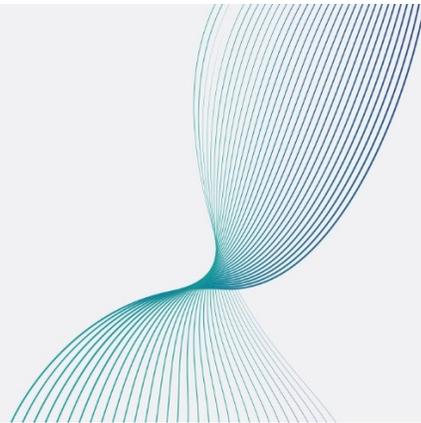




TaxNewsNOW



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New Barbados Tax Regime — Multinationals May need to Prepare

Canadian multinationals could be affected by Barbados' major international tax changes

Canadian multinationals who operate in Barbados will be interested in significant tax changes the country recently announced. Barbados says it will dismantle its current international corporate tax regime (subject to certain grandfathering provisions) and converge its international and domestic tax rates. This tax rate convergence will mean that as of January 1, 2019, all corporate entities in Barbados (both those that carry on domestic business as well as international business) will be subject to the same income tax rate on a sliding scale from 5.5% to 1% depending on the level of taxable income (see tax rate charts below). These changes are largely in response to Barbados' commitment to the OECD to amend or abolish certain legislation which treated domestic and international taxpayers differently.

Some international entities will qualify for grandfathered status and may be able to benefit from lower tax rates on taxable income up to \$15 million USD, until at least June 30, 2021. However, the lowest tax rate for grandfathered entities has been amended to 1% (from 0.25%). These changes were part of a November 20, 2018 announcement, where Barbados also proposed changes to its tax regime for insurance companies, among others.

Background

Previously the OECD Forum on Harmful Tax Practices deemed a number of Barbados tax regimes to be "potentially harmful" because of "ring fencing" provisions, which treat domestic taxpayers differently from international taxpayers. As a result Barbados has committed to amend or abolish certain legislation.

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Significant changes for international business companies

International business legislation to be abolished, amended or repealed

Barbados says it will abolish, amend or repeal significant parts of its international business regime on or before December 31, 2018. However, companies with 100% foreign earnings will receive a Foreign Currency Permit and continue to receive foreign exchange control exemptions, among other benefits.

Affected legislation includes:

- The *International Business Companies Act* (abolished)
- The *Societies with Restricted Liabilities Act* (amended to remove provisions related to international societies)
- The *Exempt Insurance Act* (repealed).

Foreign currency permit

In addition to foreign exchange control exemptions, the foreign currency permit will also provide exemptions from

- Withholding tax on payment of dividends to non-residents
- Withholding tax on all other payments to non-residents
- Payment of stamp duty and property transfer tax
- Payment of value added tax and duties on importation of plant, machinery and raw materials.

The foreign currency permit will also provide income tax concessions for specially qualified individuals for a period of three years.

Grandfathering rules

Barbados says that affected international corporations can find some relief from these changes until at least June 30, 2021. Beginning in fiscal year 2019, all entities licensed before October 17, 2017 under the old regime (other than intellectual property, or "IP" companies) will be "grandfathered." However, there will be an increased corporate tax rate for grandfathered entities with taxable income of over \$15 million USD. For taxable income over this threshold, the applicable income tax rate will be 1.0% (instead of 0.25% under the old system). Grandfathered status may also apply to IP companies, depending on how and when the IP was acquired. Barbados is expected to issue further guidance on these provisions.

Tax rate convergence

From fiscal year 2019, all corporate entities in Barbados will be taxed on the same sliding scale, correlated to income, subject

to grandfathering provisions. The chart below illustrates the new corporate income tax rates applicable to taxable income thresholds. Note that these rates do not apply to insurance companies, which are described separately below.

Taxable income	Tax rates as of January 1, 2019		Previous Tax rates applicable to licensed international business companies
	Not grandfathered	Grandfathered	
Up to \$1M BBD (\$500K USD)	5.5%	2.5%	2.5%
\$1M BBD - \$10M BBD (\$500K USD - \$5M USD)	3.0%	2.5%	2.5%
\$10M BBD - \$20M BBD (\$5M USD - \$10M USD)	3.0%	2.0%	2.0%
\$20M BBD - \$30M BBD (\$10M USD - \$15M USD)	2.5%	1.5%	1.5%
Over \$30M BBD (\$15M USD)	1.0%	1.0%	0.25%

Changes specific to insurance entities

Barbados also plans to repeal the *Exempt Insurance Act*, however, corporate entities carrying on business in the international insurance sector may also be grandfathered. The Insurance Act will be amended to include three classes of licenses - subject to either a 0% or 2% tax rate. The 0% rate generally applies to insurance companies insuring related party risks, which will pay a license fee. The 2% tax rate applies to all other insurance companies which insure and/or reinsure third party risks, as well as brokers and managers.

New substance requirements to be introduced

Barbados says it will also introduce certain substance requirements in-line with EU and OECD guidelines. Further details of these requirements have not yet been announced.

Other significant changes:

Effective fiscal year 2019, Barbados is also:

- Abolishing the tax credit for foreign currency for qualifying overseas construction projects and professional services.
- Allowing entities to elect to take a credit for taxes paid to a country other than Barbados, provided that election does not reduce the tax payable in Barbados to a rate of less than 1% of the taxable income in Barbados in any one year.
- Permitting only three allowances:
 - Annual capital allowances
 - Renewable energy allowances
 - Research and development allowances
- Restricting the amount of tax losses that a corporation can use to offset its income for the year to 50% of taxable income.

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