

# 2024/25 Bermuda Budget Snapshot

## "Investing in our future with a balanced budget"

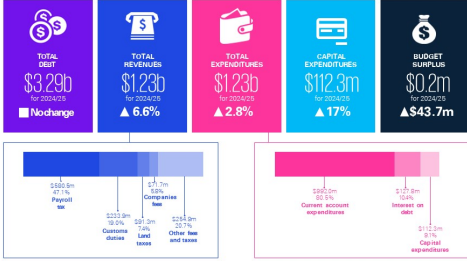
On Friday, February 18, Premier and Minister of Finance David Burt delivered the 2024/25 Government budget. The Government has presented a balanced budget for the first time in over 20 years with the decision to not impose new taxes or tax increases on employees or employers and to maintain government fees, which has generally been well received by business. This has been the result of a government that has prioritized growth in employment, particularly in the international business and professional services sectors, while maintaining business providing more jobs than in the past year of 2023.

The budget statement acknowledges that the increasing costs of living and doing business in Bermuda remain a significant challenge. Therefore, the Government is maintaining certain expenditures and efforts for both individuals and businesses such as freezing the Standard Health Benefit premium rates for the third consecutive year, and ensuring the payment of the new fees for regulated companies and larger employers through to 2025. Despite the fact in Bermuda's headline inflation rate, many lower income earners and business owners will continue to feel the effects of cost of living changes, a lack of affordable housing and inflationary pressures into 2025.

Looking ahead, the Government has conservatively estimated that the new Corporate Income Tax (CIT) will yield an average of \$100m annually from 2025/26 onwards. These additional revenues will provide an opportunity for the Government to reduce payroll taxes, business duties and the national debt, while increasing investment in Bermuda infrastructure and implementing reforms that will be made by the Tax Reform Commission in the coming year. Payroll fund reform is identified as a key area for consideration, primarily addressing the deficit deficit in the Contributions Pension Fund, and the new CIT may also address this. Proposed measures may include adjustments to the retirement age and increase in contribution.

A focus on infrastructure spending underlines the Government's commitment to enhance the nation's competitiveness and resilience. The Government will increase its capital expenditure by planning to increase from 17% of GDP to 20% of GDP by 2025/26 for infrastructure and professional services. The focus areas for 2024/25 include procuring emergency response assets such as airport new-build terminal, road repairs, upgrading government technology, stabilising waste management, enhancing schools, improving hospital facilities, and increasing affordable housing.

In this snapshot, we show the key points from the budget and our perspectives on its impact.



### Bermuda's 2023/24 results at a glance

Bermuda's economy demonstrated robust growth in 2023, with an estimated GDP increase of 4.0 to 4.5%. The international business sector showed positive growth, witnessing 569 new company incorporations and a 4.6% rise in jobs. International business continues to be the main driver of our economy. The accommodation and food service sector experienced a notable 40.8% growth. Tourism contributed significantly, recording a 38.4% increase in overall air visitor spend and a 46.8% surge in cruise visitor spend. The construction industry, although facing a decline in the first half of 2023, is poised for growth in 2024 with major developments such as the Farmout Courtyard, Brookfield, and Morgan's Point expected to get underway.



### The implications: KPMG's perspective

**Continued prioritisation of capital expenditures:** KPMG commends the Government's continued focus on infrastructure and future investment for long-term economic growth. Several infrastructure initiatives are detailed in this budget which include, but are not limited to, health, education, public works, housing and roads. While KPMG is supportive of this investment, we stress the importance of having a credible strategy plan in place that sets out the future vision for Bermuda's infrastructure.

**Implementation of Global Minimum Tax:** In December 2023, Bermuda implemented legislation to align with the 15% Global Minimum Tax (CIT), which will become effective from January 1, 2025. The CIT will provide additional resources for Government initiatives to progress forward. While CIT may help reduce fiscal responsibility, it might also increase the cost of living and pressure Bermuda's international business in the future. KPMG believes that the Government should not rely solely on CIT as an answer to fiscal issues. Government should continue to focus on delivery of Economic Recovery Plan and Economic Development Strategy.

**Continued work on the Economic Recovery Plan and Economic Development Strategy:** KPMG praises the Government for its continued efforts to support economic development and infrastructure about continuing to provide support for various initiatives and projects. We encourage the Government to increase investment in growing Bermuda's working population, as a priority, to sustain economic growth.

**Cost of living:** KPMG recognizes the Government's proactive steps in addressing the escalating cost of living, particularly through the comprehensive financial freezing of standard health care premiums. However, there is a noted concern from the business community regarding the comprehensive consideration of the cost of living in light of broader macroeconomic factors. Factors such as inflation, ongoing international economic conditions, and global market volatility are anticipated to have implications that are not fully understood or prepared.

**Climate change and sustainability:** Like last year, there was no mention of the impact and opportunities associated with climate change in this year's budget. KPMG reiterates the urgent need for the Government to report on its climate change strategy. Critical island issues, including Bermuda, face significant economic impacts from climate change. As a global insurance hub, Bermuda stands to gain from opportunities in the event of natural disasters. Additionally, KPMG highlights the significant economic growth potential in climate and green finance. Bermuda's unique position as a global financial leader can position it to benefit from the increasing global shift toward sustainable financial products.

### FY 2024/25 Budget Estimates

	ORIGINAL ESTIMATE 2023/24 \$'000	REVISED ESTIMATE 2023/24 \$'000	BUDGET ESTIMATE 2024/25 \$'000
<b>Revenue and Expenditure Estimate</b>			
Revenue	1,165,528	1,165,969	1,232,341
Current Account Expenditure (excluding debt service)	972,602	976,976	992,017
Emergency BRB Grant	-	16,323	-
Current Account Balance (including debt service)	182,926	171,666	240,324
Interest on Debt/Guarantee Management	130,800	131,087	127,771
Surplus available for Capital Expenditure	52,480	40,179	112,547
Capital Expenditure	96,007	84,101	112,327
<b>Budget Surplus (Deficit)</b>	<b>(43,524)</b>	<b>(43,922)</b>	<b>210</b>

### Revenues

**Total revenues 2023/24**

- Total revenue forecast for 2023/24 is \$1,166 million, or 0.33% higher than the original forecast, driven by increased payroll taxes and infrastructure development.
- The revenue budget for 2024/25 is \$1,232 million, an increase of 6.34% from the revised estimate for 2023/24. This is due to additional revenues from payroll tax, custom duties, and other fees and taxes.

**Key changes in revenues**

- Payroll tax revenue is expected to improve by \$58m due to growth in the working population, particularly in the international Business and Construction industry.
- The expansion and adjustment of the new hire relief are anticipated to yield an additional \$20m in payroll tax revenue as companies are incentivized to extend their presence.
- The Government is expected to target by collecting over \$16.7m in back levied tax (see doubling the set target and arrears to increase collection through improved enforcement, clarified policies, and processes).
- Investment in a new debt management system contributed to the successful tax collection efforts and additional measures including legislative amendments and coordination with the Department of Public Prosecutions, will be implemented to increase tax compliance.

### Corporate Income Tax (CIT)

- With the introduction of CIT in support to OECD's Global Minimum Tax, the Government anticipated additional revenue for Bermuda. Initial estimates projected the Ministry of Finance suggest an average of at least \$100m in additional revenue from 2025/26 onwards, with the expectation that primary CIT collections may begin as early as July 2025. Companies liable for CIT will not be subject to the employer portion of payroll taxes.
- The Government proposed to use revenue from CIT to address multiple pressing issues:
  - reducing the cost of living by lowering transport subsidies, including the general amnesty of economic costs for fuel imports and economic items. This initiative is expected to lower the price of these essential products starting in fiscal year 2025/26;
  - creating a new health insurance fund for universal healthcare, to provide broader healthcare coverage to all residents;
  - allocating a portion of the funds to boost capital expenditure to 2% of GDP, particularly for infrastructure projects that have been postponed during previous years in pursuit of a balanced budget.

### Expenditures

**Total expenditures 2023/24**

- Current account expenditure is projected to increase by 1% over the revised, with primarily increased toward regulated salary increases for public officers.
- The total revenue on debt is now \$127.7m, an increase of 0.2%, compared to 2023/24.
- Capital expenditure is projected to be \$112.3m or an increase of 17% compared to the previous year.

**Key changes in expenditures**

- Negotiated settlements with union partners led to a \$20m increase in payroll, benefits and other expenses, including a projected 1% increase in current expenditure to \$800m from the previous year's \$787.6m.
- The Government spent \$30m of gross debt, reducing the interest costs by \$2.4m to \$17.6m. An additional \$200m of net debt was managed, the most associated with the portion of the portfolio that comes with guaranteed level of return or protection, among a series level of other portfolios. The additional guarantees expected for Farmout Courtyard or Morgan's Point are expected. The fact that the Government's total debt of \$300m will require refinancing in 2025 is set to occur in January of that year.
- The capital account expenditure of \$112.3m represents a 17% or 1% of GDP. Infrastructure projects accounted for 7% and 4% of GDP for developed economies. To meet infrastructure needs, the Government aims to budget a minimum of 2% of GDP in capital expenditure, including critical areas such as bridges, extraordinary facilities, road repairs, harbour facilities, and coastal. Future financial policies will promote sufficient capital expenditure in present infrastructure development.

### Future changes outlined in the Budget

- Projected surplus in 2025/27:** The medium-term economic framework presented earlier indicates that the Government aims to achieve a projected surplus of \$20m in the fiscal year 2025/26, followed by the Fiscal Responsibility Plan.
- Fiscal Responsibility:** Ensuring responsible use of Global Minimum Tax revenue, managed prudently, and engaging economic operators for sustained financial health, promoting cost of living reduction and strategic infrastructure investments.
- Pension Fund Reform:** Addressing actuarial gaps in pension funds through reform and work on ongoing contributions, ensuring CIT for social insurance sustainability.
- Improving Government Services:** Commitment to enhancing services through increased IT investment, as well as education, cloud computing adoption, and streamlined regulations, fostering economic growth and public service.
- Public Sector Reform:** Recognizing the need for better public services, ongoing reform in the public sector focus on upgrading and modernizing regulations for improved staff management, improving efficiency in hiring and occupational processes.
- Reducing Regulations for Economic Growth:** Aligning with the Economic Development Strategy, the Government aims to boost economic growth by reducing red tape through consultations with the public and private actors, emphasizing the importance of streamlining regulations to facilitate Government service delivery.
- Enhancing Artificial Intelligence (AI) Adoption:** Encouraging local AI advancements, the Government will continue to invest in AI for public service efficiency, investing in education, and implementing AI-powered management.
- Cloud Computing:** Proactive digital strategy to promote a mix of Government cloud capacity to protect, enhance flexibility, and communication in the face of potential future attacks and supporting AI systems, showcasing a commitment to modernization and data security.