

### Barbados' Corporate Tax Regime

Barbados is one of the first countries in the Caribbean to converge its local and international tax rates, making its tax system globally competitive, while bringing the country in line with the Organization for Economic Cooperation and Development's (OECD) Base Erosion and Profit Shifting (BEPS) initiative. By implementing the new regime, Barbados is fulfilling its commitment to be fully compliant with BEPS Action 5 addressing harmful tax practices.

#### International Business Companies (IBCs) and Societies with Restricted Liability (ISRLs)

IBCs and ISRLs not holding intellectual property (IP) and licensed before 17 October 2017 will qualify for grandfathering to 30 June 2021. The applicable tax rate for the grandfathered entities, for taxable income in excess of US\$ 15 million, will now be 1.0% in line with the minimum converged rate.

#### Corporate Tax Rates - Grandfathered Entities

| Taxable Income US\$              | Rate % |
|----------------------------------|--------|
| Up to <= \$5 million             | 2.50   |
| >\$5 million <= \$10 million     | 2.00   |
| >\$10 million to <= \$15 million | 1.50   |
| >\$15 million                    | 1.00   |

Those entities that were licensed after 17 October 2017 will be transitioned into the new regime and subject to corporation tax as set out below. These entities will automatically become Regular Barbados Companies and Societies, and will be able to conduct business locally, regionally and internationally. Those companies with 100% of their earnings in foreign currency will receive a Foreign Currency Permit (FCP) giving them substantially the same benefits enjoyed previously.

#### Corporation Tax

For fiscal years commencing on or after 1 January 2019, all corporate entities, excluding those that are grandfathered and insurance entities, will be taxed on the following sliding scale:

#### Corporate Tax Rates

| Taxable Income US\$              | Rate % |
|----------------------------------|--------|
| Up to <= \$500,000               | 5.50   |
| >\$500,000 to <= \$10 million    | 3.00   |
| >\$10 million to <= \$15 million | 2.50   |
| >\$15 million                    | 1.00   |

### **Intellectual Property Entities**

An IP IBC or ISRL licensed as at 30 June 2018 and holding IP assets as at 17 October 2017 or IP Assets acquired after 17 October 2017 under certain conditions will qualify for grandfathering to 30 June 2021.

### **Insurance Entities**

Effective 1 January 2019, there will be three classes of licenses for the insurance sector as follows:

- Class 1 category will be defined as insurance companies which restrict the business they can underwrite to related party business. These insurance companies will be taxed at zero.
- Class 2 category will be defined as insurance companies which can underwrite risks of third parties. These companies will be taxed at a rate of 2%.
- Class 3 category will include brokers, intermediaries, insurance management companies, insurance holding companies and the like. These entities will be taxed at a rate of 2%.

Corporate entities carrying on international insurance business and licensed before 17 October 2017 will be grandfathered until 30 June 2021.

### **Financial Institutions**

All financial institutions will be licensed under the Financial Institutions Act which will provide for four classes of licenses as follows:

- Class 1: Commercial Banks
- Class 2: Trust Companies, Finance Companies, Merchant Banks and money or value transmission service providers
- Class 3: Financial Holding Companies
- Class 4: Financial Institutions qualifying for a FCP

Financial institutions carrying on international business and licensed before 17 October 2017 will be grandfathered until 30 June 2021. Entities not grandfathered will be subject to corporate tax at the new rates set out above.

### **Allowances and Benefits**

Only the following allowances will be provided for under the Income Tax Act from fiscal years beginning on or after 1 January 2019:

- Annual capital allowances
- Renewable energy allowances and
- Research and development allowances

### **Tax Losses**

Tax losses brought forward and available for offset will be restricted to 50% of taxable income in any income year.

**Foreign Currency Permit (FCP)**

All entities that earn 100% of their income in foreign currency, will on 1 January 2019 be entitled to receive a FCP affording them similar benefits previously enjoyed by IBCs and ISRLs.

**Foreign Tax Credit**

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 one per cent of the taxable income in any one year.

**Grandfathering**

A grandfathering policy is a provision in which an old rule continues to apply to some existing situations while a new rule will apply to all future cases. In the case of Barbados, the entities that meet the criteria as set out above will be grandfathered i.e. will continue under the existing regime until 30 June 2021, and thereafter will transition into the new regime. Those that do not meet the criteria will be subject to the rules of the new regime.