



CHANCERY
CORPORATE SERVICES



Chancery Corporate Services Limited ("CCSL")

Client Update November, 2018 - Prime Minister of Barbados Announces Legislative Changes

Overview

The Organisation for Economic Co-operation and Development ("OECD") developed the concept of Base Erosion and Profit Shifting ("BEPS"), which it described as "tax avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations". Under an inclusive framework of which Barbados is a part of, over 100 countries and jurisdictions collaborate to implement the BEPS measures.

The OECD developed 15 Actions as part of its BEPS initiative and in response to Action 5 thereof, Barbados committed to amending or repealing certain preferential regimes by December 31, 2018; including but not limited to International Business Companies ("IBCs") and International Societies with Restricted Liability ("ISRLs"), which were deemed potentially harmful under the BEPS initiative. The private sector through the Barbados International Business Association ("BIBA") and its BEPS Task Force collaborated with the Government to address the challenges and necessary changes to comply with this commitment.

On November 20, 2018 the Honorable Mia Amor Mottley Q.C., M.P., Prime Minister of Barbados delivered a Ministerial Statement outlining the proposed changes to be made to the corporate tax rates and certain related legislative changes to satisfy Action 5 of the BEPS initiative.

CCSL is committed to ensuring that our clients are updated on the said changes, and the impact on how you do business through any relevant corporate entity. Below are the highlights of the proposed changes announced on November 20, 2018, however we also note that the specific provisions that give effect to the same are the subject of legislation to be enacted in the near future, and therefore details may be subject to change.

Legislative and Related Changes

Features:

- ◆ All international corporate entities formed and licensed before October 17, 2017 will be grandfathered and thereby all benefits and applicable tax rates presently applicable will continue to apply until June 30, 2021 (except as noted in the Tax Rate Changes section below).
- ◆ Effective December 31, 2018 it is proposed that the *International Business Companies Act* will be repealed.
- ◆ Effective December 31, 2018 it is proposed that the *Societies with Restricted Liability Act* will be amended to remove provisions related to ISRLs.
- ◆ No new IBC or ISRL Licences will be issued after December 31, 2018.
- ◆ All IBCs and ISRLs not otherwise grandfathered will by operation of law effective January 1, 2019 automatically become regular Barbados companies able to conduct business locally, regionally and internationally. Entities with earnings of 100% foreign currency will be eligible to receive a Foreign Currency Permit giving them the same or similar exchange control exemptions and related benefits that would have applied immediately prior thereto.
- ◆ The Insurance Act will be amended to provide for three (3) classes of licenses and the Exempt Insurance Act will be repealed. (For tax rates see below)
- ◆ Corporate entities carrying on business in the international insurance sector will be grandfathered in the same manner outlined above.

Other Features: confirmed prior to November 20th, 2018 by Statements of the Minister of International Business:

- ◆ All IBCs and ISRLs formed and licensed prior to December 31, 2018 are encouraged to renew their licenses as the transition process will take account of licenses renewed to cover the year 2019.
- ◆ No IBCs or ISRLs will be licensed to be engaged in the business of holding and exploiting Intellectual Property ("IP") assets after June 30, 2018
- ◆ Grandfathering applies to all IBCs or ISRLs licensed on or before June 30, 2018 but only in relation to IP assets held by the IBC or ISRL as at October 17, 2017.
- ◆ IP assets that came into existence from October 17, 2017 can benefit from grandfathering provisions until June 30, 2021 where the research and development that created the IP was carried out by the IBC or ISRL.

Tax Rate Changes: To be effective from January 1, 2019

1. All international corporate entities grandfathered will have the same corporate tax rates applied with the exception that the tax rate applicable for taxable income in excess of \$30 million will now be 1% instead of 0.25%.

2. All corporate entities (excluding insurance companies and those grandfathered as mentioned above) will be taxed on a sliding scale as follows:

Taxable Income (BBD)	Rate %
Up to \$1 million	5.50%
More than \$1 million and up to \$20 million	3.00%
More than \$20 million and up to \$30 million	2.50%
Taxable Income of more than \$30 million	1.00%

3. For entities carrying on insurance business (except those grandfathered as mentioned above) the following rates will apply:

Nature of Business	Class	Rate %
Insurance companies insuring related party risk	1	0%
Insurance companies insuring and/or reinsuring third party risk	2	2.00%
Insurance brokers, managers etc.	3	2.00%

4. The tax credit for foreign currency under section 12H of the Income Tax Act for qualifying overseas construction projects and professional services will be abolished.

5. All entities may elect to take a credit in respect of taxes paid to a country other than Barbados provided that such an election does not reduce the tax payable in Barbados to a rate less than 1% of the taxable income in any one year.

6. Tax losses available for offset in an income year will be restricted to 50% of taxable income.

Benefits and Key Information

- ◆ Barbados will be one of the first countries to converge its local and international tax rates.
- ◆ Barbados will be fully compliant with the OECDs BEPS initiatives with respect to the removal of preferential regimes.
- ◆ Lower tax rates for traditional "Domestic" companies who were previously taxed at 25%-30%
- ◆ Opportunity for all companies to operate in the domestic and international markets through Barbados.
- ◆ Tax rate increase is not "drastic" for traditional "International" entities.
- ◆ Potential to spur growth in both domestic and international markets.
- ◆ No changes to the taxes incurred for traditional International/Captive insurance sector.

Conclusion

If you have any questions or concerns about the pending changes and how they may impact on you and your company or society, please do not hesitate to reach out to us. As soon as further information is made available or any practice directives are issued we will be sure to update you accordingly.

Contact us

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Our Team

The Board of Directors and management team of CCSL is comprised of attorneys and professionals who have been providing a high caliber of focused guidance, services and counsel to both international and domestic clients for decades. The Company is managed by a Chief Executive Officer with years of experience in the financial services sector of Barbados and a background in Corporate Law, International Tax Law, Company Management and Compliance. Client portfolios are managed by a group of highly motivated and experienced corporate administrators who blend knowledge with dedication to the details of clients' business affairs. The group is made up of STEP professionals, Lawyers, Corporate Secretaries and general administrators with years of service in the field. This offers a wide variety of expertise and knowledge for our clients.

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