

## International Tax Barbados Highlights 2018



### Investment basics:

**Currency** – Barbados Dollar (BBD)

**Foreign exchange control** – The Exchange Control Act governs dealings between residents of Barbados and nonresidents. The regulator for exchange control is the Central Bank. Exchange control regulations gradually have been liberalized since the mid-1990s, and special types of corporate entities are exempt from these regulations.

**Accounting principles/financial statements** – IFRS applies although, in practice, the standards applicable in the country of a parent company may be used. Annual financial statements must be prepared for presentation to the shareholders at the annual meeting. Financial statements must be filed with the Registrar of Corporate Affairs as documents available for public inspection. An auditor must be appointed if assets or gross revenue exceed BBD 4 million.

**Principal business entities** – These include the international business company, society with restricted liability, partnership, small business and trust. A company can be a limited liability company or a company without share capital.

### Corporate taxation:

**Residence** – A company is deemed to be resident if it is centrally managed and controlled in Barbados.

**Basis** – Resident companies pay tax on their worldwide income. Nonresident companies pay tax only on Barbados-source income.

**Taxable income** – A resident company is taxed on its worldwide income, less allowable deductions. Credits are granted for foreign taxes paid, and brought-forward

losses from previous years may be offset (see “Losses,” below).

**Taxation of dividends** – Dividends paid by one Barbados company to another are exempt from tax (see also “Participation exemption,” below).

**Capital gains** – There are no specific rules on the taxation of capital gains in Barbados.

**Losses** – Losses may be carried forward for seven years. The carryback of losses is not permitted. Group loss relief is not allowed.

**Rate** – The rates are: 25% for regular business companies; 15% for manufacturing companies and small business companies; 5% on life insurance business; and 0.25% to 2.5% for International Business Companies (IBCs), International Societies with Restricted Liability (ISRLs) and international banks.

**Surtax** – No

**Alternative minimum tax** – No

**Foreign tax credit** – Foreign tax credits are granted for tax paid overseas but may not exceed the tax payable in Barbados. For special incentive entities, the foreign tax credits may not reduce the tax payable in Barbados to less than 0.25%. Excess credits may not be carried forward.

**Participation exemption** – Dividends derived by a Barbados resident company from an overseas company are exempt from tax in Barbados if the Barbados resident company holds at least 10% of the capital of the overseas company and the shares are not held as a portfolio investment.

**Holding company regime** – There is no specific holding company regime, but a special tax regime applies to IBCs

and ISRLs, under which an exemption is available for payments made to another IBC or ISRL or to a person resident outside Barbados. The withholding tax exemption also applies to dividends paid by a regular Barbados company to nonresident shareholders out of foreign-source income. A regular Barbados company can apply to the relevant authorities to conduct business internationally and to benefit from specific exemptions in terms of tax and exchange control.

**Incentives** – Barbados provides incentives for IBCs, ISRLs, qualifying insurance companies and entities incorporated under the International Financial Services Act. Benefits include: tax on income on a sliding scale, from a minimum of 0.25% to a maximum of 2.5%; a tax credit for tax paid outside Barbados (but only to the extent it does not reduce the tax payable in Barbados to less than 0.25%); tax concessions for specially qualified individuals; an exemption from exchange control; and an exemption from customs duty, consumption tax and stamp duty on the import of machinery and equipment.

#### Withholding tax:

**Dividends** – Dividends paid by a Barbados resident company to a nonresident company or individual generally are subject to withholding tax at 15%, unless the rate is reduced under a tax treaty. The rate is 25% for dividends paid out of tax-exempt profits.

A 12.5% rate applies to dividends paid to a resident individual.

The following dividends are exempt from withholding tax:

- (i) dividends paid by one resident company to another;
- (ii) dividends paid by a regular Barbados company out of foreign earned income to a nonresident; and (iii) dividends paid by an IBC or ISRL to a nonresident.

**Interest** – Interest paid by an IBC or ISRL to a nonresident is exempt from tax, as is interest on government securities; otherwise, a 15% withholding tax applies on interest paid to a nonresident, unless the rate is reduced under a tax treaty.

**Royalties** – Royalties paid by an IBC or ISRL to a nonresident are exempt from tax; otherwise, the rate is 15%, unless reduced under a tax treaty.

**Technical service fees** – Technical service fees are subject to a 15% withholding tax.

**Branch remittance tax** – A branch profits tax of 10% applies, unless reduced under a tax treaty.

#### Other taxes on corporations:

**Capital duty** – No

**Payroll tax** – No

**Real property tax** – Building and land owners are liable to land tax on the value of their property. The tax rates range from 0.1% to 0.75%, with the first BBD 150,000 subject to a rate of 0%. Land tax must be paid based on the issue date on the land tax bill; tax paid within 30 days of the issue date is entitled to a 10% discount.

**Social security** – Companies employing persons in Barbados are required to register with the Director of National Insurance. The current National Insurance Scheme (NIS) Insurable Earnings Limit is a maximum of BBD 4,650 per month or BBD 1,073 weekly. The private sector contribution rate paid by employers for employees between the age of 16 and 66½ years is 11.25%.

**Stamp duty** – Stamp duty is levied on certain documents at varying rates. Stamp duty is imposed at a rate of BBD 10 for every BBD 1,000 on the transfer of real or personal property.

**Transfer tax** – Transfer tax is imposed at a rate of 2.5% on the value of real property in excess of BBD 150,000 and on the value of shares or debentures in excess of BBD 50,000. The transfer of shares under the reorganization of a group of companies where there is no change in beneficial owner is exempt from transfer tax.

**Other** – The National Social Responsibility Levy is applied to all imports, at a rate of 10%.

There is a foreign exchange fee of 2% that applies to all transactions that require the remittance of, or settlement in, foreign currency provided it is not made from a foreign currency account

There is a bank asset tax of 0.35%.

#### Anti-avoidance rules:

**Transfer pricing** – Barbados does not have transfer pricing legislation. However, the Revenue Commissioner reserves the right to impute the market rate of interest for transactions between related parties.

**Thin capitalization** – No

**Controlled foreign companies** – No

**Disclosure requirements** – No

#### Compliance for corporations:

**Tax year** – The tax year is based on the company's fiscal year.

**Consolidated returns** – Tax legislation does not provide for taxation of groups on a consolidated basis and there are no group relief provisions.

**Filing requirements** – Companies with fiscal year ends between 1 January and 30 September must file a tax

return and pay any tax due by 15 March following the year end. In addition, an advance tax payment of 50% of the tax paid in the previous year is payable by 15 September. Companies with fiscal year ends between 1 October and 31 December must file a tax return and pay any tax due by 15 June following the tax year. An advance tax payment of 50% of the tax paid in the previous year is payable by 15 December, with a second advance payment due the following March.

**Penalties** – Penalties for late filing and late payment are imposed. Interest is payable at 1% per month for each outstanding month that a return is not filed.

**Rulings** – There is no advance ruling procedure.

#### Personal taxation:

**Basis** – Tax generally is chargeable on the worldwide income of resident individuals and the Barbados-source income of nonresidents.

**Residence** – An individual is resident if he/she spends more than 182 days in Barbados in a tax year. For individuals not domiciled in Barbados, the concept of “ordinarily resident” can be applied. To become ordinarily resident, an individual must have a permanent home in Barbados and elect to reside in Barbados for at least two consecutive income years, including the income year in question.

**Filing status** – Each individual must file a tax return; joint filing by spouses is not permitted.

**Taxable income** – Taxable income includes income from employment, benefits in kind, pension income, directors’ remuneration and business income.

**Capital gains** – There are no specific rules on the taxation of capital gains in Barbados.

**Deductions and allowances** – A basic personal allowance of BBD 25,000 is permitted. An individual aged over 60 who is in receipt of a pension is entitled to a basic deduction of BBD 40,000. Specially qualified individuals working in the international business and financial services sector may qualify for a three-year tax exemption ranging from 35% to 60%, depending on the level of income.

**Rates** – Income tax is payable on the first BBD 35,000 of taxable income at a rate of 16%, and on income exceeding BBD 35,000 at a rate of 33.5%. Net residential rental income is taxed at 15%. Gross assessable income up to BBD 25,000 is not subject to tax, by virtue of the basic personal allowance.

#### Other taxes on individuals:

**Capital duty** – No

**Stamp duty** – Stamp duty is imposed on certain documents at varying rates. Stamp duty is imposed at a rate of BBD 10 for every BBD 1,000 on the transfer of real or personal property.

**Capital acquisitions tax** – No

**Real property tax** – Building and land owners are liable to land tax on the value of their property. The tax rates range from 0.1% to 0.75%, with the first BBD 150,000 subject to a rate of 0%. Land tax must be paid based on the issue date on the land tax bill; tax paid within 30 days of the issue date is entitled to a 10% discount.

**Inheritance/estate tax** – There is no inheritance tax, but gifts may be subject to property transfer tax.

**Net wealth/net worth tax** – No

**Social security** – Employees are required to register with the Director of National Insurance. The National Insurance Scheme (NIS) Insurable Earnings Limit is a maximum of BBD 4,650 per month or BBD 1,073 weekly. The private sector contribution rate for employees between the age of 16 and 66½ years is 10.1%.

#### Compliance for individuals:

**Tax year** – Calendar year

**Filing and payment** – All individuals must file a tax return and pay any tax due by 30 April. Individuals carrying on a business or profession must make three advance payments of tax, each amounting to 25% of the previous year’s liability, by 15 June, 15 September and 15 December. Emoluments are taxed by withholding at source.

**Penalties** – Penalties for late filing and late payment are imposed. Interest is payable at 1% per month for each outstanding month that a return is not filed.

#### Value added tax:

**Taxable transactions** – VAT is levied on the sale of goods and the provision of services.

**Rates** – The standard VAT rate is 17.5%. A rate of 8.75% applies to hotel accommodation. A zero rate applies to exports, basic foodstuffs and international freight services. A rate of 22% applies to mobile phone services. Exemptions include some financial services and sales of real property.

**Registration** – The VAT Act states that registration is mandatory for businesses with annual turnover above BBD 200,000. Voluntary registration is possible.

**Filing and payment** – Ongoing requirements are detailed and may be complex. A VAT return must be filed every two months, and any tax due must be paid to the

Barbados Revenue Authority by the 21st day of the month following the tax period. The tax period for VAT purposes is two months.

**Source of tax law:** Various laws of Barbados

**Tax treaties:** Barbados has concluded 27 tax treaties.

Barbados signed the OECD multilateral instrument on 24 January 2018.

**Tax authorities:** The regulatory authorities are the Barbados Revenue Authority, National Insurance Office,

Financial Services Commission, International Business Unit, Ministry of Industry, International Business Commerce & Small Business Development and the Central Bank of Barbados

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