

Ministry Of Finance

# Pre-Budget

# Report

2018 - 2019



*“In order for Bermuda to succeed, we need to return our economy to a path of **balanced growth** that **creates jobs**, provides **rising income** and assists our budget challenges. It is our belief that a **better environment** must be created in which Bermudian businesses can thrive, opportunities for Bermudians can be created, and in which capable, **qualified Bermudians can earn opportunities** to work, train and succeed at every level.”*

– Progressive Labour Party 2017 Election Platform

# **Purpose of Pre-budget Report**

The **objective** of the **Pre-budget Report** is to **increase the public awareness** of a government's fiscal and budget policy objectives, and to **establish a benchmark** for evaluating the conduct of fiscal and budget policy.

# **Principles of our Fiscal Policy**

- **Prudently manage the financial risks.**
- **Maintaining the government debt and contingent liabilities at prudent levels**
- **Ensure that fiscal policies contributes to the achievement of adequate national saving**

# **Principles of our Fiscal Policy**

- **Diminish the cyclical fluctuations in economic activity**, taking account the economic risks facing us and the impact on the Government's fiscal position
- Pursue spending and taxing policies that are consistent with a reasonable degree of **stability**

# **Principles of our Fiscal Policy**

- Promoting **fairness** and **equity** in both spending and taxes.
- Maintain the **integrity** of the tax system.
- Ensure that **policy decisions** have regard to their financial effects on future generations.



# **Consideration When Preparing The Budget**

- **Economic Growth**

- **Direct Outcome of Governments**

**Economic, Social & Political Policies**

# **Consideration When Preparing The Budget**

- **Reallocation of Resources**
- **Management of Public Enterprises**  
**(WEDCO, BLDC, BHC, etc.)**



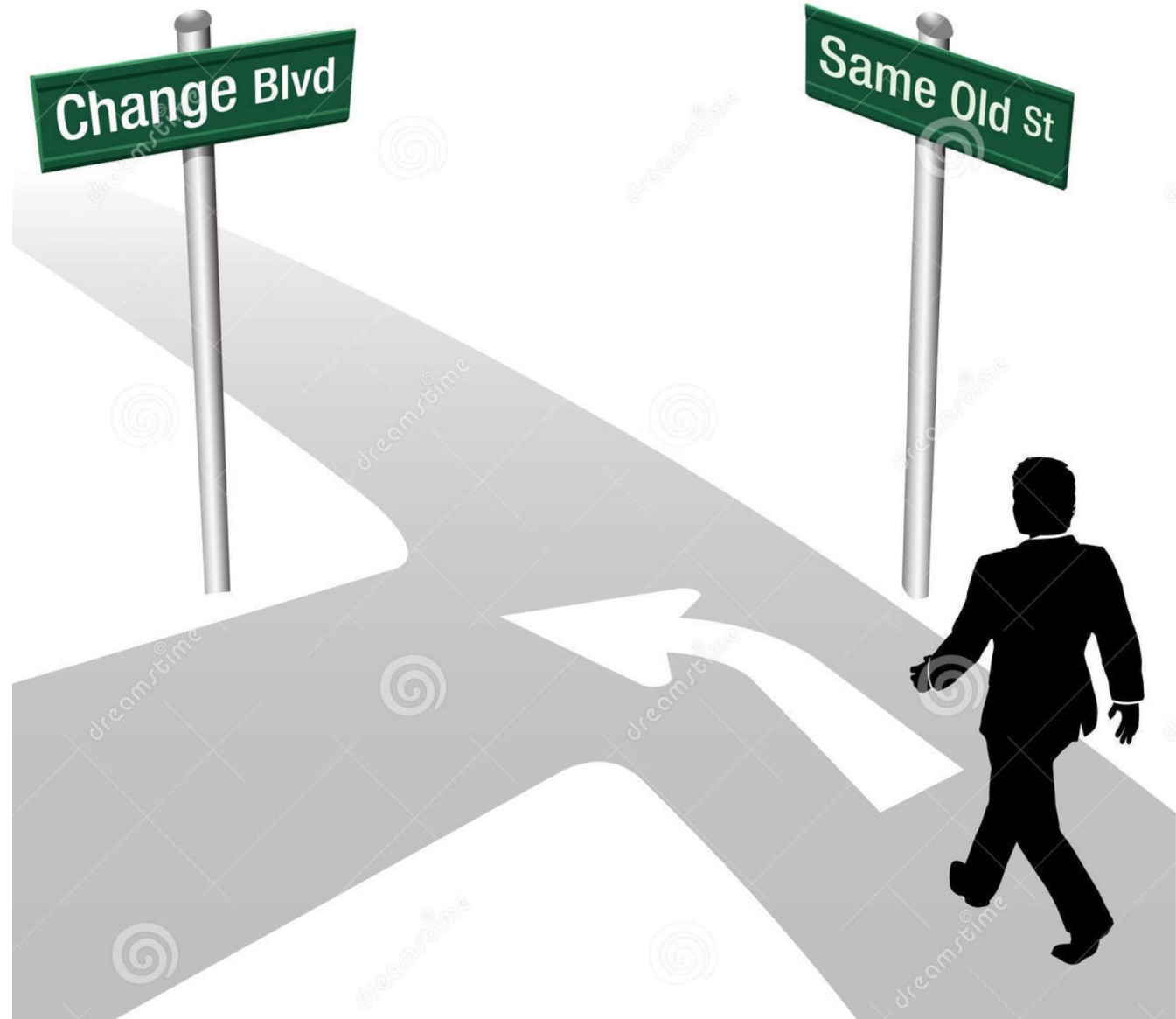
# **Consideration When Preparing The Budget**

- **Shrinking Tax Base**
- **Deficit Reduction**
- **A debt that we need to manage**
- **Rating Agency**

# **Consideration When Preparing The Budget**

- **Lowering the Corporate Tax Base in US**
- **External Threat (EU, OECD, CFATF)**
- **Increase of Aging Population**
- **Escalating Health Care Costs**

**Staying on the same path  
is not an option **GROWTH**  
has to be our mantra  
going forward, and it is  
something this  
Government is  
committed to.**



# HOW

TO TURN YOUR OBSTACLE


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INTO OPPORTUNITY

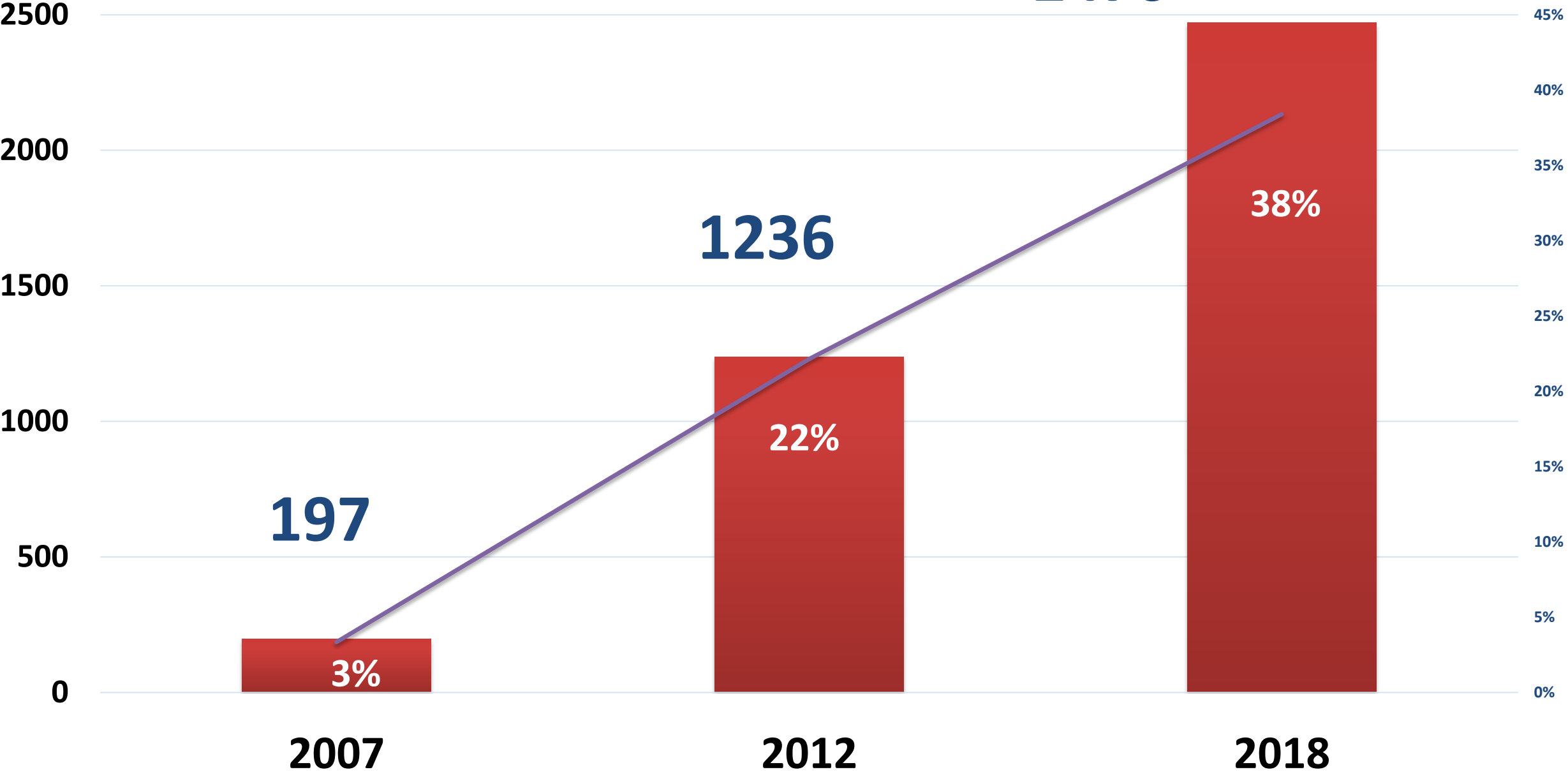


**“WE ARE CONTINUALLY FACED BY GREAT  
OPPORTUNITIES BRILLIANTLY DISGUISED AS  
INSOLUBLE PROBLEMS.”**

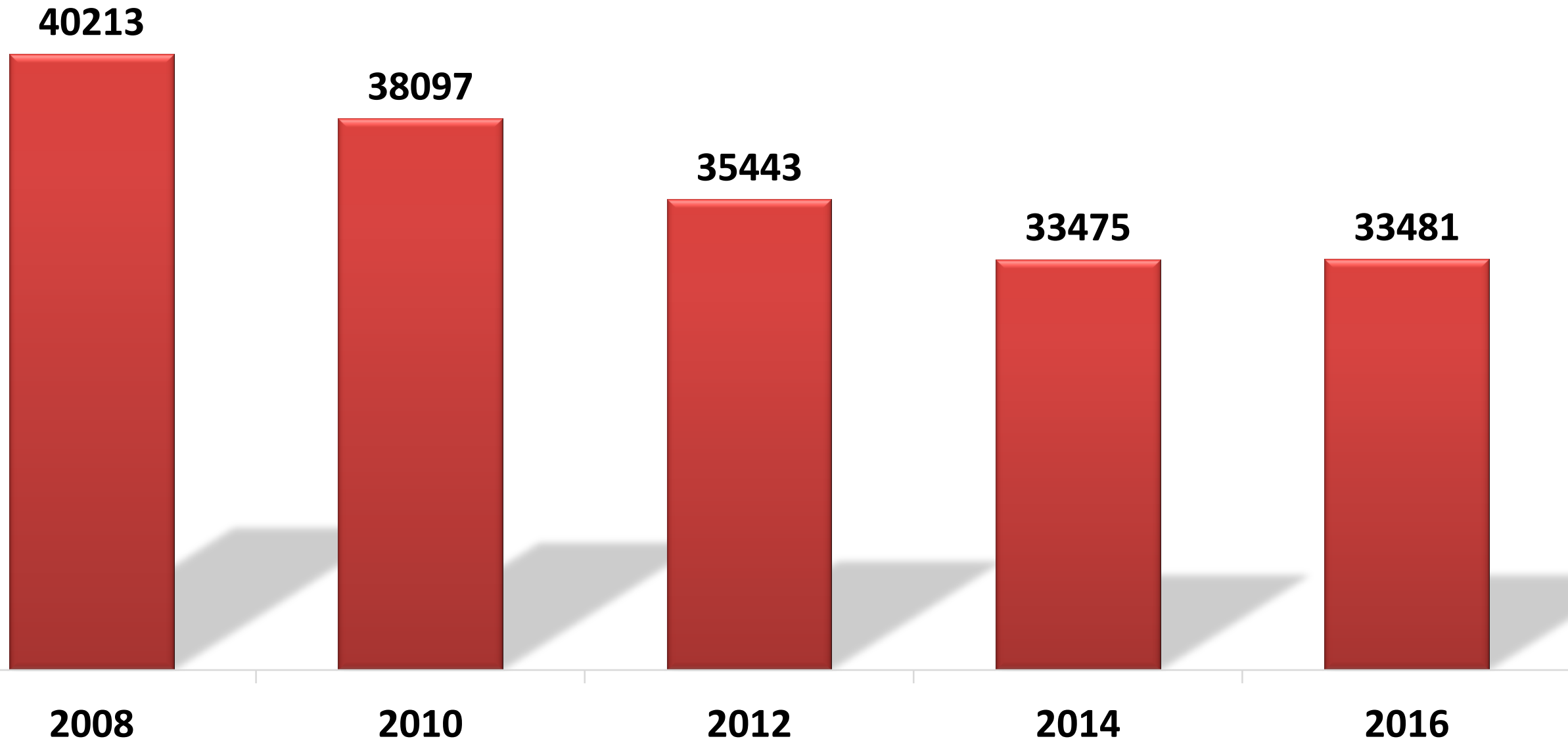
**LEE IACocca**

 **Lifehack Quotes**

Net Gov. Debt to GDP Ratio



## NO. Of BERMUDA JOBS

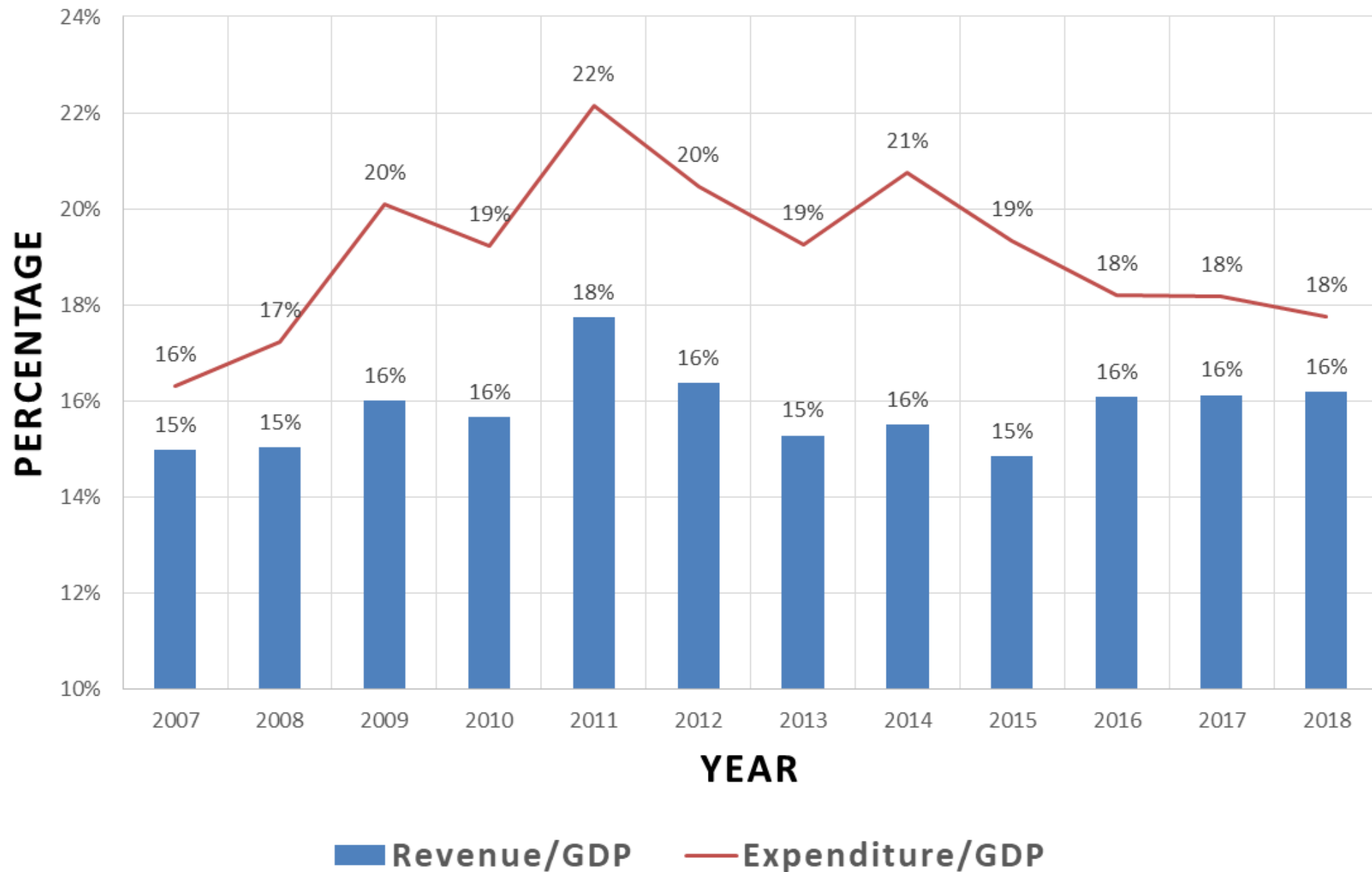




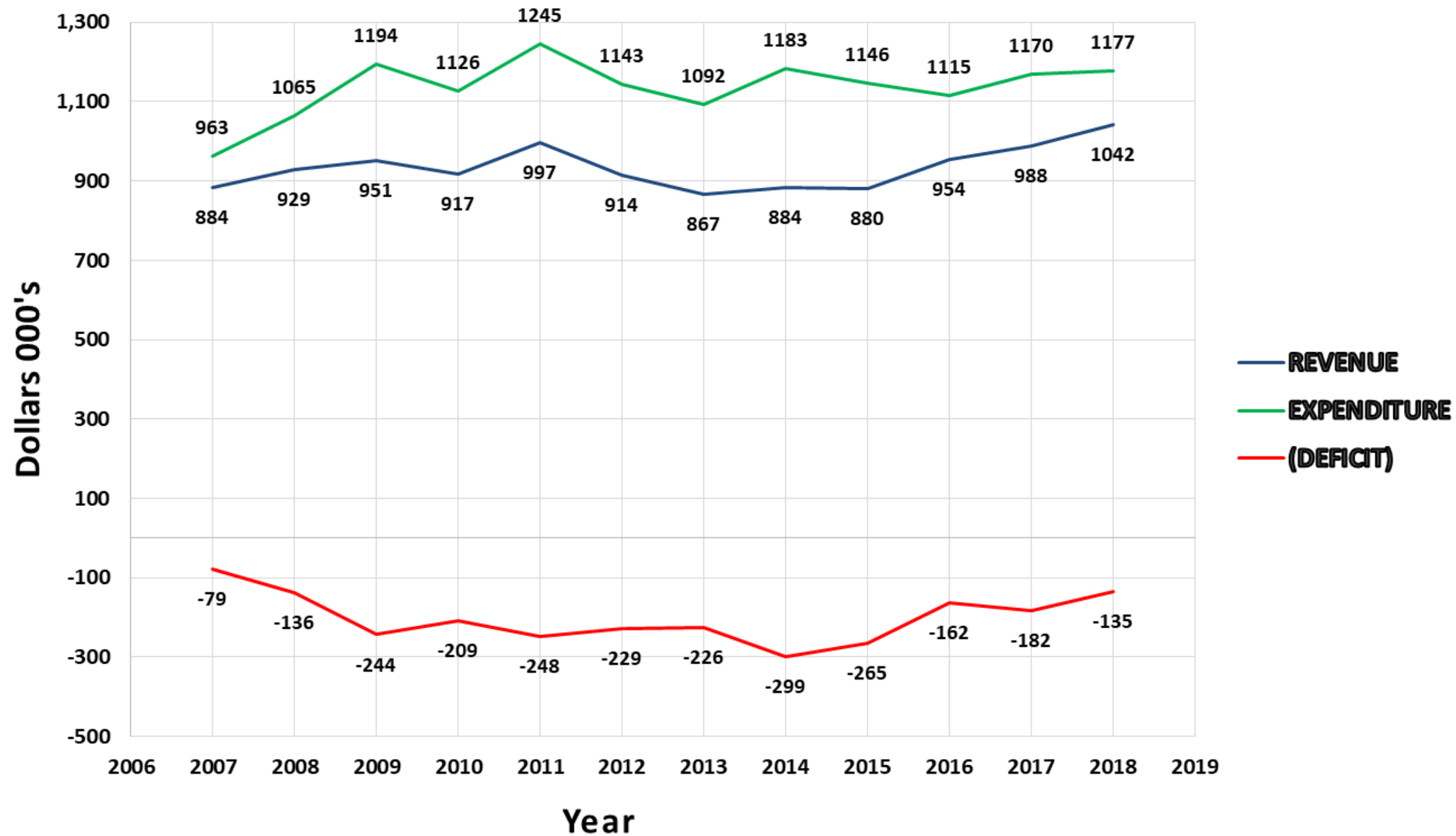
# GPD Growth in Comparison Vs Inflation



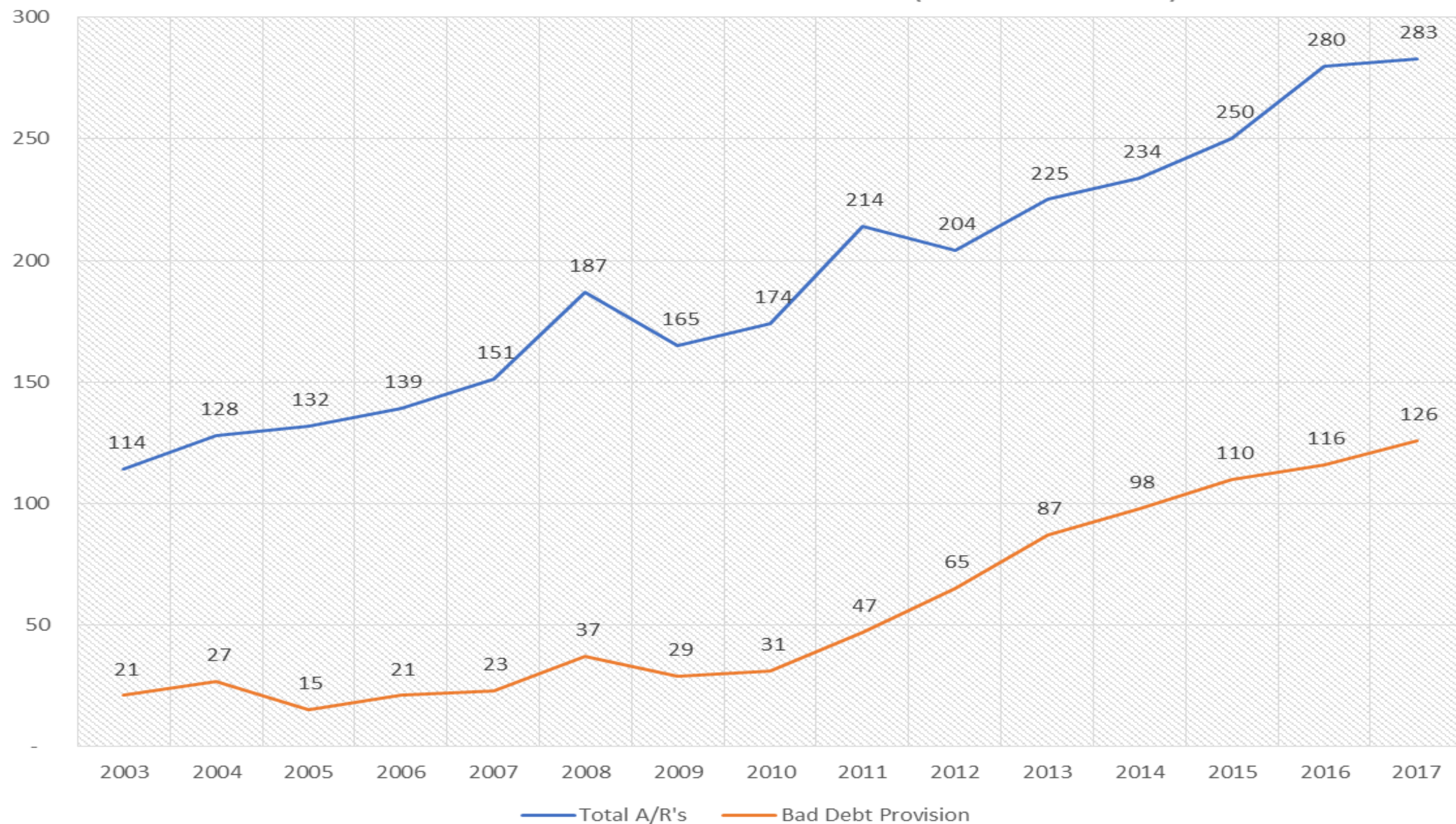
## REVENUE /GDP VS EXPENSES/GDP



## Revenue, Expenditure and Surplus (Deficit) by Years

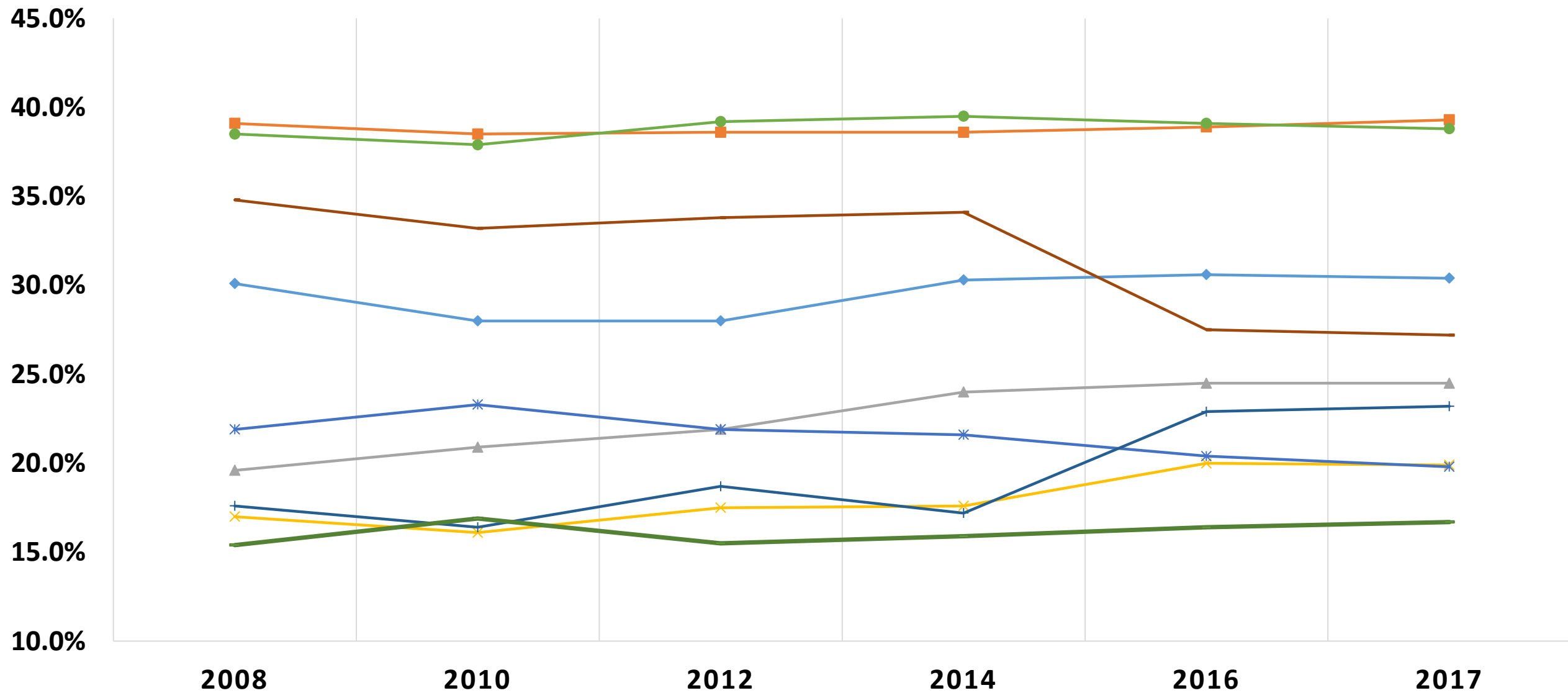


Total Accounts Receivable & Bad Debt Provision (In Millions of \$'s)

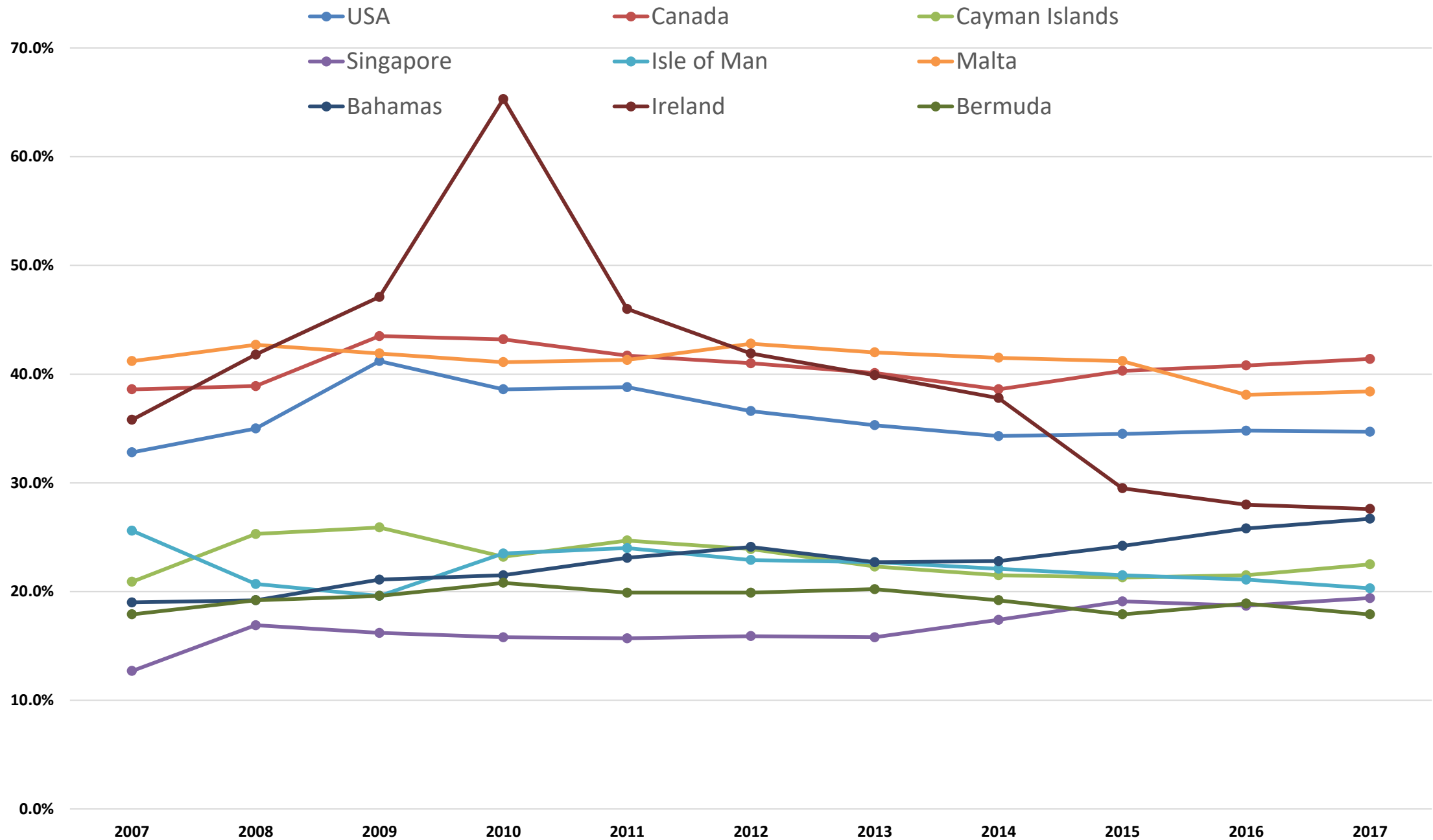


# TAX REVENUE TO GROSS DOMESTIC PRODUCT

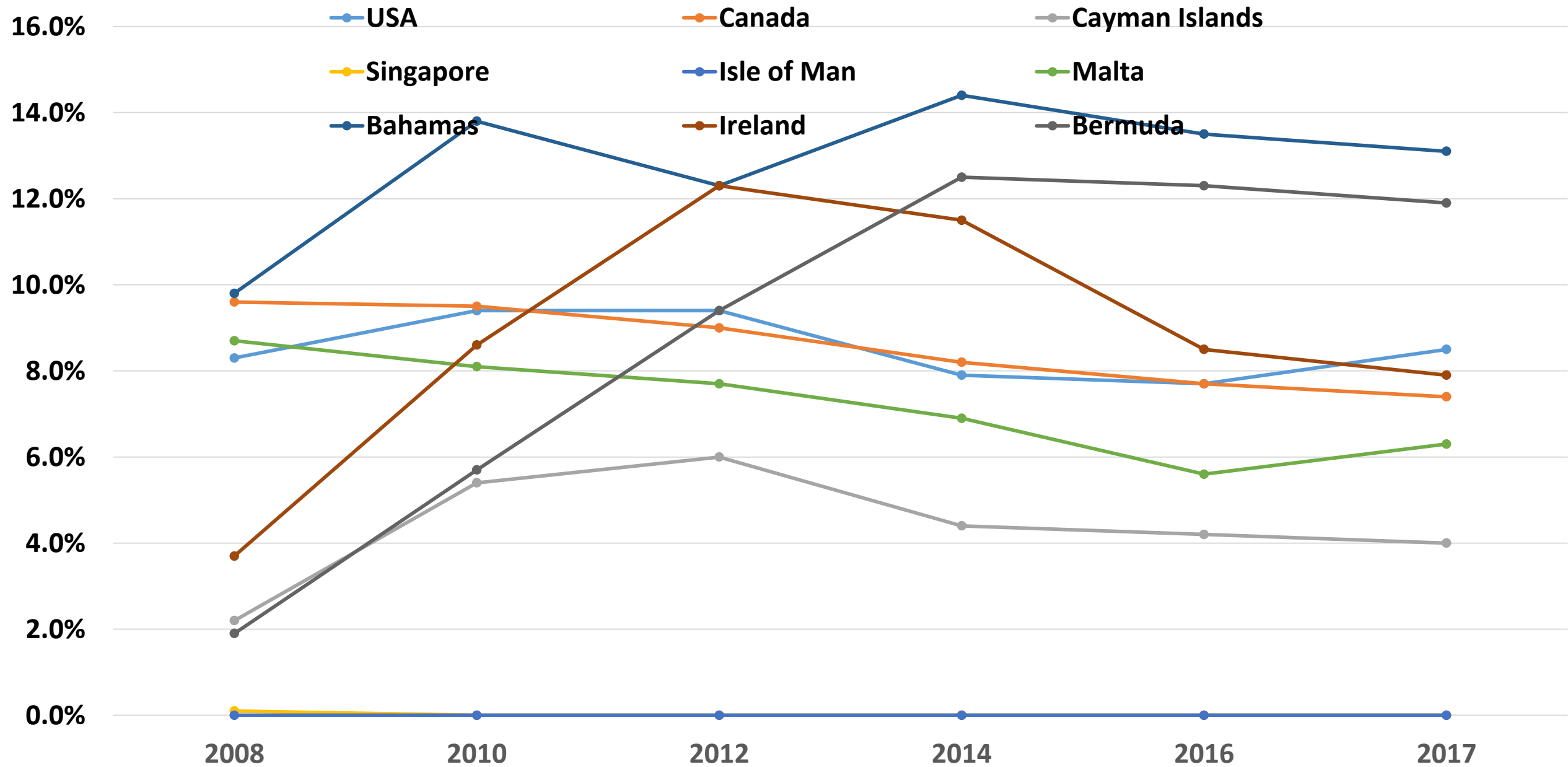
USA Canada Cayman Islands Singapore Isle of Man  
Malta Bahamas Ireland Bermuda



# EXPENDITURE VS GDP

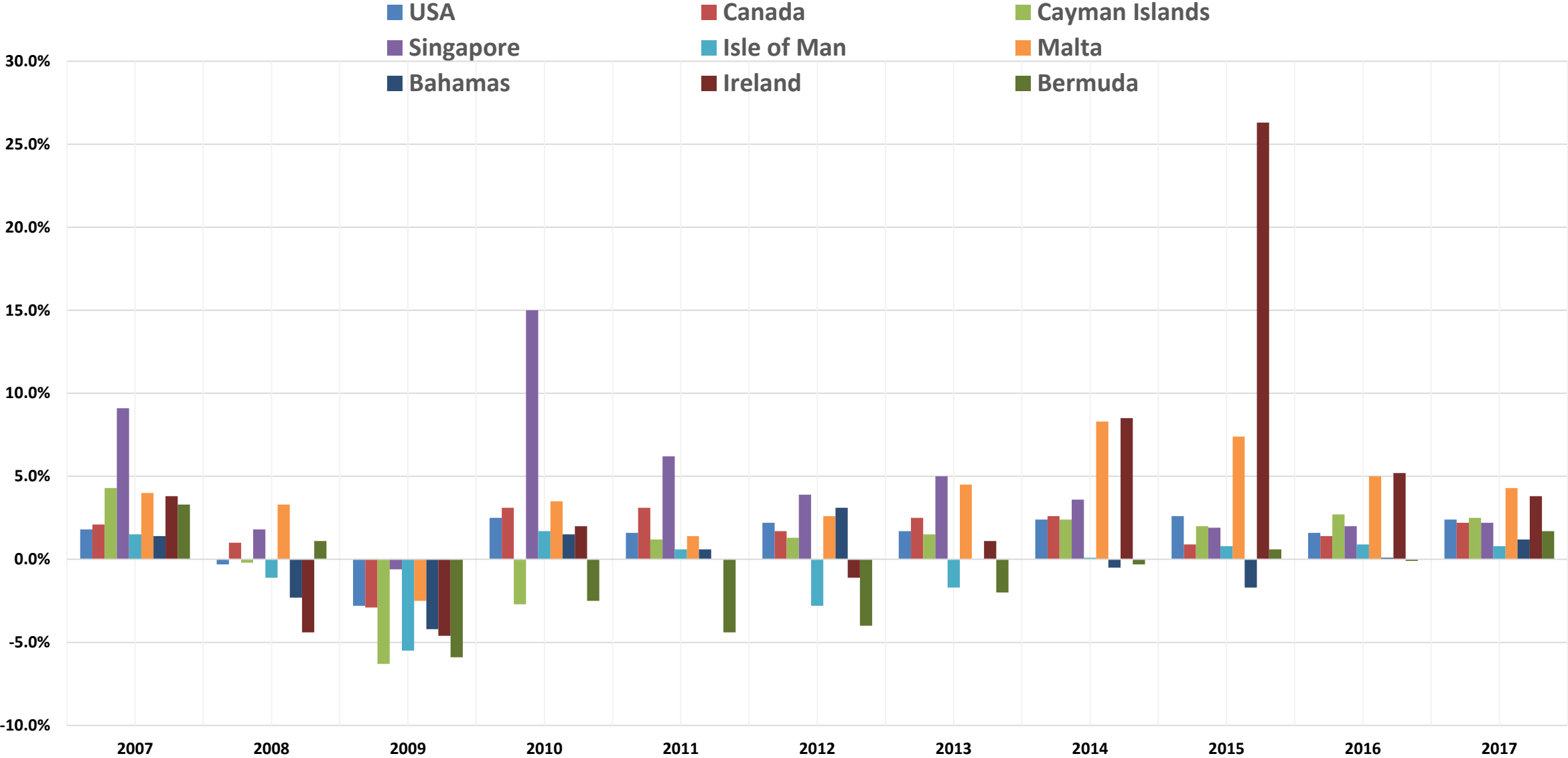


## INTEREST EXPENSE AS A PERCENTAGE OF REVENUE





# REAL GDP GROWTH



# **Framing the 2018/19 Budget**

- **Taxation**
- **Sensitivity**
- **Deficits and High Debt Levels**
- **Fiscal Strategy to Halt the rise of debt  
by 2019/20 Budget**

# **New Government Policies**

- **Tax Reform Commission**
- **Bermuda First**
- **Bi Partisan Committee on Immigration Reform**
- **Parliamentary Oversight**
- **Bermuda Infrastructure Fund**
- **Living Wage**

# **Policy Options Under Consideration for the 2018/19 Budget**

## **Payroll Taxes for the Taxi Industry**

**The Government is currently considering a proposal from the Bermuda Taxi Owners Association to pay a one-time payroll tax payment per taxi to be paid yearly at the Transport Control Department, in addition to the licensing fee, at or before the end of September.**

# **Policy Options Under Consideration for the 2018/19 Budget**

## **Cracking Down on Notional Abuse**

**The Office of the Tax Commissioner (OTC)  
has undertaken a process to review and  
amend notional income levels**

# **Policy Options Under Consideration for the 2018/19 Budget**

## **General Service Tax**

**The General Service Tax (GST) will not be implemented in 2018 as proposed by the previous government**

**Professional Services Tax (PST) is being Considered in 2018/19, limited initially to services provided in the legal and accounting professions and other business and management consultancy services.**

# **Policy Options Under Consideration for the 2018/19 Budget**

## **Customs Duty**

**It is proposed to introduce the sugar tax as an increase in the rate of duty on a limited group of items. The Ministry of Health has already released a consultation paper on this matter.**



# **Policy Options Under Consideration for the 2018/19 Budget**

## **Customs Duty**

- **To reduce the cost of certain essential foods and textiles, the Ministry of Finance is considering duty relief on these items.**

# **Policy Options Under Consideration for the 2018/19 Budget**

## **Customs Duty**

- **The Ministry of Finance, in consultation with the Ministry of Health, is planning on further increasing the duty on tobacco imports to close the inconsistency between duty rates on cigarettes and tobacco.**

# **Policy Options Under Consideration for the 2018/19 Budget**

## **Biennial Fee Increase**

**The biennial fee increase is scheduled to take effect this year. All fees will be reviewed to ensure that there is reasonable cost recovery for the provision of the various services offered by a range of government departments.**

# **Policy Options Under Consideration for the 2018/19 Budget**

## **Telecommunications Sector**

**As an additional revenue measure, the Government is considering increasing fees on cell phones and the Government Authorization fee of 2.5% imposed on the electronic communications industry.**

# **Policy Options Under Consideration for the 2018/19 Budget**

## **Commercial Rents**

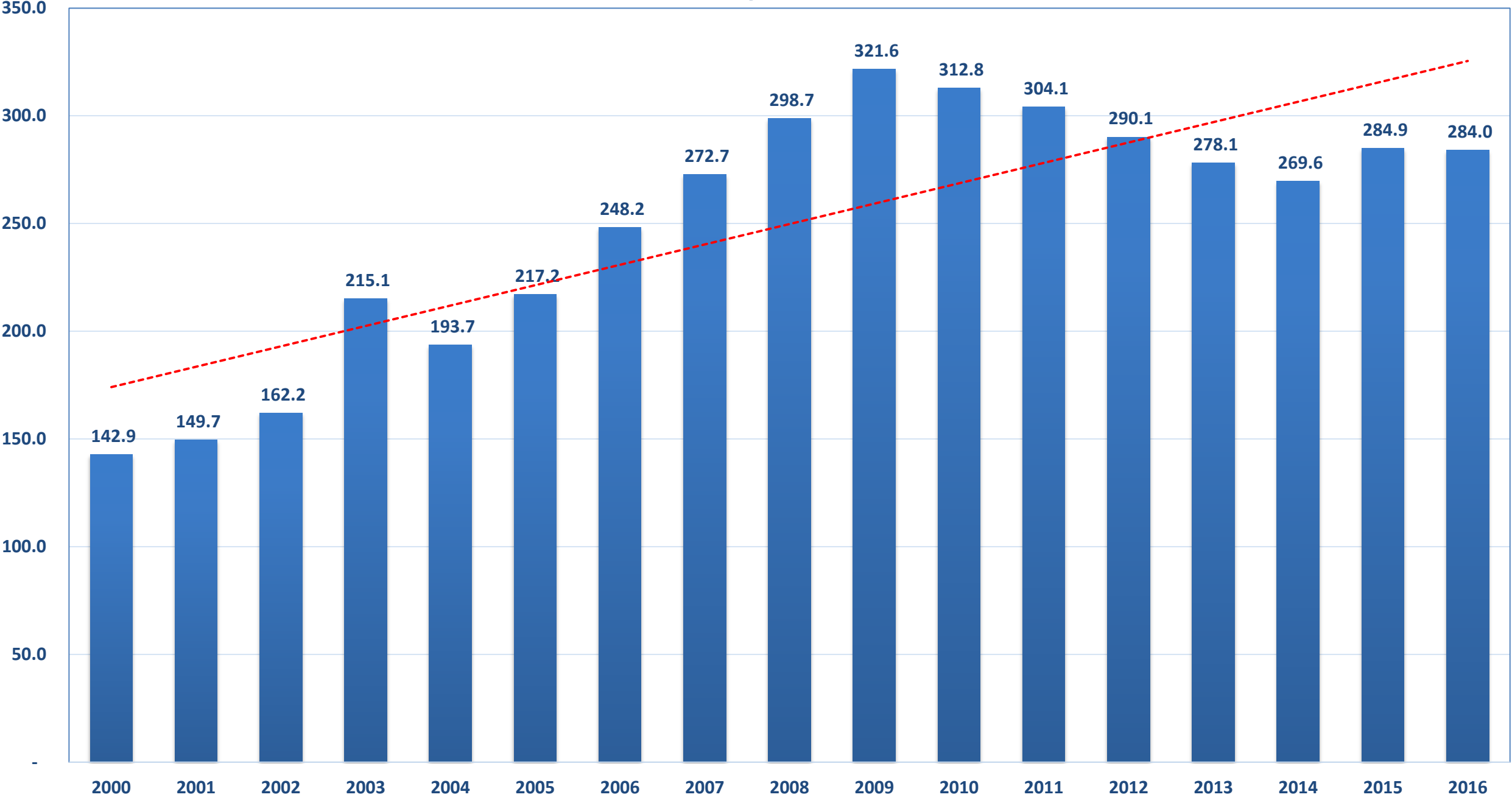
- **Some Bermudians have enjoyed the benefits of international business's continued presence in Bermuda and collect commercial rents.**
- **In order to broaden the tax base, the Government is considering taxing commercial rents.**

# **Policy Options Under Consideration for the 2018/19 Budget**

## **Commercial Rents**

- **The tax will be charged on persons who rent out commercial properties for rental income. certain deductions, such as mortgage payments, will be allowed. There may also be exemptions for certain areas such as the Economic Empowering Zones.**

# Commercial Rent By Year in Millions \$\$





# **Policy Options Under Consideration For The 2018/19 Budget**

## **Tax Collection & Accounts Receivable**

- **Tax collection and accounts receivable have been a considerable problem for the Government for years and it is time to take additional action.**

# **Policy Options Under Consideration For The 2018/19 Budget**

## **Tax Collection & Accounts Receivable**

- **The Government will ensure that the Office of the Tax Commissioner (OTC) has the resources that it needs to collect taxes that are due.**

# **Policy Options Under Consideration For The 2018/19 Budget**

## **Tax Collection & Accounts Receivable**

- **The Government will enhance the links between IT systems in government departments to place more restrictions on individuals, homeowners and business who are not current with their tax obligations. These links will also assist the OTC in identifying employers who may be underreporting taxes to better direct resources for enforcement.**

# **Policy Options Under Consideration For The 2018/19 Budget**

## **Tax Collection & Accounts Receivable**

- **The Government will be looking at all accounts that are listed as “provision for bad debt”.**
- **These accounts will be analysed and those accounts that are deemed collectible and do not have payment plans in place will be handed over to the Debt Enforcement Unit in the Attorney General’s Chambers to take action.**
- **The Government is considering implementing a Tax Amnesty Programme.**

# **Policy Options Under Consideration For The 2018/19 Budget**

## **Government Efficiency**

- **Controlling Public Sector expenditure remains a focus of the Government. Whilst there has been some success in cutting costs, it has become increasingly difficult to implement further reductions under the current Government structure and the across-the-board expenditure cuts in previous budgets.**

# **Policy Options Under Consideration For The 2018/19 Budget**

## **Government Efficiency**

- **The Government's 2017 Election Platform called for increased Government efficiency in order to control Government expenditure, rather than across-the-board cuts. To this end, the Government will establish an Efficiency Team to scrutinize the spending of resources across departments according to the Government's priorities.**

# **Policy Options Under Consideration For The 2018/19 Budget**

## **Government By The Numbers**

- **The Government proposes to set the total current account appropriation, less debt service, at approximately \$937 million. The amount is equal to the revised budgeted expenditure that has been approved for the current 2017/18 fiscal year (total current expenditure will remain unchanged).**

# **Policy Options Under Consideration For The 2018/19 Budget**

## **Government By The Numbers**

- **It is critical that we maintain and strengthen our infrastructure and stimulate economic activity, therefore the Government plans to set capital expenditure at a prudent level of about \$60 million.**



# **Policy Options Under Consideration For The 2018/19 Budget**

## **Government By The Numbers**

**The Government's intention is to target a deficit in 2018/19 that is about \$25 million more than the contribution to the Sinking Fund (estimated at \$65.5 million).**

# **Policy Options Under Consideration For The 2018/19 Budget**

## **Government By The Numbers**

Thereby, it is expected the **net debt will increase by \$25 million**. This deficit target is about **\$45 million below the expected deficit for 2017/18**.

The Government intends that net debt will begin to decrease in 2019/20 and that Bermuda will then begin to reduce the national debt.

# **Fiscal Responsibility Panel**

*The current tax structure is:*

- *Excessively weighted towards the taxation of labour and goods*
- *Has the perverse effect of taxing companies that create employment while leaving those that do not largely tax free.*

# **Fiscal Responsibility Panel**

- *Payroll tax will become an increasingly problematic source of income as **Bermuda's comparative advantage to international companies** as a place to do business is eroded through reductions in rates of corporation tax elsewhere.*
- *It will be essential to look for **NEW** sources of revenue that spread the burden more evenly across the economy."*

# **Policy Options Under Consideration For The 2018/19 Budget**

- Taking into consideration the above, and the recent US tax reforms, the Government is considering **not moving ahead** with the implementation of the second phase of the payroll tax proposal put forward by the former Government.

# **Policy Options Under Consideration For The 2018/19 Budget**

- **This Government is very cognizant of the contribution made by International Business (IB), which is 27% of GDP.**

# **Policy Options Under Consideration For The 2018/19 Budget**

- **With the short time afforded to international business to work out the **impact of the US tax reform**,**
- **We believe that it is wise for this Government to reduce uncertainty and send a clear message concerning the importance of IB to Bermuda's economy.**

# **Policy Options Under Consideration For The 2018/19 Budget**

**The Government still intends to lower the rates of payroll tax for lower income workers and will ensure that any measures to offset that reduction from higher earners will not increase the overall payroll tax burden in the economy**



# **FORMULA FOR GROWTH**

- Debt Reduction remains a Priority to maintain confidence**
- Increase Funding For Education, which has been under funded for years**
- Increase Funding For Marketing - Bermuda**

# **FORMULA FOR GROWTH**

- Funding for Department of Energy to expand Solar Rebate Initiative**
- Funding for E government to improve efficiency, reduce red tape, and increase satisfaction**

# **FORMULA FOR GROWTH**

- **Funding to Bermuda College to invest in Bermudians training**
- **Provide one Year Tax relief for First Time Entrepreneurs – Employers Portion.**
- **Relaxation of The 60/40 rule to allow access to foreign Capital**

# **FORMULA FOR GROWTH**

- **Dialogue with The Business Community during immigration reform to ensure immigration policy and developing our economy move in tandem.**
- **Working with Businesses to increase employment opportunity**

**To Learn More About The Pre-Budget  
go to  
[www.gov.bm/prebudgetreport](http://www.gov.bm/prebudgetreport)**

**Questions?**