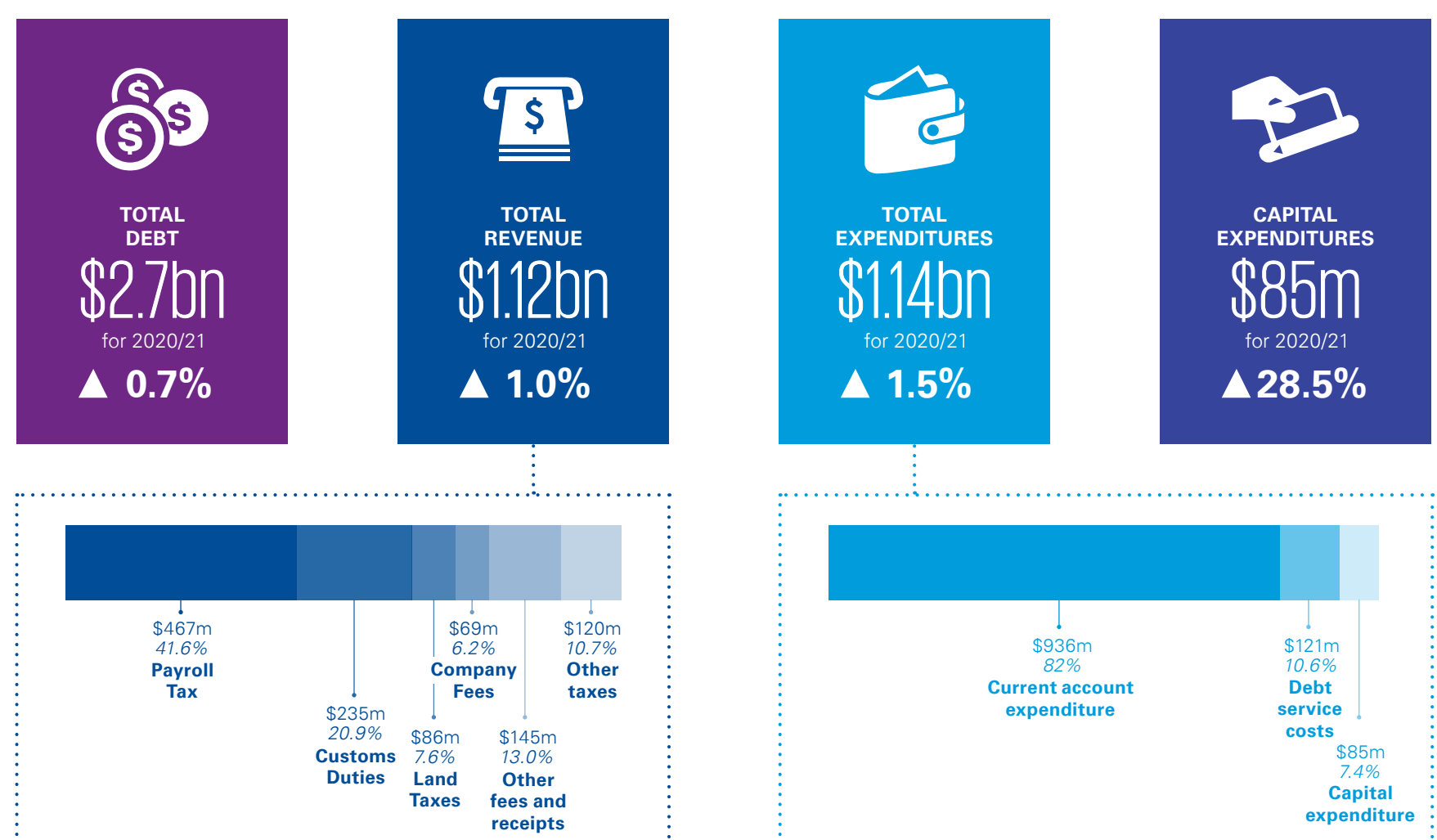


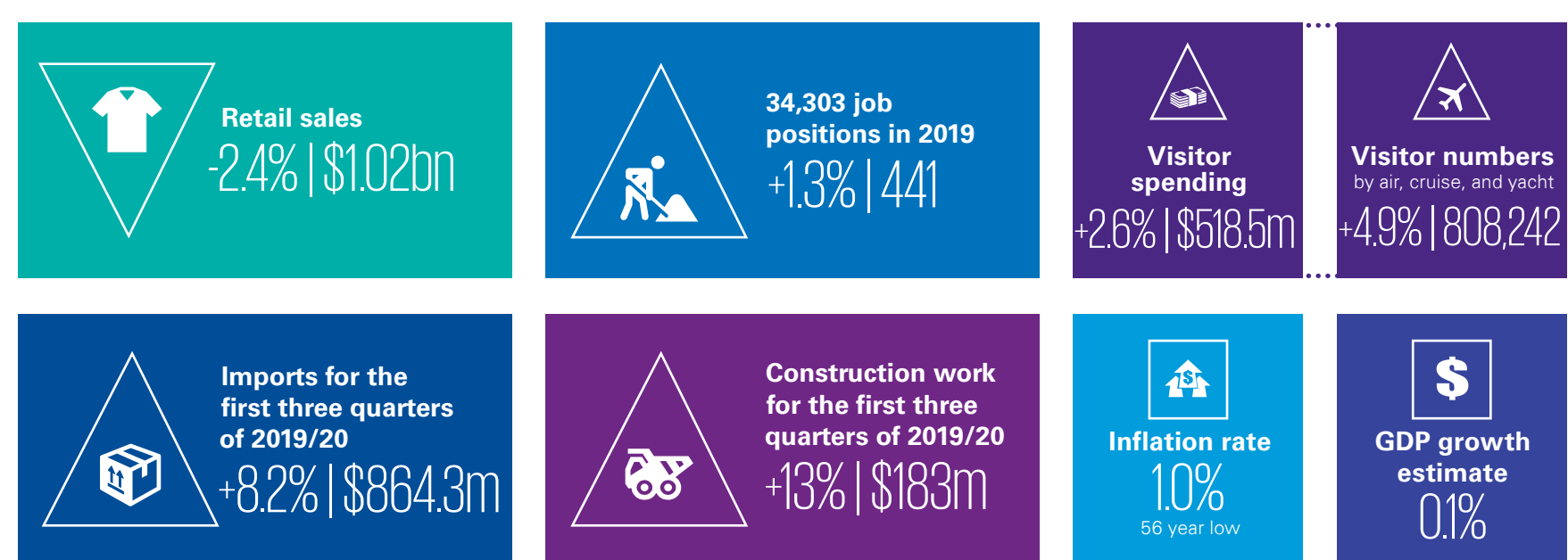
2020/21 Bermuda Budget Snapshot

On Friday, February 21, 2020, the Honourable Curtis Dickinson JP, MP in presenting his second budget, where he has reaffirmed Bermuda's commitment to growing the economy while continuing to ensure fiscal sustainability and careful management of the National Debt. Proposed changes to the 60:40 rule are aimed at stimulating greater levels of foreign investment and there are Payroll Tax reductions for the lowest earners and for certain employers, to encourage growth for small and medium-sized businesses.

The Government forecasts a budget deficit of \$19.8m in 2020/21 at the expense of much needed additional capital investment in the Island's infrastructure. We commend the Minister for his prudent management of the economy and his collaborative approach to budget setting. We look forward to further progress on wider tax reform, and much needed immigration policy changes, to create more jobs in Bermuda and grow the economy.



Bermuda's 2019/20 results at a glance



Revenues

- Forecasted total revenue is \$1.11bn in 2019/20 - Estimated revenue of \$1.12bn for 2020/21; an increase of \$11.2m or 1.0% above 2019/20.

Payroll Taxes

- The yield from Payroll Tax is estimated at \$467m in 2020/21, 41.6% of total Government revenues.
- The Government will half the employee payroll tax rate from 4% to 2% for employees earning an annual income less than \$48,000 but increase rates in the higher bands to compensate for the lowest rate adjustment.
- Given the progressive nature of the tax, the effect is that all employees earnings less than \$96k will pay less tax, and those earning more will pay marginally more.

IMPACT OF PAYROLL TAX CHANGES FOR THE

up to \$48,000	\$960 savings	\$48,000 - \$96,000	\$96,000 - \$235,000	\$235,000 - \$900,000
			up to \$6,725 increase	\$1,738 increase

- The employer rate of tax for small and medium-sized businesses with annual payroll of between \$200k-\$500k per annum will be reduced from the current 7.0% to 3.5% or 6.5% depending on banding.
- Taxi Industry Payroll Tax scheme will expand to all persons with a Public Service Vehicle (including limousines, airport limousines and minibuses), eliminating the need for operators to file quarterly Payroll Tax returns.
- Taxpayers with payrolls in excess of \$250,000 per annum to file electronically using the E Tax system.

Other taxes and duties

- The 'Large Ship Infrastructure Tax' will be renamed the 'Transport Infrastructure Tax' and will increase from \$22 to \$25 per passenger over the age of 2 years old, effective May 1, 2020. This is expected to yield \$4.4m in 2020/21.
- All immigration fees will increase by 5%.
- During this fiscal year the Land Valuation Department will conduct their 5-yearly revaluation of land, and subsequently produce a 2020 Draft Valuation List.
- The customs duty rate for cigarettes containing tobacco substitutes will be increased to be in line with the current customs duty rate for traditional cigarettes.

Expenditures

- For this budget, the Government has reintroduced Zero Based Budgeting to better allocate the limited resources with Government's policy initiatives and objectives in an effort to control expenses. The Government expects to report a budget deficit of \$19.8m in 2020/21.
- Forecasted actual total expenditure is \$1.13bn in 2019/20 - \$14.5m (1.3%) more than the 2019/20 budget of \$1.11bn, partially due to financial support of \$3.0m to secure the winter air service from New York and Boston, and \$7.8m subsidy funding to the Bermuda Hospitals Board.
- Operating expenditures are budgeted at \$935.6m for 2020/21, and capital expenditures for 2020/21 is set at \$85m which is an increase of \$20.3m.

National debt

- Net public debt will stand at \$2.658bn at March 31, 2020 and is forecast to increase to \$2.678 during 2020/21.
- In 2020/21 debt service costs are forecast to be \$121.4m.
- In 2019 the Ministry of Finance purchased the government-guaranteed loans at Caroline Bay for \$165m. The total spend to date on Caroline Bay is \$182.4m. This has increased Bermuda's interest payments by \$2.7m in 2019/20 and is forecast to increase interest payments by \$7.9m in 2020/21.

KPMG's Perspective

- The Government has continued to advance in its ambition to transform the management of Bermuda's public services through its set up of an Efficiency Committee and collaboration with the private sector. Considerable progress was made in the Immigration Department resulting in improved processing times and the Government acknowledges the need for digitisation across systems and departments to strengthen administrative processes and maximise efficiency. The establishment of a Financial Conduct Authority brings further maturity to the infrastructure for regulation of the financial sector in Bermuda, bifurcating prudential regulation and consumer protection.
- Bermuda's immigration policy continues to be a politically sensitive subject yet is increasingly important to the Island and to the international businesses present especially, given Bermuda's aging population. In order to attract employees and increase the working population, changes to the immigration policy must be made swiftly to enable essential job creation and promote substantial growth in the economy.
- Bermuda's removal from the EU's economic substance grey list and addition to the list of co-operative jurisdictions in the past week, demonstrates the Government's commitment to compliance with good tax governance practices. Further ongoing work and investment in technology and trained personnel will be required by the Registrar of Companies to maintain this position. Further, the landscape continues to change with global tax initiatives such as OECD's BEPS2.0 on the horizon.
- The Caribbean Financial Action Task Force ("CFATF")'s report published in January 2020 based on the on-island review of the effectiveness of Bermuda's AML/CTF regime, ranked Bermuda sixth amongst the 75 reports published to date by the task force, securing an excellent endorsement in Bermuda's capabilities to understand and capably manage money laundering and terrorist financing risks, reinforcing the island's status as a highly-regarded jurisdiction for international business. This, combined with the grey list removal, bodes well for all business sectors in Bermuda. However, in light of the ongoing pressure of tax transparency and other international requirements, the Government should be engaging in discussions with International Business in order to ensure that our tax system remains credible and withstands international scrutiny.
- The reduction in employee payroll tax rates for those earning less than \$96,000 should help stimulate growth and encourage customer spending in the economy. However, Bermuda's tax system remains over reliant on payroll taxes, which is counter to the goal to grow the number of jobs in the economy.

Other initiatives

- Reduce the required ownership of a local company from 60% Bermudian to 40% Bermudian. The requirement for the Board of Directors will remain at 60% Bermudian.
- The Government will pilot a Mortgage Guarantee Programme to reduce mortgage rates for prospective borrowers in partnership with a private sector bank to deliver lower financing costs to borrowers looking to secure loans up to \$750,000.
- The Government will provide assistance of up to \$250,000 towards the development of a strategic plan to develop a Union Deposit Company in Bermuda's market to facilitate increased financing capacity for union members in Bermuda.
- The Government intends to set up a Green Energy Fund to provide capital to install solar panels on the island, with the goal of providing jobs for solar installers and relief from high energy bills.
- To promote price transparency, the Government will amend the Cost of Living Commission Act to require reporting of prices from grocers. The information will be made available to the public via an app so consumers can compare the price of certain goods.
- The Government have committed to making the customs duty deferral process for the retail sector more user-friendly.
- The Government continues to be committed to advancing the National Health Plan in an attempt to reduce the overall cost of healthcare and improve coverage for preventative care.
- The Government intends to restructure the Bermuda Tourism Authority to focus more directly on sales and marketing, renew the efforts to expand airlift capacity and introduce a collection of annual events to better reflect Bermuda as a luxury destination.
- In collaboration with certain stakeholders, the Government will work to introduce a private family office product to meet the different wealth management model needs of ultra-high net worth individuals to better meet their estate planning objectives.
- In the upcoming year, the Government intend to work with certain stakeholders to establish a financial conduct oversight entity that can focus on safeguarding the interest of consumers of financial products and services in Bermuda.
- There will be an increased effort by the Government to release funds from overdue taxes by assessing the feasibility of 'factoring' the Government's accounts receivables, as well as introducing a 'tax amnesty programme' to provide eligible tax players 9 months to settle 75% to 85% of their arrears. The remaining 25% to 15% will be forgiven.

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