

Barbados Revises Corporate Tax Regime and Abolishes IBCs and ISRLs

December 2018

Barbados has committed to complying with the Organization of Economic Cooperation and Development's (OECD) framework on Base Erosion and Profit Shifting (BEPS). In order to comply with Action 5 of BEPS, Barbados has announced a number of major changes to its corporate tax and international company regimes.

These changes, announced in November 2018, will take effect on 1 January 2019.

Key Changes

- Abolition of separate tax rates for domestic and international entities and convergence into one corporate tax regime for all corporate taxpayers (excluding those carrying on insurance business)
- Repeal of the International Business Companies Act (IBC Act) and amendment of the Societies with Restricted Liability Act (SRL Act) to remove all references to International Societies with Restricted Liability (ISRL)
- Existing IBCs and ISRLs that meet certain criteria will be eligible to be grandfathered and will continue to enjoy the benefits and exemptions available under the former IBC and ISRL regimes until 30 June 2021

- IBCs and ISRLs that do not meet the criteria to be grandfathered will be transitioned to the new regime by operation of law and will henceforth be known as Regular Business Companies (RBCs) or Societies with Restricted Liability (SRLs) and will be subject to the rules of the new regime from 1 January 2019

The New Tax Rates

The new rates of corporate tax, which apply to all non-grandfathered Barbados entities (except insurance companies) and which decrease in line with the amount of taxable income, are summarised below. The new rates remain competitive on the global stage.

| Taxable Income US\$ | Tax Rate % |
|--|------------|
| Less than US\$500,000 | 5.5% |
| More than US\$500,000, but less than US\$10,000,000 | 3.0% |
| More than US\$10,000,000, but less than US\$15,000,000 | 2.5% |
| More than US\$15,000,000 | 1.0% |

IBC and ISRL Changes for Companies Not Holding Intellectual Property

- From 1 January 2019, all IBCs and ISRLs will automatically become RBCs and SRLs. It will no longer be possible to incorporate new IBCs or ISRLs. All non-IP IBCs and ISRLs that had their 2017 licence issued before 17 October 2017 are entitled to be grandfathered.
- All non-IP IBCs and ISRLs that received their 2017 licence on or after 17 October 2017 will be transitioned into the new regime.
- IBCs and ISRLs that qualify for grandfathering will benefit from their current tax rates, except that the lowest band of their current tax rate will increase from 0.25% to 1%. All other grandfathered tax rates remain the same.

IBC and ISRL Changes for Companies Holding Intellectual Property

- Intellectual Property IBCs and ISRLs that had their 2018 licence issued on or before 30 June 2018, holding IP assets acquired before 17 October 2017, qualify for grandfathering.
- If the IP Assets were acquired after 17 October 2017, but the IP asset was already benefiting from an existing backend regime or the IP asset was acquired from an unrelated party, the IBC and ISRL will also qualify for grandfathering.

Foreign Currency Permit for Transitioned and New RBCs and SRLs

Entities that earn 100% of their income in foreign currency will be entitled to apply for a Foreign Currency Permit (FCP), which will provide to them the same benefits and exemptions that are currently enjoyed by IBCs and ISRLs, other than the rates of tax. The FCP will have the following benefits and exemptions:

- Exemption from exchange control
- Exemption from withholding tax on payment of dividends to non-residents
- Exemption from withholding tax on all other payments to non-residents
- Exemption from payment of stamp duty and property transfer tax

- Exemption from payment of value added tax and duties on importation of plant, machinery and raw materials
- Income tax concessions for specially qualified individuals for a period of three (3) years

Application for Grandfathering

An IBC or ISRL that wishes to be grandfathered (and qualifies to do so) must:

- Submit a letter indicating this to the Barbados Ministry of International Business and Industry
- Renew its licence for 2019 before 31 December 2018 and then renew its licence each year during the grandfathering period

Application for the Foreign Currency Permit

An entity that wishes to apply for an FCP must:

- Renew its licence for 2019 before 31 December 2018 and by operation of law will be issued with an FCP (no additional fee will payable for 2019)
- File a declaration by a director/manager certifying that the entity will generate 100% of its income in foreign currency
- Pay the one-time non-refundable application fee of US\$125 on making the first application
- Pay the prescribed annual fee of US\$500 (which will be due for renewal as follows: for companies incorporated between 1 January and 30 June, the FCP is to be renewed no later than 30 June; for companies incorporated between 1 July and 31 December, the FCP is to be renewed no later than 31 December)
- All RBCs and SRLs which are holders of the FCP must retain a service provider licensed under the Corporate and Trust Service Providers Act

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