



Bermuda's Finance Minister is Resetting the Dial to Win the Future

The Hon. Paula A. Cox, J.P., M.P. the Premier and Minister of Finance (the “**Minister**”) presented the National Budget Statement for the financial year 2011-2012 on Friday 18 February 2011.

The Minister acknowledged that Bermuda's economy has been hit hard by the global financial crisis and that the road to recovery would be a long and challenging one. The Minister, however, stressed that this Government will not settle for the role of victim in this recession or any other recession and “that there is no silver bullet to deliver faster growth, employment and poverty reduction” but that “a multi-dimensional approach is required”. The Minister further stated that the Bermuda Government will use its best endeavors to lead Bermuda out of the grip of these present difficulties.

It was stated in the recent Throne Speech that the Bermuda Government intended to cut its spending by \$150 million. The 2011-2012 National Budget is honoring that promise by proposing a \$90 million reduction in current account spending bringing it to approximately \$900 million compared to the 2010-2011 Budget and an approximately \$60 million reduction in capital expenditure which will bring it to \$84 million for the financial year 2011-2012.

The gross revenues for the financial year ending 31 March 2012 is anticipated to be \$940 million. Total expenditure includes debt service of \$70 million. The Sinking Fund contribution and capital investment of \$84 million is estimated at \$1.08 billion. It is also estimated that Government will borrow \$146.5 million in 2011-2012. The contribution from the Sinking Fund will raise the balance at the end of the financial year to \$113 million, which is anticipated will allow the Island to reduce its debt by \$210 million between the years 2014-2016.

The financial year 2011-2012 has allotted \$900 million in spending, with its resources being focused on education, health, youth and families, fighting crime, infrastructure and human development, preserving public-sector jobs and improving Government and poverty-reducing strategies.

The Minister has opted to allow her Ministers to communicate their portfolio plans individually, rather than the normal detailed breakdown of the different programmes as in previous years.

Only details regarding payroll tax has been provided at this time, however, the Minister did mention that there will be a 2% points adjustment for the majority of other rate categories. Most taxes will remain unchanged except for minor changes in customs tariff and government fees including an increase in cellular phone licenses.

Payroll Tax

There will be a decrease of 2% from 16% to 14% and the salary cap will remain at \$750,000 in 2011-2012. Employee tax will also decrease from 5.75% to 5.25%.

Relief provisions for the hotel sectors will be extended to 31 March 2012. Retail establishments will continue benefiting from the reduced payroll tax during the months of January to March.

Approximately \$50 million of spending power will be returned to the taxpayers in 2011-2012.

Customs Duty

Relief measures on capital goods for the retail sector, including a number of other sectors will extend beyond 31 March 2011 which relates to the refurbishment of premises new retail space and local manufacturing of goods.

General

The Minister expects that the international business sector will in time benefit from the movement of capital and assets into stable jurisdictions. These movements will then provide further growth to the Islands insurance and reinsurance industry as continued infrastructural investments in roads, water, power, housing and factories across Africa, Asia and Latin America drives up demand for risk transfer programmes.

With the extension of the tax exemption undertaking legislation to the year 2035, such extension should provide international businesses with added comfort regarding their future in Bermuda.

The Tax Information Exchange Agreements have also produced benefits for Bermuda's economy, for example, Mexico recently lowered withholding tax rates on captive insurance business transactions with Bermuda.

A major initiative aimed at leveraging synergies between tourism and international business was with the formation of a new Ministry of Business Development and Tourism last year.

The Government announced that there will not be any further job losses in the public sector. However, temporary posts will be abolished where possible and overtime payment will be sharply reduced from approximately \$18 million in the 2010-2011 Budget to an estimated \$11 million in the 2011-2012 Budget.

The Government is assisting employers by easing the tax burden on them with the aim of stimulating job retention and the creation of jobs across all industry sectors.

The Government has incorporated a new longer-term three year budgetary model to provide greater flexibility and planning perspective. The Bermuda Government also intends to develop an Open Budget structure which will empower the people of Bermuda by giving them more information about their Government's spending decisions and how their taxes are being used.

To access a full copy of the Budget Statement for the financial year 2011/2012, delivered by The Hon. Paula A. Cox, J.P., M.P. Premier and Minister of Finance, on the 18 February 2011, please [click here](#).

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