1	8.1	8.1
Paid rent	371.1		
Imputed rent	547.2		
Other services related to the dwelling (gardening/landscaping)	28.5	28.5	28.5
Domestic services	42.8	42.8	42.8
Out-Patient Services	31.4		
Hospital Services	2.7		
Vehicle Maintenance and repair	45.2	45.2	45.2
Other auto related services	20.7	20.7	20.7
Passenger transport by road: Public	8.2		
Passenger transport by road: Private	19.0	19.0	19.0
Air transport (paid to foreign carriers in Bermuda)	60.7	60.7	60.7
Postal Services	8.1	8.1	8.1
Telephone and telefax services	87.1	87.1	
Cable TV services	36.5	36.5	
Gardens and Pets	44.1	44.1	44.1
Recreational and sporting services	68.9	68.9	68.9
Cultural Services	1.4	1.4	1.4
Education: Private Primary & Secondary	83.2		
Education: Post secondary	2.5		
Catering services	285.9	285.9	285.9
Accommodation services	181.9	181.9	
Personal care services	28.0	28.0	28.0
Social Protection: Child Care	15.9		
Social Protection: Elderly Care	9.8		
Insurance (transport, life and home)	100.2	100.2	100.2
Other financial services	25.6		
Other services: Legal Services	15.5	15.5	15.5
Other services: Funerals, Weddings & Other Expenses	8.9	8.9	8.9
Other miscellaneous services	5.2		
Current Expenditure of Non-Profit Organizations	124.1		
Spending by residents abroad	244.0		
Total Final Consumption (residents and visitors)	\$2,562.7	\$1,091.6	\$786.1

General Services Tax			
Household Actual Final Consumption: Base adjusted for Small Business Exemption (\$m)			
Taxable Base	Base 1 (\$)	Base 2 (\$)	Base 3 (\$)
Total Consumption	1,998.87	851.47	613.13
Small Business Exemption	22%	22%	22%

2.4 APPENDIX: IMPLEMENTING A MANAGED SERVICES TAX

- 2.4.1 The Commission recommends the introduction of a Managed Services Tax.
- 2.4.2 The Commission commissioned analysis to model the size of the Managed Services Tax base.
- 2.4.3 The report showed the tax base size to be approximately \$600m; excluding 'Other' (unspecified items) from the base the figure shrinks to \$400m.
- 2.4.4 The Commission recommends levying a withholding tax of 7.5% which equates to approximately \$25m in revenue based on a tax base of \$400m, after allowing for leakage.
- 2.4.5 The Commission defines managed services to consist of local companies that hire the aid of foreign entities/ persons who provide a service to these local entities for remuneration.
- 2.4.6 Additionally, this tax applies where a resident international company engages the services of foreign service providers who conduct business while in Bermuda and are paid for the services provided thereto.
- 2.4.7 The services they provide benefit the local or resident international entity and the payment they receive are monies that leave Bermuda's economy but are not subject to any tax.
- 2.4.8 Included in these services are accounting, audit, tax, actuarial, investment, legal, pension advise, consultancy and IT.
- 2.4.9 These services are a direct substitute for services that could be provided locally and in the majority of cases were provided locally.
- 2.4.10 This has resulted in a loss of tax revenue through payroll tax; loss of economic activity through consumption and housing, for example.

Timeframe: Medium term: Within 24 months

Support: The Commission believes that there is very little additional infrastructure or systems development that is needed before being implemented.

2.5 APPENDIX: IMPLEMENTING INTEREST AND DIVIDEND WITHHOLDING TAX

- 2.5.1 A withholding tax, or a retention tax, is an income tax to be paid to the Bermuda government by the payer of the income rather than by the recipient of the income.
- 2.4.2 Many jurisdictions also require withholding tax on payments of interest or dividends.
- 2.4.3 The tax is thus withheld or deducted from the interest and/or dividend income due to the recipient.
- 2.4.4 The Commission recommends implementing a withholding tax that is attributable to local companies in the amount of 5% withholding tax on interest or dividend income.
- 2.4.5 The Commission recommends a \$1,000 exemption on annual dividends (private & publicly listed) and interest.
- 2.4.6 These remittances are to be withheld at the source and forwarded to the Bermuda Government and certified by the Company Secretary.
- 2.4.7 The Commission's recommended dividend and interest withholding tax excludes international companies exempted from tax under the Exempt Undertakings Tax Protection Act 1966.

Timeframe: Medium Term: Within 24 months

Support: The Commission believes that there is very little additional infrastructure or systems development that is needed before being implemented.

- The working table shown below calculates updated estimates of total interest and dividend flows based on household income data from the 2013 Household Expenditure Survey Report.
- The survey captured comprehensive information on sources of household income including net rental income, interest and dividends.
- Since it is likely that some interest and dividend payments arose from assets held overseas, it was assumed that 50% derived from local distributions.
- The estimates are conservative but provide an indication of the size of such a tax base in Bermuda. The estimate for 2016 escalated the 2013 estimates by 7.94% which aligned with GDP growth during that period.

Dividends and Interest				
Estimates from Total Household Income in 2013				
Derived Estimates using data specified in sources shown below.	2013	2016	2018	2019
		Growth Assumptions from 2013 to 2019 (%)**		
		7.94%	8.50%	9.00%
	\$	\$	\$	\$
Aggregate Household Income 2013 \$2,767x52x27,500	3,956,810,000	4,270,980,714	4,634,014,075	5,051,075,341
Annual Dividend Income to Households	23,345,179	25,198,786	27,340,683	29,801,345
Annual Interest Income to Households	87,445,501	94,388,674	102,411,711	111,628,765
Dividends + interest	110,790,680	119,587,460	129,752,394	141,430,110
TRC Estimate of Withholding Tax: 50% of base @5 %	2,769,767	2,989,686	3,243,810	3,535,753
Alternative 75% of base @ 5%	<u>\$4,154,651</u>	<u>\$4,484,530</u>	<u>\$4,865,715</u>	<u>\$5,303,629</u>
** Nominal GDP growth between 2013-2016 was 7.94%				
Sources:				
- 2013 Household Expenditure Survey Report, Department of Statistics				
- Department of Statistics				
Data extracted from Table 7 of Report				
Average Weekly Household Income	\$ 2,767			
Average Annual Household income	\$ 143,884			
Weeks in year	52			
Dividends as % of Weekly Income	0.59			
Interest as % of Weekly Income	2.21			
Other data:				
Total Households in 2013	27,500			

APPENDIX: SECTION TWO

EXPANDED DETAIL

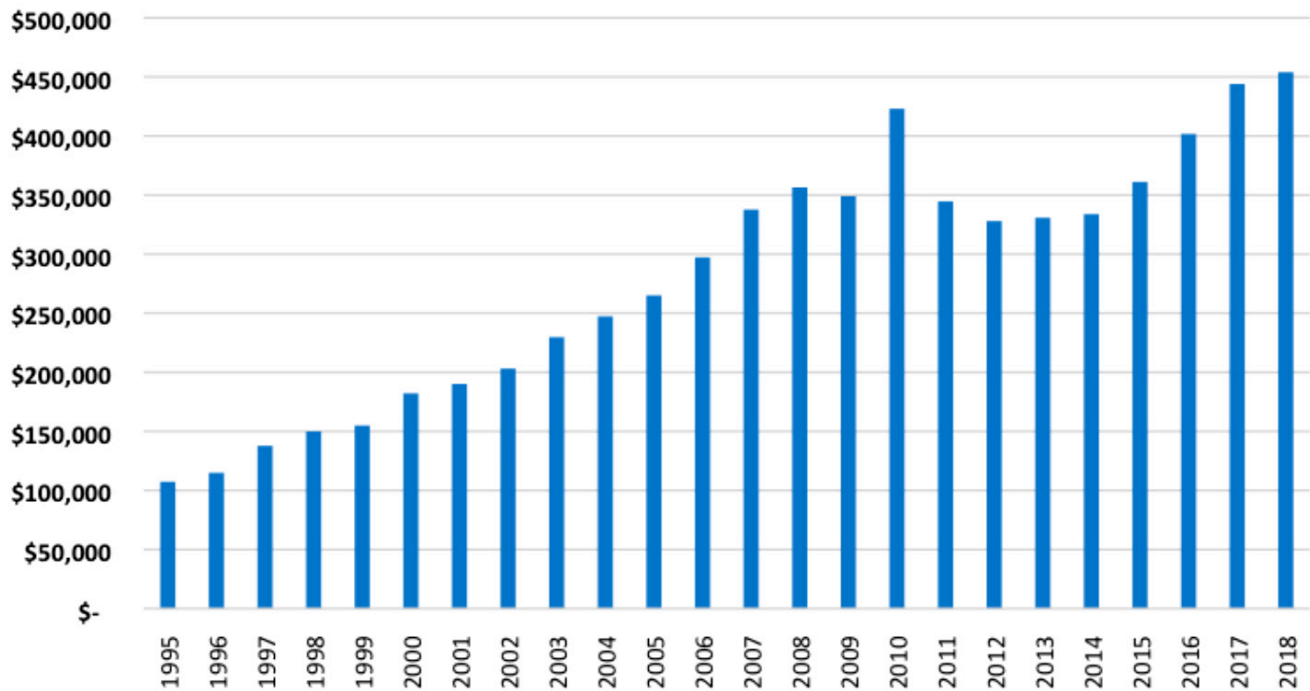
TAX REFORMS – EXISTING TAXES AND FEES



2.6 APPENDIX: IMPLEMENTING PAYROLL TAX REFORM

- 2. 6.1 To finance the many services that the Bermuda Government provides, taxes have to be raised.
- 2.6.2 Since 1995 the Bermuda Government has gained most of its revenue from labour tax. Thus, Bermuda's tax system has not been fair and equitable.
- 2.6.3 In 2017, the Government introduced a more progressive tax in its attempt to make tax on labour fairer and equitable.
- 2.6.4 The Commission believes that there are other sources of revenue streams earned by individuals which could be taxed in order to reduce labour tax.
- 2.6.5 The ideal situation is to structure a tax system that is comprehensive enough to encourage a stable, broad tax base system that is fair and equitable.
- 2.6.6 In the 1994/95 budget, the Government of the day had a tax titled "Hospital Levy", with a budgeted figure of \$62,800,000.
- 2.6.7 In the 1995/96 budget the Government repealed "Hospital Levy" and introduced what we know today as "Payroll Tax", with a budgeted amount of \$107,400,000.
- 2.6.8 The combined standard rate of tax payable by an employer was 11.5%, with the employer allowed to withhold a maximum of 4% from their employees' remuneration.
- 2.6.9 Since that time Employment Tax, which has now been named Payroll Tax has become the major revenue earner for the Government.
- 2.6.10 The Chart below shows payroll tax revenue since 1995.

Payroll Tax



2.6.11 Chart below shows the current tax rate for Employers, and Employee.

2.6.12 EMPLOYER

Employers Payroll Tax Rate	
Class Of Tax Payer	RATE %
Annual Payroll > \$1,000,000	10.25
Exempted Undertakings	10.25
Greater than \$500,000 and less than \$1,000,000	9.00
Greater than or equal to \$200,000 but less than or equal to \$500,000	7.00
Annual Payroll < \$200,000	1.75
Farm, Fish & Educational, Sport, & Scientific Institutions	1.75
Hotel, restaurants, greater than or equal to \$200,000	6.50
BHB, Corp Of Hamilton and St Georges	3.50
Charities	0.00
Economic Zone	0.00

2.6.13 EMPLOYEE

Employee Tax Rate	Rate %
Income Band	
Less than or equal to 48,000	4.00
\$48,001 to \$96,000	6.5
\$96,001 to \$235,000	7.75
\$236,001 to \$500,000	8.75

- 2.6.14 The Commission recommends adjusting the Employer and Employee tax rates.
- 2.6.15 The Government believes that the Payroll Tax charged to Employers prohibits the growth of new jobs.
- 2.6.16 The Commission supports Government legislation that companies whose taxable remuneration is \$1 million or more, should not be charged the employers portion of Payroll Tax on any new jobs net of total jobs as at March 31st, 2018.
- 2.6.17 The Commission recommends extending this policy to all companies except for those who currently receive tax exemptions.
- 2.6.18 The Commission believes that further steps can be implemented to encourage business growth and provide clarity to companies as they manage their budgets.
- 2.6.19 The Commission recommends that all Employers Payroll Rates except for the low band of 1.75% should be reduced in 2019, in accordance with chart below and that these rates should be fixed for the time being until the debt and debt service is reduced to 80% and 10% respectively.
- 2.6.20 Currently Employers pay at 1.75% when their taxable remuneration is under \$200K. Once it goes over the threshold of \$200K, the rate jumps to 7%.
- 2.6.21 The Commission recommends implementing an additional rate in between, to encourage small businesses to expand without the rate being too punitive.
- 2.6.22 The Commission proposes introducing a rate of 3.5% in this band. The Chart below reflects the Commission's thinking.
- 2.6.23 One Industry that still suffers is the Retail Sector. They hire about 4,000 staff and if this industry should default, it could have a significant burden on Government in the form of financial assistance and other social benefits and creating social instability.
- 2.6.24 Furthermore, with Bermuda being a Tourist destination, the Bermudian shopping experience would be lost. Therefore, the Commission recommends that clothing retail stores should have the same tax rate as restaurants, and the hospitality sector: 6.5%.

2.6.25 NEW EMPLOYER RATE STRUCTURE

Employers Payroll Tax Rate Class of Tax Payer	Rate %
Annual Payroll > \$1,000,000	9.25
Exempted Undertakings	9.25
Greater than \$500,000 and less than \$1,000,000	8.75
Greater than \$350,000 but less than or equal to \$500,000	6.75
Greater than \$200,000 but less than or equal to \$350,000	3.50
Annual Payroll < \$200,000	1.75
Farm, Fish & Educational, Sport Scientific Inst	1.75
Hotel, restaurants, & Retail greater than or equal to \$200,000	6.50
BHB, Corp of Hamilton and St Georges	3.50
Charities	0.00
Economic Zone	0.00

ER categories			Taxable remuneration (TR)		FY18-19 tax rates		Payroll tax - ER portion		
Description	Existing (FY17/18)	Proposed	Actual - Existing categories	Estimated - Proposed categories	Existing tax rate	Proposed tax rate	Existing	Estimated - Proposed	Difference
EXM	EXM	EXM	1,081,609,887	1,081,609,887	10.25%	9.25%	110,865,013	100,048,915	(10,816,099)
BUS1	>\$1m payroll	>\$1m payroll	902,026,204	902,026,204	10.25%	9.25%	92,457,686	83,437,424	(9,020,262)
BUS5	>\$500k <=\$1m	>\$1m payroll	138,269,623	138,269,623	9.00%	8.75%	12,444,266	12,098,592	(345,674)
BUS2	>=\$200k <=\$500k	>=\$350k <=\$500k	133,484,641	69,124,093	7.00%	7.00%	9,343,925	4,838,686	(4,505,238)
NEW category	N/A	>=\$200k <=\$350k	-	64,360,548		3.50%		2,252,619	2,252,619
BUS3 & GRP1	<\$200k	<\$200k	158,756,437	158,756,437	1.75%	1.75%	2,778,238	2,778,238	-
GOV, GRP2, GRP3, GRP4 & HLT			823,088,699	823,088,699	various	various	13,818,540	13,818,540	-
Total			3,237,235,491	3,237,235,491			241,707,667	219,273,013	(22,434,654)

- 2.6.26 With the decrease in Payroll Tax for the Employer, it is the Commission's contention that payroll tax for the employee should go up and maintain a progressive tax system.
- 2.6.27 Currently the low band is 4% and the high band is 8.75%.
- 2.6.28 In the 2018 budget the Government reduced the low band from 5% down to 4%. This decrease had an impact on all employees, particularly remuneration under \$96K.
- 2.6.29 The Commission recommends a further reduction from 4% to 0% which would decrease payroll tax revenue for over 13,000 employees. The Commission recommends increasing the employees' portion of payroll tax for all other bands.

Taxation on Employee		As is		Alternative Scenario			
Income band	Rate	Taxation	Effective tax rate	Rate	Taxation	Effective tax rate	per person p.a.
0 - 48,000	4.00%	13,356,760	4.00%	0.00%	-	0.00%	\$0 to \$1,920
48,000 - 96,000	6.50%	46,754,652	4% to 5.25%	\$1,680 plus 7% on amount over \$48,000	44,979,314	0% to 5.25%	\$1,920 to \$0
96,000 - 235,000	7.75%	58,967,672	5.25% to 6.73%	\$5,040 plus 8.5% on amount over \$96,000	61,135,849	5.25% to 7.17%	\$0 to (\$1,043)
235,000 ≤	8.75%	75,182,396	6.73% to 8.22%	\$16,855 plus 9.75% on amount over \$235,000	82,326,521	7.17% to 9.08%	(\$1,043) to (\$7,693)
Total		\$194,261,480			\$188,441,684		

- 2.6.30 The Chart below shows the Current Taxation of Employees, with the low band starting at 4% compared to the alternative suggestion of 0%.
- 2.6.31 The Commission believes that despite the increase in the 48,000 – 96,000 band from 6.5% to 7%, the individuals in this band will pay less in payroll tax than in previous years.
- 2.6.32 The Chart below shows the impact at various levels of taxable remuneration. It also shows that the breakeven is at \$96K and the highest effective tax rate is 9.08%

		As is		Alternative Scenario	
Annual TR excluding SR		Effective tax rate	Taxation	Effective tax rate	Difference in taxation
	-		-		
\$	12,000	4.00%	\$ -	0.00%	\$ 480
\$	24,000	4.00%	\$ -	0.00%	\$ 960
\$	48,000	4.00%	\$ -	0.00%	\$ 1,920
\$	72,000	4.83%	\$ 3,360	4.67%	\$ 120
\$	96,000	5.25%	\$ 5,040	5.25%	\$ -
\$	120,000	5.75%	\$ 7,080	5.90%	\$ (180)
\$	180,000	6.42%	\$ 12,180	6.77%	\$ (630)
\$	240,000	6.77%	\$ 17,343	7.23%	\$ (1,093)
\$	300,000	7.17%	\$ 23,193	7.73%	\$ (1,693)
\$	400,000	7.56%	\$ 32,943	8.24%	\$ (2,693)
\$	500,000	7.80%	\$ 42,693	8.54%	\$ (3,693)
\$	600,000	7.96%	\$ 52,443	8.74%	\$ (4,693)
\$	700,000	8.07%	\$ 62,193	8.88%	\$ (5,693)
\$	800,000	8.16%	\$ 71,943	8.99%	\$ (6,693)
\$	900,000	8.22%	\$ 81,693	9.08%	\$ (7,693)

2.6.33

CHART BELOW SHOWS CALCULATION OF PAYROLL TAX

PAYROLL TAX PROJECTION				
Employer				\$ 219,273,013
Employee				\$ 188,441,684
Total				\$ 407,714,697
1.75% adjustment due to projection				
based on the FY16/17				\$ 7,135.007
Revised Total				\$ 414,849,704

Timeframe: Implementation within 12 months

Support: The Commission believes that there is very little additional infrastructure or systems development needed before being implemented.

2.7 APPENDIX: IMPLEMENTING CUSTOMS DUTY REFORM

- 2.7.1 Import duty is a tax collected on imports by Bermuda's Department of Customs.
- 2.7.2 The amount paid on the imported good is usually based on its value.
- 2.7.3 In practice, import duty is levied when imported goods first enter the country. The exceptions are bonded facilities mainly for alcohol and fuel where duty is paid when goods exit the bonded facility.
- 2.7.4 Import duties have two distinct purposes to raise income for the Bermuda Government and, in limited circumstances, to provide protection to local producers.
- 2.7.5 The Commission recognizes the challenge faced by low income families in satisfying essential needs and proposes the elimination of import duty on children's clothing and staple foods.
- 2.7.6 This translates to a \$14m reduction in government revenue from food and clothing that is intended to lead to a lower price point for children's clothing and food staples at the point of purchase in retail outlets.
- 2.7.7 The Ministry of Finance has confirmed that Bermuda receives approximately 47% of its customs import tax from excise taxes; this includes duty on cars; alcohol; fuel; tobacco.

- 2.7.8 Excise taxes are meant to change a behavior and some excise taxes are often called sin tax.
- 2.7.9 These taxes have increased regularly over the past ten years.
- 2.7.10 The Commission also recommends increasing the excise tax on wines and beer to offset the revenue loss arising from the proposed zero rates on children's clothing and staple foods. It is proposed to increase duty on wine to \$10/litre of alcohol and to increase the duty on beer to \$1.75/litre of alcohol. This will generate an additional \$9m in revenue.
- 2.7.11 The Commission recommends increasing the duty on items bought in by residents via courier to 25% to align with the rate charged on accompanied goods by arriving passengers at the airport.
- 2.7.12 The Commission estimates that this will generate approximately \$4million in additional revenue.
- 2.7.13 The Commission met with the Retail Sector of the Chamber of Commerce who suggested streamlining the customs tariff book used by retailers to bring it in line with the codes used by the Courier Companies to make the administrative process simpler for local businesses.
- Timeframe:** Implementation within 12 months.
- Support:** The Commission believes that there is very little additional infrastructure or systems development that is needed before being implemented.

2.8 APPENDIX: REFORMING LAND TAX BASE RATE

- 2.8.1 The Commission recommends reforming Bermuda's Land Tax for both residential and commercial properties.
- 2.8.2 With respect to residential properties, the Commission recommends replacing the percentage tax rates in the in the ARV bands below \$22,000 with a flat \$500 annual base tax.
- 2.8.3 The Commission recommends that all other bands be assessed on the \$500 base tax up to ARV \$22,000 and thereafter assessed for tax per the existing rate structure.
- 2.8.4 The Commission gave considerable thought before recommending this adjustment which was made with the knowledge and understanding that there are concessions being made in other areas of taxation for those whose income is most sensitive to rate changes.
- 2.8.5 The Commission considered the social and economic impact to residential home owners by the introduction of the flat base tax of \$500 to be counter-balanced by the resulting improvement in vertical equity amongst property owners in respect of land tax.
- 2.8.6 A considerable number of the units falling under the \$22k ARV are investment/rental units as opposed to owner occupied units. Approximately 1,650 of the 16,000 units ARVs below \$22K are single unit dwellings.
- 2.8.7 Real property is immobile, unlike other forms of personal property, and provides a reliable

revenue source.

- 2.8.8 Property taxes are generally the obligation of the owner of the property and should not be passed on to tenants.
- 2.8.9 These developers/landlords/owners receive rent but are not contributing equitably to the value of services they receive.
- 2.8.10 The current land tax system is progressive where higher valued properties pay progressively higher taxes with the rate increasing from 3.5% at 22,001 ARV to 47% for ARVs over \$120,000.
- 2.8.11 However, for ARV less than \$22k, developers/ landlords/owners pay a maximum of \$286 per unit a year or less than \$24 a month towards Government services.
- 2.8.12 In Bermuda, less than 5% of Government revenues are collected through land/property taxes.
- 2.8.13 The Commission recommends that Commercial Land Tax rates should be increased from 7% to 8%.
- 2.8.14 The Commission supports Tourist Properties' rates being increased from 7% to 7.5%.

Timeframe: Implementation within 12 months.

Support: The Commission believes that there is very little additional infrastructure or systems development that is needed before being implemented.

LAND TAX REVENUE METHODOLOGY

CURRENT LAND TAX BY BAND - RESIDENTIAL	
Band	Revenue In Band
1	\$156,451
2	\$2,577,537
3	\$3,493,423
4	\$3,216,639
5	\$12,708,330
6	\$5,374,620
7	\$18,127,276
Senior Exemption (20%)	(\$10,229,644)
Total Land Tax Revenue	\$35,424,632

PROPOSED LAND TAX BY BAND - RESIDENTIAL		
Band	Rates	Revenue In Band
1	\$500	\$1,030,000
2	\$500	\$6,880,000
3	3.5%	\$5,154,063
4	6.5%	\$3,917,275
5	12%	\$13,536,296
6	25%	\$5,485,900
7	47%	\$18,232,350
Senior Exemption (20%)		(\$10,229,644)
Total Land Tax Revenue		\$44,006,240

The proposed residential land tax reforms will yield an increase in revenue of \$6,690,608.

PROPOSED COMMERCIAL LAND TAX BY TYPE			
TYPE	ARV	RATE	REVENUE IN BAND
Commercial Land Tax	\$295,679,900	8%	\$23,654,392
Tourist Property Land Tax	\$33,071,000	7.5%	\$2,480,325
Total Land Tax Revenue			\$26,134,717
Total Land tax consisting of both commercial and residential revenue			\$68,249,957

APPENDIX: SECTION THREE

EXPANDED DETAIL



3.1 SOCIAL FACTORS - TAX ADMINISTRATION REFORM

- 3.1.1 In most developed and developing countries, tax collection and administration is carried out in traditional fashion by line departments within the Ministry of Finance (MOF). Bermuda has adopted this methodology.
- 3.1.2 However, over the past decade (especially in Africa and Latin America and some countries in the Caribbean such as Jamaica) there has been an accelerating trend towards establishing semi-autonomous revenue authorities (SARAs) and more recent cases and Autonomous Revenue Authority (ARAs).
- 3.1.3 Under a SARA or an ARA the tax administration function has been taken out of the Ministry of Finance and granted to a semi-autonomous entity labeled in public finance literature as revenue authorities (RAs) or autonomous revenue authorities.
- 3.1.4 While there are many variations around a similar basic theme, the principal characteristics include personnel that are managed outside of the civil service purview, self-financing mechanisms funded by a percent of collected taxes, ranging from 3% to 7%.
- 3.1.5 Governance and oversight is usually provided by a board of directors that may include the Minister of Finance and those from other key ministries in addition to private sector representatives.
- 3.1.6 The Commission recommends the merging of the Department of Customs collections and administration within a newly formed Autonomous Tax Revenue Authority, with border control and enforcement remaining a separate entity within the Bermuda Government's corporate structure.
- 3.1.7 The Commission recommends the merging of the Department of Social Insurance and the Office of the Tax Commission's processing, collection, compliance and enforcement under a single Autonomous Tax Revenue Authority with Tax Policy remaining a separate entity within the Ministry of Finance.
- 3.1.8 The Commission believes a technology integration strategy to access the legacy systems to obtain consolidated taxpayer data and to provide a better taxpayer profile and user experience needs to be developed. Additionally, a Strategic Communications Campaign together with an Education and Awareness Campaign needs to be developed.
- 3.1.9 The Commission believes that by reforming the Office of the Tax Commissioner, the Departments of Customs and Social Insurance, can be a catalyst for improving efficiency leading to reduced collection time, improved self-compliance and decreased tax evasion.
- 3.1.10 The Commission cautions that reforming the current structure must be measured with the acceptance that it will not happen overnight.
- 3.1.11 The Commission recommends a phased merger spanning 36 months from the introduction of new legislation that creates the legal formation of the Autonomous Tax Revenue Authority.

3.2 SOCIAL FACTORS - INTERNATIONAL BUSINESS & IMMIGRATION

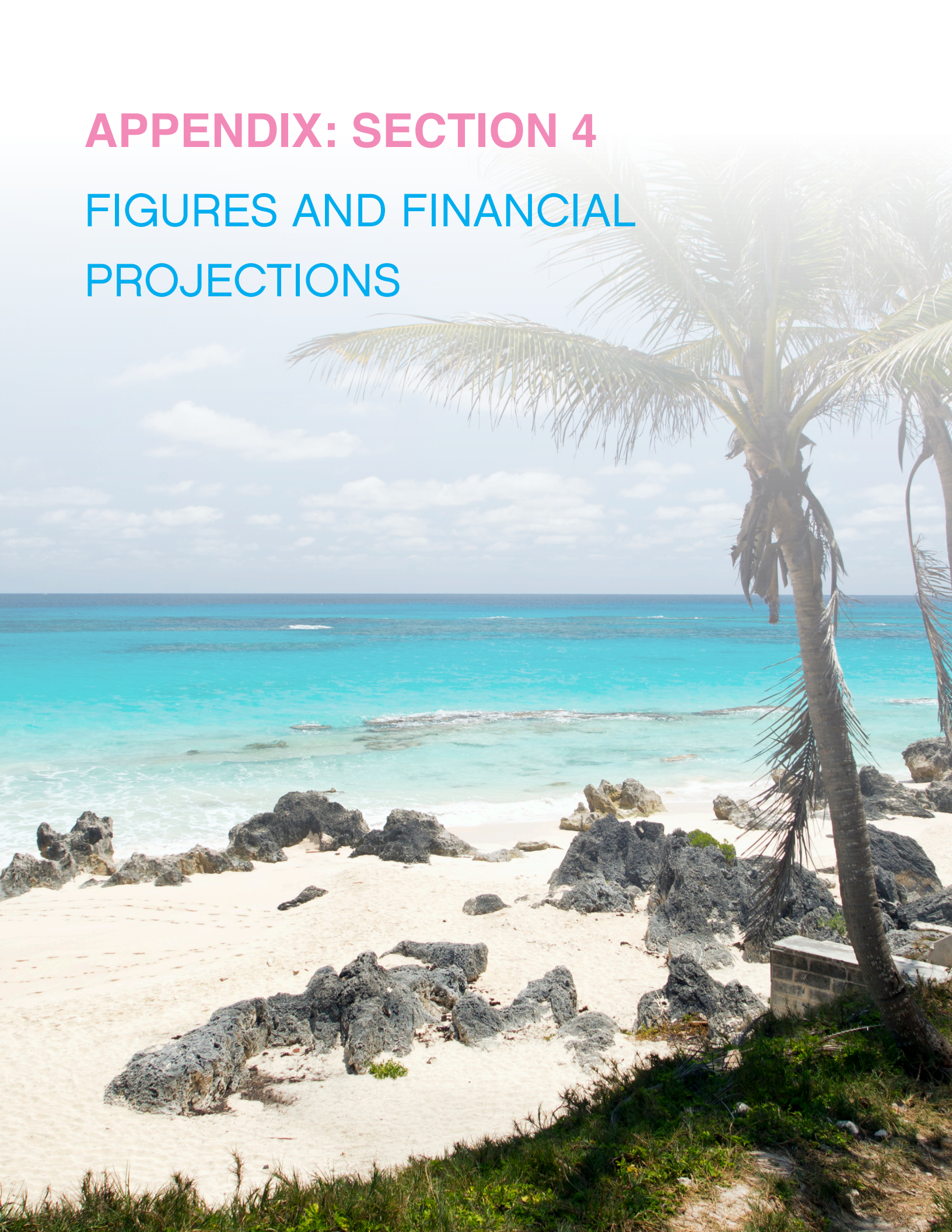
- 3.2.1 International Business have stated that they consider cost, issues centered around immigration, and environmental factors when determining which jurisdiction is best suited for their organization to operate out of.
- 3.2.2 These stakeholder groups believe that Bermuda needs an effective immigration policy to attract more skilled expatriates who make huge economic contributions to Bermuda's economy. Bermuda also needs to ensure that immigration administration is more efficient and business friendly.
- 3.2.3 Stakeholders have expressed the urgent need to address Bermuda's immigration and permanent residency issues.
- 3.2.4 Since 2008 there has been a loss of 6,500 expatriate and Bermudian jobs from the Bermuda economy. This has resulted in significant losses in government revenues by way of payroll tax (estimated to be approximately \$250m), immigration fees and indirect revenues such as customs duties.
- 3.2.5 The impact on Bermuda's GDP has also been felt in the loss of renters, consumption in stores, restaurants, travel to/from the island and other social activities.
- 3.2.6 The repercussions of the loss of expatriate workers are being felt by the Government and Bermudians through the escalation in mortgage and loan defaults; the accelerated pace of repossessions of homes by local banks; the continual downsizing of the retail sector; escalation in healthcare and electricity and energy costs and the significant increase in uncollected taxes.
- 3.2.7 International business stakeholder groups have emphasized that Bermuda's primary competitor, Cayman, has adopted business friendly immigration and permanent residency policies which has resulted in Cayman currently operating with successive annual surpluses and minimal government debt, circa \$250m.
- 3.2.8 By contrast, Bermuda has experienced cumulative annual deficits from 2004 to 2018 totaling a net of \$2bn.

3.3 SOCIAL FACTOR – IMPACT OF TAX EDUCATION

- 3.3.1 Across the globe, Governments have begun to develop techniques to upgrade their existing tax administration and collection efforts, by implementing taxpayer education and awareness initiatives to inform and engage both current and future taxpayers with the objective of improving compliance and reducing tax evasion.
- 3.3.2 Preparing the next generation by creating tax-literate schoolchildren and university students is an important objective of taxpayer education programmes.
- 3.3.3 Taxpayer education is not only a strategy for collecting more revenue, nor is it exclusively focused on explaining why taxes should be paid. Rather, it attempts to strengthen attitudes and build commitment towards helping to build Bermuda's economy by emphasizing the social value of tax and linking it to public expenditure.
- 3.3.4 It highlights how public money is spent and emphasizes the detrimental effects of tax fraud and corruption for Bermuda and its citizens. Tax compliance is connected to citizenship and collective responsibility.

APPENDIX: SECTION 4

FIGURES AND FINANCIAL PROJECTIONS



KEY FIGURES - BERMUDA	
DETAILS	FIGURES
Bermuda's national debt as of 2017	\$2.5bn
2018/2019 FYE projected annual interest payments	\$124m
Total projected population as of October 2018	63,680
Aggregate population decline between 2008 – 2018 Source: (Bermuda Population Projections 2016 – 2028)	6,500
Payroll tax as a % of Government Revenue as of 2017	43%
Payroll Tax Revenue as of 2017	\$432m
Customs duty as a % of Government Revenue as of 2017	23%
Custom's duty revenue as of 2017	\$226m
Payroll Tax & Custom's duty combined as a % of revenue as of 2017	66%
Nominal GDP as of 2017	\$6.3bn
GDP per capita – 4 th highest in the world as of 2017	\$98,125
International Business as a % of GDP as of 2017	27%
Revenue generated by International Business Sector as of 2017	\$1.7bn
Real Estate as a % of GDP as of 2017	16.4%
Revenue generated by the Real Estate sector as of 2017 (Value Added)	\$1bn
Retail Sector sales as a percentage of GDP as of 2017	17%
Revenue generated by the Retail Sector as of 2017	\$1.2bn
Tourism as a % of GDP 2017	4.7%
Revenue generated by the Tourism Sector as of 2017	\$288m
Total Employment as of 2016	33,653
Total aggregate unemployment rate as of 2016	7%
Unemployment among women as of 2016.	6%
Unemployment among men as of 2016	8%
Number of Jobs in the International Business Sector as of 2017	3,799
Source: Verified by the Bermuda Government's Department of Statistics in October 2018 and based on a calendar year unless otherwise mentioned.	

FINANCIAL REVENUE PROJECTIONS			ACTUAL \$	BUDGET	ESTIMATE	ESTIMATE	CHANGE
NOTE	CODE	REVENUE TYPE	2017/2018	2018 - 2019	2019 - 2020	2020 - 2021	
9	010	Customs Duty	\$225,664,127	\$235,000,000	\$232,900,000	\$232,900,000	(2,100,000)
1	011	Other Customs Fees & Charges	\$1,918,909	\$2,100,000	\$2,100,000	\$2,100,000	-
7	020	Payroll Tax	\$457,985,414	\$454,000,000	\$430,000,000	\$430,000,000	(24,000,000)
1	030	Betting Tax	\$156,253	\$800,000	\$800,000	\$800,000	-
8	040	Land Tax	\$56,122,225	\$78,330,000	\$68,249,957	\$68,249,957	(10,080,043)
1	050	Liquor Licenses	\$509,357	\$320,000	\$320,000	\$320,000	-
2	060	FCPT	\$20,963,808	\$22,000,000	\$38,500,000	\$38,500,000	\$16,500,000
3	070	Passenger Tax	\$22,687,568	\$25,000,000	\$41,000,000	\$41,000,000	\$16,000,000
10	080	Stamp Duties	\$28,487,578	\$23,000,000	\$25,000,000	\$25,000,000	\$2,000,000
1	085	Interest on Deposits	\$27,438	\$406,000	\$406,000	\$406,000	-
1	090	Vehicle Licenses	\$29,302,569	\$30,449,000	\$30,449,000	\$30,449,000	-
14	100	Hotel Occupancy Tax	\$10,275,035	\$11,000,000	\$7,586,207	\$7,586,207	\$(3,413,793)
1	110	Timesharing	\$99,890	\$20,000.00	\$20,000	\$20,000	-
4	120	Int' L Companies	\$61,436,398	\$68,461,000	\$94,000,000	\$94,000,000	\$25,539,000
5	121	Trade & Service Mark Reg & Fees	\$1,787,210	\$1,801,000	\$1,801,000	\$1,801,000	-
15	125	Corporate Services Tax	\$5,292,064	\$5,500,000	\$3,928,571	\$3,928,571	\$(1,571,429)
6	126	Financial Services Tax	\$5,511,857	\$8,900,000	\$15,000,000	\$15,000,000	\$6,100,000
1	130	Companies Local	\$2,456,654	\$2,940,000	\$2,940,000	\$2,940,000	-
1	140	Company Licenses	\$856,520	\$820,000	\$820,000	\$820,000	-
1	160	Wharfage	\$805,309	\$840,000	\$840,000	\$840,000	-
1	170	Post Office	\$3,963,224	\$4,652,000	\$4,652,000	\$4,652,000	-
1	175	Plant Production & Marketing	\$182,137	\$190,000	\$190,000	\$190,000	-
1	180	Ferry Service	\$1,624,681	\$1,636,000	\$1,636,000	\$1,636,000	-
1	185	Bus Service	\$6,435,165	\$8,142,000	\$8,142,000	\$8,142,000	-
1	200	Seaborne Shipping	\$3,081,634	\$3,088,000	\$3,088,000	\$3,088,000	-
	211	RCCL Capital Recovery	\$5,002,162	\$ -	\$ -	\$ -	-
11	220	Immigration Receipts	\$15,981,522	\$16,500,000	\$20,000,000	\$20,000,000	\$3,500,000
1	230	Sale of Land to Non Bermudians	\$6,069,965	\$7,000,000	\$7,000,000	\$7,000,000	-
1	235	Planning Fees & Searches	\$1,760,077	\$1,200,000	\$1,200,000	\$1,200,000	-
1	240	W&E Solid Waste	\$5,359,466	\$5,473,000	\$5,473,000	\$5,473,000	-
1	241	W&E Water	\$4,209,994	\$3,692,000	\$3,692,000	\$3,692,000	-
1	250	Rentals	\$2,227,641	\$2,025,000	\$2,025,000	\$2,025,000	-
1	270	Fines & Forfeitures	\$3,374,771	\$3,500,000.00	\$3,500,000	\$3,500,000	-
1	285	Civil Aviation	\$22,000,000	\$19,850,000.00	\$19,850,000	\$19,850,000	-
16	290	Telecommunications	\$11,109,127	\$17,950,000.00	\$21,250,000	\$21,250,000	\$3,300,000
1	291	Asset Sales	\$700,000	\$1,000,000.00	\$1,000,000	\$1,000,000	-
1	300	Miscellaneous	\$22,178,983	\$21,526,000.00	\$21,526,000	\$21,526,000	-
1		Vacation Rental		\$750,000	\$750,000	\$750,000	-

NEW AND REFORMED TAXES FINANCIAL PROJECTIONS							
NOTE	CODE	REVENUE TYPE	ACTUAL	BUDGET	ESTIMATE	ESTIMATE	CHANGE
			2017/2018	2018 - 2019	2019 - 2020	2020 - 2021	2018 - 2020
		Withholding Tax - Managed Services Tax			\$27,500,000	\$27,500,000	\$27,500,000
		Withholding Tax Dividend and Interest				\$2,500,000	\$2,500,000
		Dividend Tax on Owner Managed		\$15,000,000	\$15,000,000	\$15,000,000	
12		Commercial/Residential Rental Tax			\$41,000,000	\$41,000,000	\$41,000,000
8		Commercial/Residential Land Tax Increase			\$1,850,043	\$1,850,043	\$1,850,043
13		GST @ 5%				\$ 27,500,000	\$27,500,000
TOTAL FINANCIAL PROJECTIONS			<u>\$1,047,606,882</u>	<u>\$1,089,861,000</u>	<u>\$1,206,984,778</u>	<u>\$1,236,984,778</u>	\$147,123,778
Minimum Revenue Target :20% GDP			<u>\$1,225,000,000</u>	<u>\$1,225,000,000</u>	<u>\$1,225,000,000</u>	<u>\$1,225,000,000</u>	
Excess (Shortage) over Target			<u>\$(177,393,118)</u>	<u>\$(135,139,000)</u>	<u>\$(18,015,222)</u>	<u>\$11,984,778</u>	

NOTES TO THE FINANCIAL PROJECTIONS

#	Description	Notes
1	Various	Assume no significant change.
2	FCPT	Currently there is a 1% for FCPT; recommend increasing to 1.75%.
3	Passenger Tax	Cruise Passenger Tax will go up next year, and Industry has already been notified.
4	Int'l Companies	Increase revenue by introducing additional bands.
5	Trade & Service Mark Registration & Fees	Trade mark fees have not been adjusted, they have been kept at the same level, and some internal changes need to happen before any fee changes take place.
6	Financial Service Tax	Bank fee is 0.005% on its consolidated gross assets as at the end of a tax period. Recommend increasing to 0.0075%. Domestic insurers assess a 2.5% tax on gross premiums written in a tax period, excluding premiums relating solely to health insurance. Recommend assessing domestic insurers a matching 2.5% fee. Money Service Business, 1% on aggregated outgoing money transmission volume in a tax period.
7	Payroll Tax	\$22m net reduction due to lowering top employer rates over increased employee rates. \$2.3m reduction by creating another band between \$200k and \$350k at 3.5% to assist small business growth. Impact of lowering the top rate of 10.25 to 9.25. Payroll further reduced by eliminating employee portion only of payroll tax to 0% for persons earning up to \$48k.
8	Land Tax	The revenue estimate for land tax is impacted by the one-off uplift in the commercial land tax rate from 7% to 12% in the 2018/2019 fiscal year. The revenue impact was \$15m. While the commercial rate will revert to 7% and the end of 2018/2019, the Commission recommends a 1 percentage point increase in 2019/2020. The introduction of the flat base tax of \$500 on residential property with ARV valuations up to \$22,000 also is proposed to take effect in 2019/2020. The estimated land tax yield retains the discount for Seniors at approximately 20%.
9	Customs Duty	Staple food and children's clothing items be reduced to zero and the excise tax on beer and wine be increased. The effect is: \$14m reduction due to 0% duty on staples and clothing; offset by \$4.5m increase in duty due to flat rate of 25% for courier goods; \$7.4m increase due to rate on wines per liter of alcohol increased from \$5 to \$10 per litre of alcohol; increase of \$2m on beer from \$1.26 to \$1.75 per liter of alcohol.
10	Stamp Duty	Stamp duty on documents, estates etc. should be increased
11	Immigration Fees	It is proposed that Immigration fees for 3 - 5 year work permit fee increase by 40%. This is due to the proposal to reduce payroll tax for employer over \$1M to 9.25%
12	Rental Income Tax	Rental income for Residential Properties with ARVs over \$22k - 5%; Discounted by 25% for Principal Residences. Commercial rents at 5%.
13	General Service Tax	Includes all services where annual turnover is greater than \$250,000 as per CARTAC Report.
14	Hotel Occupancy Tax	Reduced to be harmonized with the introduction of a 5% GST
15	Corporate Service Tax	Reduced to be harmonized with the introduction of a 5% GST
16	Telecommunications	Increased to be harmonized with the introduction of a 5% GST. Reduce headset fee to pre-2018/19 level of \$9.50

APPENDIX: SECTION FIVE

COMMISSIONERS





**The Hon. E. David Burt, JP, MP, Premier and Minister of Finance,
with Members of the Bermuda Tax Reform Commission**

Left to Right

Brian Holdipp, Corporate Attorney, MJM Limited

Mitch Blaser, Vice Chairman Ironshore Bermuda, Liberty Mutual

Donald Scott, JP, Former Financial Secretary and Cabinet Secretary

The Hon. David A. Burt, JP, MP, Premier and Minister of Finance

The Hon. Wayne Furbert, JP, MP, Junior Minister of Finance

The Hon. Jeanne Atherden, JP, MP, Former Opposition Leader, Shadow Minister of Finance

Ronald Simmons, JP, Managing Partner, Moore Stephens & Butterfield, Commission Chairman

Missing from Photograph: Craig Simmons, Economic Lecturer, Bermuda College

Ex Officio: E. Oluremi Bademosi, Information Research Officer for the Commission

APPENDIX: SECTION SIX

STAKEHOLDER MEETINGS



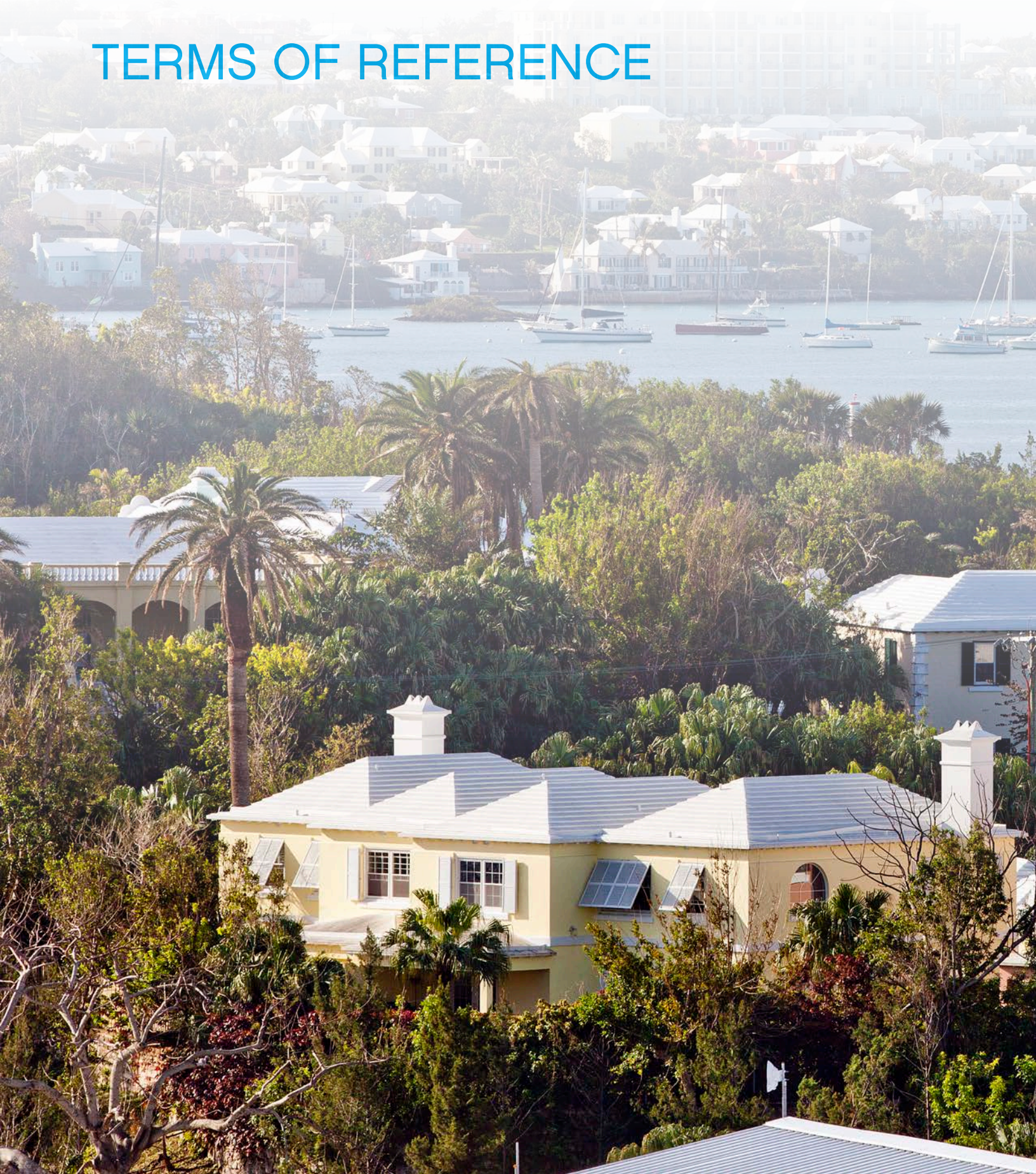
	STAKEHOLDER NAME	MEETING DATE	MEETING LOCATION
1	Parliamentarians	April 2018	Ironshore's Board Room
2	Association of Bermuda Insurers and Reinsurers (ABIR)	Wednesday, April 11 th @ 1pm	
3	Association of Bermuda International Companies (ABIC)	Wednesday, April 04 th @ 1pm	Ironshore's Board Room
4	Chamber of Commerce (Retail Committee and Real Estate)/BELCO	Thursday, April 12 th @ 1pm	Ironshore's Board Room
5	Chamber of Commerce: Retail Sector	Confirmed Tuesday April 17 th @ 12.00pm	Ironshore's Board Room
6	Chamber of Commerce: Restaurant	Tuesday April 24 th @ 12.30pm	Ironshore's Board Room
7	Bermuda Insurance Management Association (BIMA)	Monday, April 9 th @ 1pm	Ironshore's Board Room
8	Civil Service Executive	Thursday April 19 th @ 11am	Cabinet Office Board Room
9	Bermuda Hotel Association	Thursday, 26 th April meeting @ 1pm	Ironshore's Board Room
10	Bank of Butterfield	Wednesday 25 th April @ 1pm	Ironshore's Board Room
11	Clarien Bank	Wednesday 25 th April @ 1pm.	Ironshore's Board Room
12	HSBC Bank	Wednesday 25 th April @ 1pm.	Ironshore's Board Room
13	Bermuda Commercial Bank	Wednesday 25 th April @ 1pm.	Ironshore's Board Room
14	Age Concern	Thursday, 19 th April meeting @ 12pm	Ironshore's Board Room
15	Corporation of Hamilton/City of Hamilton	Friday, 13 th April meeting @ 1pm	Ironshore's Board Room
16	Corporation of St. Georges	Friday, 13 th April meeting @ 1pm	Ironshore's Board Room
17	West End Development Corporation	Friday, 13 th April meeting @ 1pm	Ironshore's Board Room
18	Bermuda Tourism Authority	Thursday, 26 th April meeting @ 1pm	Ironshore's Board Room
19	Bermuda Housing Corporation	Thursday, 26 th April meeting @ 12pm	Ironshore's Board Room
20	Bermuda Hospital Board	Thursday, 19 th April meeting @ 12pm	Ironshore's Board Room

	STAKEHOLDER NAME	MEETING DATE	MEETING LOCATION
21	Bermuda Health Council	Thursday, 19 th April meeting @ 12pm	Ironshore's Board Room
22	Bermuda Civil Aviation Authority	Thursday, 26 th April meeting @ 1pm	Ironshore's Board Room
23	Bermuda Skyport	Thursday, 26 th April meeting @ 1pm	Ironshore's Board Room
24	Bermuda Shipping and Maritime Authority	Thursday, 26 th April meeting @ 1pm	Ironshore's Board Room
25	Bermuda Hotel Association	Thursday, 26 th April	Ironshore Board Roo
26	35 & Under	Thursday, April 26 th @ 5.30pm.	Ironshore's Board Room
27	Meeting with Seniors	Friday, 04 th May @ 9.30am	Ironshore's Board Room
28	Office of Tax Commissioner	Tuesday, 8 th May meeting @ 9.30am	Ironshore's Board Room
29	Registrar of Companies	Tuesday, 8 th May meeting @ 9.30am	Ironshore's Board Room
30	Bermuda Customs	Tuesday, 8 th May meeting @ 9.30am	Ironshore's Board Room
31	Department of Social Insurance	Tuesday, 8 th May meeting @ 9.30am	Ironshore's Board Room
32	Financial Secretary	Wednesday, May 2 nd @ 11.00am	Ironshore's Board Room
33	Trade Union Congress	Tuesday, April 17 th @ 9.30am	Ironshore's Board Room
34	Big Four Accounting Firms	Monday, April 23 rd @ 12.30pm	Ironshore's Board Room
35	Bermuda Monetary Authority	Monday, April 30 th @ 12.30pm	Ironshore's Board Room
36	Bermuda Business Development Agency	Monday, April 30 th @ 12.30pm	Ironshore's Board Room
37	Regulatory Authority	Monday, April 30 th @ 12.30pm	Ironshore's Board Room
38	Bermuda Economic Development Corporation	Monday, April 30 @ 12,30pm	Ironshore's Board Room
39	Bermuda Bar Association	Tuesday, May 1 st @ 1pm	Ironshore's Board Room
40	People's Campaign	Thursday, May 3 rd @ 1.00pm	Ironshore's Board Room

	STAKEHOLDER NAME	MEETING DATE	MEETING LOCATION
41	Hamilton Landlords	Monday, May 7 th @ 1.00pm	Ironshore's Board Room
42	PLP Members	Thursday, May 10 th @ 1.00pm	Ironshore's Board Room
43	Bermuda Hotel Association Special Owners	Tuesday, 08 th May meeting @ 1pm	Ironshore's Board Room
44	Construction Association of Bermuda	Tuesday, 15 th May meeting @ 1pm	Ironshore's Board Room
45	Telecommunication Sector	Monday, 14 th May meeting @ 1pm	Ironshore's Board Room
46	Small Business Owners	Thursday, 17 th May meeting @ 1pm	Ironshore's Board Room
47	Feedback Meeting with the Public	Tuesday, 22 nd May meeting @ 6pm	Ironshore's Board Room
48	Ministry of Finance	2 nd May 2018	Ironshore's Board Room
49	Meeting with Premier	24 th May 2018	Ministry of Finance Board Room
50	Ironshore Staff Feedback	24 th May 2018	Ironshore's Board Room
51	Meeting with Her Majesty Revenue Customs	July 2 nd & Jul 3 rd 2018	Westminster, London HMRC Building
52	Meeting with the IMF/CARTAC	July 5 th & July 6 th 2018	IMF Building Washington D.C
53	Meeting with the Cost of Living Commission	September 10 th 2018	Ironshore's Board Room
54	Meeting with Bermuda First	September 17 th 2018	Ironshore's Board Room
55	One Bermuda Alliance meeting was postponed due to the 2018 bye election.		

APPENDIX: SECTION SEVEN

TERMS OF REFERENCE



7.0 TERMS OF REFERENCE

7.1 ONE

To examine the impact of recent developments in international tax policy on Bermuda's international competitiveness.

7.2 TWO

To recommend a set of policy options, with the aim of causing the Bermuda tax system:

- To provide a stable revenue yield of at least 20%-22% of GDP so that Government can meet its social and fiscal obligations.
- To be fairer and more equitable.
- To enhance Bermuda's global competitiveness.
- To be broadened in order to reduce the reliance on payroll taxes.
- To provide simplicity and transparency in order to reduce the cost of administration and promote compliance in tax collection.

APPENDIX: SECTION EIGHT

VALUE PROPOSITION

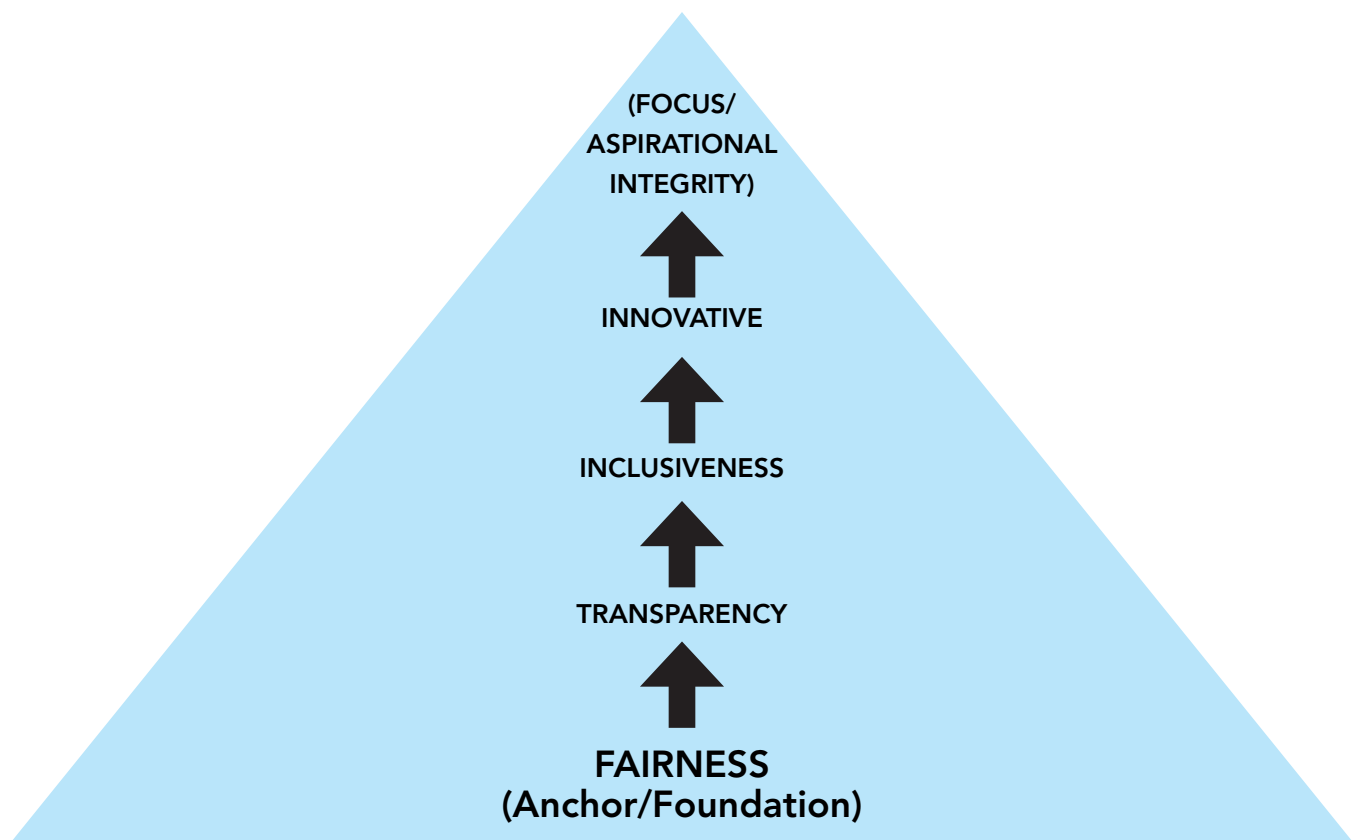


8.1 VISION STATEMENT

- To provide Bermuda with a sustainable tax structure that is globally recognized.

8.2 MISSION STATEMENT

- To determine a system of taxation and revenue collection that is equitable, efficient and transparent while enhancing Bermuda's global competitiveness.



8.3 TAX REFORM COMMISSION'S GUIDING ATTRIBUTES:

ATTRIBUTE	DESCRIPTION
Efficiency:	Tax collection and administration efforts should not cost an inordinately high percent of tax revenues.
Equitable:	Taxes should equally burden all individuals or entities in similar economic circumstances.
Effective:	Taxes should be enforced in a manner that facilitates voluntary compliance.
Fair:	Taxes should not favour any one group or sector over another and should not be designed to interfere with or influence individual decisions-making Amongst economic choices.
Simple:	Tax assessment and determination should be easy to understand by all taxpayers.
Broaden:	Taxes should be spread over as wide as possible section of the population, or sectors of the economy, to minimize the individual tax burden.
Collectable:	Taxes should be collectable with efficient systems, personnel, procedures in place.
Enforcement:	Tax enforcement should have effective legal recourse and penalties for non-compliance.
Compliance:	Tax compliance is the degree to which a taxpayer voluntarily complies with the tax rules that are established.

8.4 ABBREVIATIONS AND ACRONYMS

ARA	AUTONOMOUS REVENUE AUTHORITY
ARV	ANNUAL RENTAL VALUE
CARTAC	CARIBBEAN REGIONAL TECHNICAL ASSISTANCE CENTRE
DOSI	DEPARTMENT OF SOCIAL INSURANCE
EU	EUROPEAN UNION
FYE	FISCAL YEAR END
FS	FINANCIAL SECRETARY
GDP	GROSS DOMESTIC PRODUCT
HMRC	HER MAJESTY'S REVENUE AND CUSTOMS
IMF	INTERNATIONAL MONETARY FUND
MOF	MINISTRY OF FINANCE
OTC	OFFICE OF THE TAX COMMISSIONER
OECD	ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT
PAYE	PAY-AS-YOU-EARN
P.I.N	PERSONAL IDENTIFICATION NUMBER
RA	REVENUE ADMINISTRATION
SARA	SEMI AUTONOMOUS REVENUE AUTHORITY
TC	TAX COMMISSIONER
TRC	TAX REFORM COMMISSION
TRL	TAX ON THE REMUNERATION OF LABOUR

8.5 GLOSSARY OF TERMS

TERM	DESCRIPTION
CAPITAL GAIN	A gain on the sale of capital asset.
CONSUMPTION TAX	A tax levied on consumption spending on goods and services. The tax base of such a tax is the money spent on consumption.
DUTY	Customs duties (sometimes called a tariff) levied on imported products.
EXCISE TAX	A tax penalty imposed to change the behavior of consumption.
EXCLUSIONS	Term used to describe income which is exempt, i.e. not included, in the calculation of gross income for tax purposes
EXEMPTIONS	Tax laws frequently provide specific exemptions for persons, items or transactions, etc. which would otherwise be taxed.
EXEMPT COMPANY	A company based in Bermuda exempt from paying any form of corporate income tax until 2035.
EXPATRIATE	Persons who has left their country and live/work in Bermuda.
FLAT TAX	A tax applied at the same rate to all levels of income. It is often discussed as an alternative to the progressive tax.
FCPR	Special tax imposed on transactions involving sales of foreign exchange by domestic banking institutions
GRADUATED RATE	System where the rate of tax increases on marginal amounts as the amount of taxable income rises. Synonym for progressive rate.
GROSS TAXABLE INCOME	Is the amount of income that is subject to taxation, after all allowable deductions or exemptions have been subtracted from the gross income.
HORIZONTAL EQUITY	Similarly situated taxpayers should receive similar tax treatment.
INCOME PROPERTY	Often, real estate that is bought for the income it produces
INCOME TAX	An income tax is a tax that governments impose on income generated by businesses and individuals within their jurisdiction
LAND TAX	Tax imposed by the Government on property owned by individuals and businesses based on the assessed value of each property.
LUXURY TAXES	Indirect ad valorem tax imposed on supplies of specific non-essential and normally expensive commodities that are arbitrarily considered like boats.
MANAGED SERVICES TAX	Resident companies engage the services of foreign service provider who conducts business while in Bermuda and are paid for the services they provide, are subject to a withholding tax.
PASSIVE INCOME	Income where the recipient does not participate in the business activity
PAYROLL TAX	Tax levied by the Government paid by both an employer based on total amount of payroll and an employee based on their salary.
PER CAPITA	Latin for "for each person"
PROGRESSION	The rates of individual income tax are usually progressive, i.e. an increasing proportion of income must be paid in tax as the income increases.
REGRESSIVE TAX RATE	A tax imposed in such a manner that the tax rate decreases as the amount subject to taxation increases.
SALES TAX	Tax imposed as a percentage of the price of goods (and sometimes services). The tax is generally paid by the buyer but the seller is responsible for collecting and remitting the tax to the tax authorities.
SERVICE TAX (GENERAL)	GST is a tax levied by the government on service providers on certain service transactions.
STAMP DUTIES	Duty levied upon the issue of official documents such as passports, deeds, contracts for the transfer of ownership, etc. Usually, stamp duties are "levied" by way of a stamp being fixed to the document in question. Stamp tax
TARIFF	In general the term "tariff" refers to a list (schedule) or system of levies (taxes, duties, charges) imposed by countries on foreign trade transactions (especially importations).
TAX	The OECD working definition of a tax is a compulsory unrequited payment to the government.

TAXABLE BASE	The thing or amount on which the tax rate is applied, e.g. corporate income, personal income, real property.
TAX AUTHORITIES	The body responsible for administering the tax laws of a particular country or regional or local authority.
TAX BURDEN	For public finance purposes the tax burden, or tax ratio, in a country is computed by taking the total tax payments for a particular fiscal year as a fraction or percentage of the Gross National Product (GNP) or national income for that year.
TAX TREATY	An agreement between two (or more) countries for the avoidance of double taxation. A tax treaty may be titled a Convention, Treaty or Agreement.
TAXABLE SCOPE	Making a determination whether a taxable source meets the tax stated terms of reference.
VALUE ADDED TAX (VAT)	A tax levied at each stage in the production and distribution process.
WEALTH TAX	A wealth tax <i>is a levy on the total value of personal assets, including: bank deposits, real estate, personal income etc.</i>
WITHHOLDING TAX	Tax on income imposed at source, i.e. a third party is charged with the task of deducting the tax from certain kinds of payments and remitting that amount to the government.

