BERMUDA 2025
Tax Reform Commission
Public Report

GOVERNMENT OF BERMUDA
Ministry of Finance

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Bermuda Tax Reform Commission

August 22, 2025

The Premier of Bermuda and Minister of Finance
The Hon. E. David Burt, JP, MP
The Cabinet Office
105 Front Street
Hamilton HM 12

Hon. Premier,

It is my pleasure to submit to you the Public Report of the Tax Reform Commission.

On behalf of all Commissioners, I wish to convey to you our thanks for the opportunity to serve as members of the Tax Reform Commission. I also thank the many people who openly shared their perspectives, and my fellow commissioners and support team for their thoughtful and selfless contributions.

We trust that the recommendations contained in this report will assist you and your government in meeting its international, social, and fiscal obligations.

Sincerely,

Darren Johnston
Chairman
Tax Reform Commission

SECTION 1:
Executive Summary

1. Executive Summary

We, the members of the Tax Reform Commission ("TRC"), are honoured to have had the opportunity to put forward policy recommendations aimed at reshaping Bermuda's tax system to promote improved economic and social outcomes.

The implementation of the Corporate Income Tax ("CIT") effective January 1, 2025, is a material change in Bermuda's tax system that creates opportunities for broader tax reform to deliver tangible benefits to Bermuda residents. The Minister of Finance tasked us with exploring those opportunities and with recommending changes that would reduce the impact of taxes on many individuals and businesses, along with measures to support healthy public finances.

Our guiding principles envision a transparent, fair, equitable and straightforward tax system that will generate appropriate government revenues and support Bermuda's sustainability.

Over the past 20 months, we have spent many hours listening. We have consulted a broad cross-section of society, having met with more than 500 people, including members of the public, policymakers, representatives of local and international business, unions, seniors, youth and charities. We conducted a public town hall session and held meetings with more than 30 stakeholder groups.

Our engagement gave us a deeper understanding of the needs and priorities of our community. We learned more about the significant impact of the high cost of living, especially the effect on lower- and middle-income families struggling with the rising price of essentials. We heard how the high cost of doing business can make hiring in Bermuda difficult to justify. We heard many preferred uses for CIT revenues, including reducing government debt levels, shoring up pension funds, reducing other taxes, and stimulating economic growth.

The Tax Reform Commission recommendations focus on reforms in four areas:

- Fiscal Responsibility and Stability
- Costs of Living and Doing Business
- Community Development and Equity
- Economic Growth and Job Creation

All our recommendations are structured to comply with OECD Global Minimum Tax Rules whilst enhancing Bermuda's sustainability. Incentive programmes utilize Qualified Refundable Tax Credit structures ensuring benefits reach all qualifying entities.

Waterfall

Given the inherent uncertainty as to the timing, amount and volatility of CIT revenues, we propose a prioritized allocation system for any new CIT revenue earned by the government. This is built on a "waterfall" model that sequences funding of our recommendations in order of priority — only when higher-level priorities are substantially funded do funds flow down to lower priorities. The proposed waterfall is shown below:

Priority	Programme	Annual Allocation	Strategic Focus
1	Stability Fund	$100M	Revenue volatility management
2	Debt Sinking Fund	$200M	Fiscal sustainability
3	Senior Healthcare Support	$30M	Support seniors on low income
4	Underinsured Healthcare	$12M	Universal healthcare access
5	Employer Payroll Tax Reduction	$68M	Employment cost reduction
6	Low Income Healthcare Subsidy	$18M	Household cost relief
7	Utility Tax Relief	$8M	Infrastructure cost reduction
8	Employee Payroll Tax Reduction	$24M	Disposable income enhancement
9	Employer Health Insurance Subsidy	$19M	Employment cost reduction
10	Foreign Currency Purchase Tax Elimination	$31M	Economic equity
11	Surplus to Stability Fund, Debt Fund, Strategic Investments		Stability

Priority 1: Stability Fund ($100 Million)

Create a fiscal stabilisation mechanism to mitigate CIT revenue volatility while supporting steady, ongoing funding of government expenditures.

The Stability Fund will help to give the Government enhanced fiscal flexibility to navigate economic downturns, will be a valuable financial planning and risk management tool, and increase confidence of credit rating agencies and business investors in Bermuda.

CIT revenue will fluctuate for many reasons, such as the concentration of economic activity in the insurance and reinsurance industries, which are affected by catastrophic event cycles, and the relatively small number of large taxpayers whose individual performance significantly impacts total collections.

Priority 2: Debt Reduction ($200 Million)

Accelerate repayment of Bermuda's $3.2 billion government debt burden, aiming to reduce total debt by at least 50% within a decade.

Each $100 million in debt reduction saves approximately $4-6 million annually in interest payments, freeing resources for productive government investments in Bermuda's infrastructure, social, education, and economic development programmes.

Bermuda currently pays approximately $128 million annually in debt service. With interest rates having increased substantially, refinancing existing obligations at current market rates would increase the interest costs to approximately $180 million.

Priority 3: Senior Healthcare Support ($30 Million)

Provide Future Care coverage for qualifying seniors whose household incomes fall below prescribed thresholds, with unused premium funding redirected to eligible home care subsidies.

Approximately 4,500 seniors (30% of Bermuda's senior population) struggle to afford healthcare on fixed incomes, frequently deferring services due to cost constraints.

By increasing access to preventative care, this support would serve to reduce costs on the overall healthcare system by enabling more early interventions to reduce the need for expensive emergency treatments.

Seniors with reduced healthcare costs are better able to afford essential items, while there will be less need for relatives to contribute to their care, bringing benefits to families and the broader economy.

Priority 4: Underinsured Healthcare Support ($12 Million)

Provide basic Health Insurance Plan benefits to individuals lacking employer-provided healthcare coverage due to unemployment or insufficient working hours.

It has been estimated that as many as 2,100 individuals lack adequate healthcare coverage, often postponing medical care until their condition requires expensive emergency intervention, creating inefficiencies within Bermuda's healthcare system.

Providing basic coverage to these individuals will reduce inappropriate use of the hospital emergency department for non-urgent conditions, reducing overall healthcare system costs. It will also enable individuals to address health conditions much earlier that might otherwise impair their future ability to work, contributing to Bermuda's overall economic output.

Priority 5: Employer Payroll Tax Reduction ($68 Million)

Cap employer payroll tax rates at 7% with enhanced data collection, with consideration for further reduction to 5% subject to CIT revenue performance.

Bermuda's employer portion of payroll tax penalizes large employers and acts as a deterrent to increasing employment. With no connection to underlying business profitability, this tax exacerbates the challenges faced by many businesses.

By reducing the cost of employment, lower payroll tax rates for employers will encourage job creation. Reductions in employer payroll taxes will also lower inflationary pressure on the pricing of goods and services.

Priority 6: Low Income Healthcare Subsidy ($18 Million)

Assist individuals earning below $72,000 annually by refunding health insurance premiums exceeding specified percentages of household income.

Healthcare cost burdens for lower income households typically result in difficult trade-offs between spending on healthcare and essential expenditures items such as clothing, utilities, or groceries.

Reduced healthcare-related financial stress enables families to manage debt more effectively and avoid financial distress cascading through the economy and ultimately society.

Priority 7: Utility Tax Relief ($8 Million)

Eliminate remaining customs duties on electricity production and remove employer payroll taxes for utility bulk electrical generation, contingent upon savings being passed directly to consumers through reduced electricity rates.

Utility cost reductions benefit all electricity consumers in Bermuda, creating broad-based economic relief across households and businesses, reducing fundamental input costs that affect every sector of the economy.

Electricity costs are substantial for households and businesses in Bermuda. Reductions to duties and provider costs provide an immediate impact on the cost of living, particularly benefiting seniors on fixed incomes and low-income families.

Priority 8: Employee Payroll Tax Reduction ($24 Million)

Adjust employee payroll tax rates and bands, creating a more progressive tax structure whilst increasing disposable income for middle and lower-income workers.

Direct reductions in employee payroll taxes provide immediate increases in take-home pay. Middle and lower-income households typically spend additional income quickly on local goods and services rather than saving, maximising the economic impact of tax reductions.

Approximately 95% of the benefits of our recommended changes to employee payroll tax rates would accrue to individuals earning $144,000 or less. An individual earning $90,000 a year, for example, would pay approximately $1,785 less tax annually.

Priority 9: Employer Health Insurance Subsidy ($19 Million)

Refund 25% of Standard Premium Rate contribution (2024 - $400.41 per policy per month) paid by employers in policy premiums, reducing health insurance costs.

Health insurance represents a substantial component of total employment costs. Lower health insurance costs make hiring new employees more economically attractive for Bermuda businesses, directly encouraging job creation across the economy.

For a worker earning $60,000, the employer portion of health insurance is generally $3,000 to $6,000 per year, depending on the coverage plan. Reducing this cost by approximately $1,200 per employee lowers the cost of doing business.

Priority 10: Foreign Currency Purchase Tax Elimination ($31 Million)

Eliminate the 1.25% tax imposed on Bermuda dollar to foreign currency conversions.

The Foreign Currency Purchase Tax creates economic differences between individuals and businesses earning foreign currency (who largely do not pay the tax) and those earning Bermuda dollars (who bear its full burden), particularly affecting Bermudian families and locally focused businesses.

Families pay FCPT on the goods and services they purchase from overseas. This tax also drives higher prices for imported goods sold locally. Elimination of the FCPT would result in a saving of $625 for a family paying tuition fees of $50,000, for example. A business importing $100,000 in goods would save $1,250.

Customs Duty Adjustments

The Tax Reform Commission concluded that it would limit recommendations relating to customs duty rates based primarily because of concerns that the benefit may not be passed on to the consumer.

Implement targeted customs duty modifications including value-based alcohol components, increased tobacco taxes, and restructured motor vehicle duties.

Currently, duties on alcoholic beverages lack a value-based component, unlike other duty categories. The proposed changes will ensure higher-priced products contribute more duties.

Increased tobacco taxes may discourage consumption of products harmful to health, while restructured motor vehicle duties provide relief on lower cost vehicles while maintaining revenue from luxury purchases.

Proposed Credits

In addition to the recommendations described above, we propose additional measures to promote job creation and economic growth in the form of refundable tax credits that meet the requirements to be recognized under the Global Minimum Tax Rules, support the nonprofit sector, and promote the development of critical infrastructure.

Implementation Timeline

Programme	Implementation Target	Strategic Focus
Substance-Based Tax Credit	2025	Job creation, economic stability and expansion
Community Development Tax Credit	2025	Promote charitable giving, supporting social well being
Utility Infrastructure Tax Credit	2025	Economic stability, infrastructure growth and modernisation
Housing Infrastructure Tax Credit	2026-2027	Address housing shortage and support workforce growth
Innovation Tax Credit	2026-2027	Encourage technological advancement and diversification

Implementation timing allows for detailed policy development, stakeholder consultation, and integration with our other recommendations.

Substance-Based Tax Credit

Phase in a comprehensive tax credit programme (initially targeting Bermuda's key industry sectors) to incentivize higher employment levels, local expenditure, and economic substance, with benefits calculated on both payroll costs and Bermuda centric business expenditures.

The credit structure includes both job-based and expenditure-based components. The job-based component applies benefit rates to eligible payroll costs for employees performing services in Bermuda, with enhanced rates for Bermudians and other qualifying categories.

Benefit rates vary based on:

- **Headcount Factor:** Higher rates for companies employing more people in Bermuda.
- **Bermudian Employment Factor:** 50% higher rates for eligible Bermudians and permanent long-term residents.
- **Bermudian Training Factor:** Additional 25% uplift for designated training activities.
- **Employment Growth Factor:** Rates increase proportionally with employment growth.
- **Bermuda Centric Expenditure:** provides credits for local goods and services acquisition, encouraging companies to source requirements within Bermuda rather than overseas alternatives.

Community Development Tax Credit

Implement a 25% tax credit for donors contributing more than $100,000 annually (averaged over three years) to registered Bermuda charities.

Nonprofits are crucial to Bermuda: they provide essential services in education, social welfare and financial assistance, health, housing, human rights, workforce development, education, sport, the environment, disability services, ageing, and the arts. While some nonprofits generate revenues such as fees for services, most are financially supported by corporations, individuals, and foundations in the form of cash grants.

Charitable funding reduces the burden on government services by supporting private provision of social services, education and community programmes. Nonprofits also contribute directly to the economy by providing stable jobs for Bermudians and through their on-island spending on goods and services.

Utility Infrastructure Tax Credit

Implement tax credits for utility companies investing in infrastructure improvements based on OECD Substance-Based Income Exclusion provisions, encouraging continued investment in essential infrastructure whilst reducing long-term utility costs.

Bermuda's relatively small size and high construction costs make infrastructure projects challenging. The tax credit applies to entities providing strategically important utility services including power generation and distribution, and telecommunications.

Tax credits encourage utility companies to invest in modern, efficient infrastructure including power generation, telecommunications networks, and distribution systems essential for Bermuda's economic competitiveness and business attraction. Credits are calculated based on Bermuda based payroll costs and tangible asset investments in Bermuda.

Housing Infrastructure Tax Credit

Establish a tax credit programme to incentivize residential real estate development addressing Bermuda's housing shortage and supporting workforce expansion.

Housing costs continue escalating in Bermuda and represent significant contributors to high costs of living and business. The development of additional housing infrastructure is inhibited by high property development costs and regulatory complexities.

Policy considerations requiring further analysis include:

- **Project Scale:** Supporting smaller projects achievable in short-term versus larger developments with greater long-term impact.
- **Demographic Targeting:** Balancing affordable housing needs with moderate-income housing that supports business talent attraction.
- **Geographic Considerations:** Encouraging development in areas that reduce transportation congestion and support urban amenities.
- **Integration with Existing Programmes:** Coordinating with current government housing initiatives.

Other tax credits that promote job growth may increase housing demand, making timely implementation of housing incentives essential to prevent inflationary pressures on accommodation costs.

Innovation Tax Credit

Establish a tax credit programme incentivizing research, experimentation, and innovation activities primarily undertaken in Bermuda, with focus on technical areas relevant to the jurisdiction's economic priorities.

Tax credits incentivizing research and innovation are common features in many tax systems globally. Ongoing innovation represents an important factor in increasing Bermuda's economic productive capacity and maintaining competitive advantages in key industries.

The Innovation Tax Credit would provide benefits calculated as fixed percentages of qualifying expenditures incurred with respect to activities primarily (75% or more) undertaken in Bermuda. Some examples of eligible activities could include:

- Artificial intelligence and machine learning development
- Data science and analytics advancement
- Quantum computing research
- Financial technology innovation
- Climate and catastrophe modelling
- Risk assessment and management systems
- Product development relevant to Bermuda's economic sectors

Credit structure would leverage established concepts from existing innovation incentives in other jurisdictions whilst ensuring compliance with Global Minimum Tax Rules through QRTC structuring.

Looking Ahead

The recommendations in the report represent a further transition from the regressive consumption and employment-based taxation structure toward a more balanced system enhancing both equity and economic competitiveness. Our recommendations form a framework that balances cost reductions, job creation incentives, and fiscal responsibility measures to promote sustainable economic growth whilst maintaining the financial stability that enables continued improvements.

The OECD's rules and guidance continue to evolve, with the United States actively influencing directions that protect US entities from full OECD impacts. These developments create ongoing uncertainty requiring Bermuda to remain adaptable and vigilant in monitoring future changes.

The jurisdiction must avoid complacency whilst leveraging the Corporate Income Tax implementation as an opportunity for comprehensive reform. For example, we view the proposed healthcare initiatives as temporary steps while comprehensive reform is undertaken.

We recommend that the Government empanel another Tax Reform Commission, one that can review the outcomes of recommendations from this report, with the added benefit of three years of real-world CIT filings data and further evolution in Global Minimum Tax rules, on which to base its recommendations.

Further, the Tax Reform Commission strongly recommends the Government implement enhanced data collection regarding personal and business income, enabling future modelling to assess the merits of comprehensive and equitable broader-based income tax systems.

This report is intended to provide an in-depth description of the context, reasoning and detail behind our recommendations.

We extend our sincere thanks to all who contributed their time, ideas, and perspectives. Your voices have been central to our work, and they will remain vital as Bermuda moves forward on the path to a more prosperous and sustainable future.

SECTION 2: Overview

2.1 Introduction

2.1.1 On November 10, 2023, the Tax Reform Commission (see Appendix 3) was formed under the Tax Reform Act 2017 with the objective of advising the Government regarding potential measures to improve Bermuda's system of taxation and revenue collection, in accordance with the functions set out in section 5 of the Tax Reform Commission Act 2017 and Mandate [see Appendix 5] that was subsequently approved by the Premier and Minister of Finance, the Honourable E. David Burt, JP, MP.

2.1.2 The Tax Reform Commission was last empanelled in 2018, when it prepared a report ("2018 Report") which reviewed the Bermuda tax regime against the backdrop of contemporaneous developments in international tax policy, and made various recommendations intended to increase tax revenue as a percentage of GDP while enhancing the fairness and equitability of Bermuda's tax system.

2.1.3 Bermuda continues to face many of the same challenges which existed at the time of the 2018 Report:

2.1.3.1 The costs of living and doing business in Bermuda have continued to escalate.

2.1.3.1.1 The increasing cost of living in Bermuda has significantly impacted families, particularly those in the lower to middle-class income brackets. The rising prices of food, housing, electricity, and everyday essentials have made it harder for families to make ends meet and for seniors to live with dignity and security.

2.1.3.1.2 The rising cost of doing business has been reducing the overall attractiveness of the jurisdiction for local and international businesses, presenting an impediment to job and economic growth.

2.1.3.2 While various improvements were made after the 2018 report to enhance the progressivity of Bermuda's tax system, the existing tax system continues to present a high potential for regressive outcomes where lower earners pay a larger proportion of tax relative to their earnings than higher earners do.

2.1.3.3 Although unemployment levels are low in Bermuda and Bermudian representation in the international business sector is at historic highs, the jurisdiction faces significant demographic challenges due to the population's size, an aging workforce, and skill sets aligning with job opportunities.

2.1.3.4 The 2018 Report cited a reduction in Bermuda's workforce of more than 6,500 individuals during the preceding 10-year period due to emigration of expatriates and Bermudians. This situation has not reversed and places a significant constraint on the jurisdiction's productive capacity and ability to grow its domestic economy.

2.1.4 In addition, the international tax landscape has undergone significant changes since the release of the 2018 Report, which have in turn prompted significant changes to Bermuda's tax system.

2.1.4.1 In December 2021, the OECD/G20 Inclusive Framework on BEPS approved the Global Anti-Base Erosion Model Rules which are intended to ensure that large multinational groups ("MNE Groups") are generally subject to an effective tax rate of at least 15% in every jurisdiction in which they operate. These provisions are referred to as the Global Minimum Tax Rules.

2.1.4.2 In December 2023, the Corporate Income Tax Act, 2023 ("Act") was enacted in Bermuda. The provisions of the Act were broadly modelled on the Global Minimum Tax Rules. MNE Groups will generally be subject to corporate income tax ("CIT") at a rate of 15% on income earned in Bermuda beginning in 2025.

2.1.5 Bermuda is not alone facing this global tax event; our country's competitors are assessing and designing changes to their tax regimes to grow their economies, including new ways to attract business. Bermuda must avoid being complacent.

2.1.6 The Government's efforts to understand the impact of the OECD tax on our MNEs while introducing policies to comply with OECD expectations should be both applauded and continued.

2.1.7 The OECD's rules and guidance continue to shift. The United States is actively influencing a new direction that protects US entities from the full impacts of the prior OECD direction. Currently, the specific impacts of these and other developments remain highly uncertain. As such, Bermuda must remain aware and adaptable. Some of the TRC recommendations may have a short "shelf life" as a result. The Tax Reform Commission stresses vigilance in monitoring future developments.

2.1.8 The impact of each of these developments on the jurisdiction and its existing tax system present both challenges and opportunities. In particular, the introduction of CIT in Bermuda, and the additional government revenue it is expected to generate, presents a unique opportunity to revisit various aspects of the existing tax system and its fiscal priorities. It is against this backdrop that the TRC was re-empanelled and is delivering its recommendations to the Minister of Finance.

2.2 Tax Reform Commission Mandate and Workstreams

2.2.1 The Tax Reform Commission's efforts were organized around three key workstreams:

2.2.1.1 Engage with a diverse range of Bermuda stakeholders to better understand their needs, priorities, and preferences.

2.2.1.2 Review Bermuda's existing tax system and make recommendations focused on reducing the cost of living and doing business, while enhancing the equitable application of the tax provisions.

2.2.1.3 Recommend a framework to stimulate jobs, economic activity and investment in Bermuda through the development of appropriate incentives.

2.2.2 The following principles were used by the TRC to guide its work and in making recommendations:

2.2.2.1 Appropriate government revenues. Bermuda's tax system should be designed and operated in a manner that produces sufficient funding to meet Government's commitments, both external to Bermuda (e.g. debt holders) and internal (e.g. operational services, infrastructure on the island, long-term liabilities such as pensions, and innovation, etc.). This funding must be of a certain level of predictability, as well as being consistent and reliable, to enable planning, budgeting, and the provision of regular quality services for Bermuda.

2.2.2.2 Jurisdictional sustainability. The tax system must support Bermuda's jurisdictional sustainability for both local and international capital investment, local and international people to live and be attracted here, and be a positive factor (amongst others) in enabling a society that can peacefully prosper. Our sustainability will need to be achieved within the constraints of continually evolving international investor and regulator expectations.

2.2.2.3 Equity and fairness. The tax system must be reasonably transparent, fair, and equitable. This includes achieving an appropriate balance of revenues across labour, capital, and services, as well as an appropriate level of progressivity. Similarly situated taxpayers should be taxed similarly, and tax burdens should reflect the ability to contribute and encourage the desire of residents to work, invest, and grow economic activity.

2.2.2.4 Simplicity. The tax system must be efficient and cost-effective for Government to administer, and relatively straightforward for taxpayers to navigate without an undue burden of complexity, costs, or bureaucracy.

2.2.2.5 To the extent our recommendations reflect trade-offs amongst these principles, an appropriate balance should be struck that will enable the overall long-term success of Bermuda.

2.2.3 For the avoidance of doubt, the TRC's mandate did not include a review of the technical provisions of the Act, nor the development of recommendations specifically related to the application and administration of CIT in Bermuda.

2.2.4 The TRC met with more than 500 people representing 30+ stakeholder groups including members of the public, unions, third sector, local business, international business and community advocacy groups, Civil Servants, Parliamentarians, seniors, youth, and others. Common themes which emerged from these sessions included:

2.2.4.1 Stakeholders underscored the detrimental impact that the high costs of living and doing business has had on the Bermuda economy, including lower disposable incomes and reductions in certain Bermuda-based roles as some organizations have struggled to attract and retain talent in the jurisdiction.

2.2.4.2 Stakeholders were broadly in agreement that the new CIT revenues should be used as an opportunity to revisit various aspects of the existing tax system and to introduce new measures to stimulate economic growth that promotes Bermudian participation.

2.2.4.3 Stakeholders were broadly in agreement that government debt levels, guarantees and off-balance sheet liabilities for pensions were priority items to be reduced with both reform and increased government revenues from CIT.

2.2.4.4 Stakeholders were supportive of efforts to enhance progressivity in the existing tax system.

2.2.4.5 Stakeholders expressed concerns regarding the inherent uncertainty associated with the estimation of ongoing CIT revenue levels, and the anticipated volatility in CIT revenue from year-to-year.

2.2.4.5.1 Given that Bermuda has a relatively small economy focused on a limited number of sectors, Bermuda CIT revenues are likely to be subject to a higher degree of volatility than may be present in a larger, more diversified economy.

2.2.4.5.2 Further, the Bermuda economy is more sensitive to certain economic forces or events (e.g. occurrence of a significant insured catastrophic event) which could introduce volatility in anticipated CIT revenues during any given fiscal year, such that instalment payments lodged during the year may ultimately need to be refunded upon filing of the annual tax return.

2.2.4.6 To address the concerns related to the inherent uncertainty associated with the estimation of ongoing CIT revenue levels, there was support amongst some stakeholder groups for the implementation of appropriate fiscal guardrails, including a tax reserve fund to secure tax instalment payments and a stabilization fund to support consistent funding of Government expenditures.

2.2.4.7 Many stakeholders cited that a critical shortage of housing and other relevant infrastructure has a significant impact on the cost of living for residents, as well as presenting a constraint on economic and business growth.

2.2.4.8 Some stakeholders expressed concern about the practical challenges expected to arise with respect to the administration of CIT in Bermuda, and the Government's ability to respond to these challenges in a timely and appropriate fashion.

2.2.4.9 Stakeholders also expressed various non-tax related concerns, including challenges encountered in recent years with respect to immigration policy (including a perceived negative shift in the Government's public stance regarding international business and expatriate workers) and/or delays in immigration processes (e.g. work permit approvals).

2.3 Overview of Tax Reform Commission Recommendations

2.3.1 Based on the review and analysis conducted, and as informed by stakeholder input, the Tax Reform Commission is making the following recommendations to the Government of Bermuda:

2.3.1.1 A phased reduction in certain taxes and tax-equivalent fees/charges with the objective of reducing costs, enhancing progressivity, and stimulating Bermuda's domestic economy. These recommendations are described further in section 4.

2.3.1.2 Implementation of specific incentive programmes intended to stimulate higher levels of sustainable growth in jobs and the real GDP by increasing the productive capacity of Bermuda's economy. These recommendations are described further in section 5.

2.3.1.3 Development of appropriate fiscal guardrails to support a sustainable stream of Government funding and enhance stakeholder confidence. These recommendations are described further in section 3.

2.3.1.4 Development of robust review and response mechanisms and other appropriate administrative procedures to ensure that any new measures which are implemented achieve the desired outcomes. The administrative procedures recommendations are described further in section 6.

2.3.1.5 The TRC also recommends that the Government should empanel a new TRC to make recommendations using the real-world data that will commence in August with the first filings by MNEs in Bermuda, transitional learnings from the first three years of CIT, and Global Minimum Tax developments that are forthcoming. Its mandate should also include the review of outcomes from the implementation of recommendations emanating from this report.

2.3.1.6 The TRC strongly believes that Bermuda should explore the merits of a low-rate, broad-based income tax system, while maintaining Bermuda's international standing [See Appendix 2]. Our intent is not to increase the overall tax load on the average taxpayer, but rather to allow for a more equitable and granular execution of tax policy.

2.4 Other Considerations

2.4.1 Government has previously stated its intention that new CIT revenues should not be used to fund new Government expenditures, but rather to reduce other fees and taxes to lower the cost of living and doing business in Bermuda. The TRC concurs with this intent.

2.4.2 The TRC recommends that a modest amount of increase to the annual expenditures may be appropriate, to provide critical support for Bermudians in need and catch up on essential infrastructure investment that have been deferred in recent years. However, these one-off increases in annual expenditures should not exceed more than 5% of current expenditures (excluding debt service and the recommendations contained in this report). Moreover, the TRC recommends that annual government expenditures (excluding debt service and the recommendations contained in this report) should not grow by more than the average inflation rate, as government efficiency efforts should offset any newly arising expenditure requirements.

SECTION 3:
Financial Responsibility and Stability

3.1 Overview

3.1.1 The enactment of the CIT provisions results in a significant new source of tax revenue and presents an opportunity to modify existing taxes and introduce new incentives to support the achievement of important policy objectives, as well as reduce government debt and plan for a secure future.

3.1.2 One of the main challenges the Government faces in preparing its annual budget and long-term forecasts is accurately estimating Corporate Income Tax consolidated fund revenue (“CIT revenue”). This task is complex for several reasons:

3.1.2.1 The CIT applies to both public and private companies, but there is currently insufficient data on private companies to make reliable forecasts prior to their initial year of CIT filing.

3.1.2.2 Company profits can fluctuate dramatically from year to year, making tax receipts difficult to predict.

3.1.2.3 Certain Bermuda-connected entities may elect to pay taxes in other jurisdictions rather than in Bermuda.

3.1.2.4 The Global Minimum Tax provisions are still evolving.

3.1.2.5 The USA is actively seeking to shield its entities from OECD tax rules, which may result in fewer US-linked entities opting to pay taxes in Bermuda.

3.1.2.6 MNEs will invariably explore and execute tax strategies that optimize their overall tax expense. The extent and impact of such tax optimization strategies on Bermuda will only be known once they are enacted.

3.1.3 Despite these uncertainties, the Ministry of Finance has estimated CIT revenue of $187.5 million for 2025/26, and $600 million for each of 2026/27 and 2027/28. According to MorningStar, this represents approximately 6% of Bermuda’s GDP.

3.1.4 At present, the TRC does not have access to current OECD country-by-country revenue data for Bermuda-based reporting entities, nor to other reliable sources, making it impossible to develop high-confidence revenue estimates for these periods.

3.1.5 To address this crucial information gap, our approach has been to propose a prioritised, sequenced allocation—or “waterfall”—for the use of CIT revenue.

3.1.6 Top priorities include establishing a Stability Fund for early CIT fluctuations; covering upcoming debt maturities and reducing Bermuda’s national debt by at least half within ten years; lowering living costs, especially for low earners and vulnerable groups; and reducing business operating costs to encourage job creation. While opinions may differ, these recommendations aim for balanced progress.

3.1.7 While changes to Government inflows and outflows are expected to provide significant long-term benefits to the jurisdiction, these changes also have the potential to introduce fiscal uncertainty, due to mismatches between the timing of inflows and outflows, given that:

3.1.7.1 Government has weekly and monthly funding requirements for its budgeted expenditures, while the majority of CIT inflows are expected three times a year, on the scheduled dates of interim and final tax payments, creating a cash-flow mismatch.[1]

3.1.7.2 Compounding the cash-flow mismatch, the quantum of CIT revenue inflows may be subject to high volatility in the short term based on market conditions, profit cycles and unusual events, such as large catastrophes,

3.1.7.3 Cash needs resulting from modifications to existing taxes and incentive funding obligations are likely to remain relatively static.

3.1.8 These issues will be mitigated by ensuring that:

3.1.8.1 Existing stable sources of tax revenue (e.g. payroll tax, customs duties) are reduced but not eliminated, thereby continuing to ensure a steady stream of tax revenue to fund a substantial portion of general government expenditures. The TRC recommends that CIT revenues fund no more than 50% of budgeted government expenditures, with the balance contributed by other duties and taxes.

3.1.8.2 Reductions in taxes and additional incentives are phased in until the amounts and timing of CIT receipts are more confidently predictable, to reduce exposure to uncertainty in the amount of receipts.

3.1.8.3 Credits and incentive benefits are subject to annual payment limitations.

3.1.9 However, further fiscal guardrails are required to ensure that the Government can rely on a stable source of funding to support a consistent level of services, incentive benefits, and ongoing debt reduction.

3.1.10 The TRC recommends the development of a series of tax revenue reserve funds, each with specific objectives intended to collectively support stable Government funding levels over the short, medium, and long-term.

3.1.11 The proposed Tax Refund Reserve Fund would support Government's short-term obligations to refund tax instalment payments and pay incentive benefits.

3.1.12 The proposed Stability Fund would serve to insulate the Government and the local economy from cash-flow mismatches and adverse economic conditions in the medium-term.

3.1.13 The existing Debt Sinking Fund would serve to reserve funds for the repayment of the Bermuda Government Debt, as is currently the case.

3.1.14 The proposed Future Fund would be used to support longer-term strategic priorities of the Government.

1 The Tax Reform Commission understands a CIT payer will submit an instalment payment equal to 50% of the expected full-year tax liability by the eighth month of its fiscal year. By the fifteenth day of the twelfth month of a CIT payer's fiscal year, they should make a payment to bring the instalment balance up to 90% of the expected full-year tax liability. Final tax filing and adjustment payments to the final determination of the tax liability are to be made by the tenth month following the end of a CIT payer's fiscal year.

3.2 Tax Refund Reserve Fund

3.2.1 The introduction of CIT and the proposed implementation of incentive programmes result in new financial commitments for the Government.

3.2.1.1 Tax refund payments

3.2.1.1.1 Pursuant to the Corporate Income Tax (Administrative) Regulations 2025, Bermuda groups which expect to be subject to a CIT charge are required to submit periodic instalment payments during the tax period.

3.2.1.1.2 The regulations provide for several different methods for calculating the instalment payment amounts.

3.2.1.1.3 Regardless of the calculation method used, it is possible that the instalment payments submitted may be higher than the ultimate CIT charge, in which case the Government would need to refund the appropriate portion of the instalment payment.

3.2.1.2 Incentive benefit payments

3.2.1.2.1 As summarized in section 5, the Tax Reform Commission has recommended the implementation of various tax credit incentives.

3.2.1.2.2 Some of these tax credit benefits may be subject to deferred payment provisions, such that a portion of such benefits may be paid up to four years after the relevant period.

3.2.1.2.3 While the payment deferral provisions mitigate the potential for short-term strains on Government cash flow, they create a future benefit funding obligation for the Government.

3.2.2 Various stakeholders have expressed a preference that the Government should create a reserve fund that would secure its obligations to pay tax refunds and incentive benefits.

3.2.3 In 2024, the Act was amended to establish a reserve fund called the Tax Refund Reserve Fund and to provide the Minister of Finance with regulation-making powers to address the specifics of how the Tax Refund Reserve Fund will operate. It is our understanding that the Ministry of Finance is in the process of drafting regulations which are likely to be finalized in the summer of 2025.

3.2.4 The Tax Reform Commission supports the establishment of the Tax Refund Reserve Fund and recommends that the regulations should affirm that this fund will be used to support the payment of tax refunds and incentive benefits.

3.2.5 Government should document and publish relevant operating, governance and oversight procedures for the Tax Refund Reserve Fund.

3.3 Stability Fund

3.3.1 As previously discussed, there is a consistent mismatch between the weekly and monthly funding needs of the Government and the periodic receipts of CIT revenues. This mismatch is further exacerbated by the natural volatility of profits driving CIT payments.

3.3.2 It is anticipated that the magnitude of any:

3.3.2.1 changes to the existing tax system, as summarized in section 4, or

3.3.2.2 incentive benefits, as summarized in section 5, will be premised on the Government's expectations regarding a sustainable average level of annual CIT and other tax revenues.

3.3.3 However, it is possible that market or other factors could have a significant impact on CIT revenues over the short- to medium-term.

3.3.4 Various jurisdictions have implemented revenue stabilization funds to insulate their local economies from adverse economic conditions.

3.3.5 The TRC recommends the development of a Stability Fund to mitigate the volatility of CIT funding to the Government budget, thereby supporting consistent levels of government services and incentive benefits regardless of fluctuations in annual tax revenues.

3.3.6 The Fund should have a Target Minimum Balance at the end of each fiscal year equal to the planned annual contribution of CIT revenues to the following fiscal year's Budget (subject to the limitation on CIT contributions recommended in Section 3.1.8.1)

3.3.6.1 This Target Minimum Balance would initially be achieved over time:

3.3.6.2 For 2025, 2026 and 2027, Government should prioritize depositing $100M per annum in the Stability Fund. Contributions to the Stability Fund are the first use of proceeds of CIT revenues released from the Tax Refund Reserve Fund.

3.3.6.3 Once the balance of the Stability Fund has reached a minimum balance of $300M at the end of a fiscal year, Government may reduce the priority contribution to $50M per annum, until the Stability Fund has a balance equal to the Target Minimum Balance.

3.3.7 Within a fiscal year, Government may draw on the Stability Fund to manage timing differences between CIT inflows and government outflows, with drawn funds replaced when CIT revenues are received, with the expectation that by the end of the fiscal year, the Stability Fund balance meets the required Target Minimum Balance, as described in section 3.3.6 above.

3.3.8 Should CIT revenues be temporarily less than the amounts anticipated in the Budget, Government may draw on the Stability Fund an amount equal to the shortfall in CIT revenues to ensure the annual Budget is appropriately funded. This action could lead to a Stability Fund fiscal year-end balance that is lower than the required Target Minimum Balance.

3.3.8.1 To the extent the Stability Fund balance is drawn down to below $300M, Government would use up to $100M of the following years' CIT revenues to bring the Stability Fund balance back to at least $300M.

3.3.8.2 If the Stability Fund balance is above $300M but less than the required Target Minimum Balance, the Government would contribute at least $50M per annum to the Stability Fund, until it reaches the Target Minimum Balance.

3.3.9 Should CIT revenues come in less than the anticipated amount due to a permanent impediment, then Government may be required to increase other taxes that contribute to the operating budget to address the revenue shortfall in future periods.

3.3.10 Government may exceptionally draw down on the Stability Fund, for the purpose of repayment of debt maturity. Replenishment of the Stability Fund balance would follow the guidelines in section 3.3.8 above.

3.3.11 To the extent government revenues are in excess of budgeted expenditures, then any surplus should be directed to the funding of the Stability Fund until the Fund has reached its Target Minimum Balance, notwithstanding the funding guidance presented in sections 3.3.6 or 3.3.8 above.

3.3.12 Government should document and publish relevant operating, governance and oversight procedures for the Stability Fund.

3.4 Debt Sinking Fund

3.4.1 Bermuda's debt load has reached $3.2 billion and currently incurs approximately $128M of interest expense in the annual budget, drawing on resources that may be better spent improving the lives of average Bermudians. If the debt were not reduced but simply refinanced, interest on debt could increase to over $180 million at current market rates, representing close to 15% of current Government revenues.

3.4.1.1 The TRC notes that the balance between reducing taxes, introducing incentives and subsidies to address the cost of living and doing business must consider the impact of government debt levels and increasing interest costs.

3.4.1.2 Stakeholders strongly recommended and the Tax Reform Commission agrees that new CIT revenues should be prioritized to reduce Government Debt and address unfunded liabilities/guarantees.

3.4.2 The TRC recommends Government reduce the Government Debt by at least 50% from current levels within the next 10 years.

3.4.3 The TRC recommends Government prioritize the allocation of $200M to the Debt Sinking Fund each year prior to allocating any funds to other budgetary purposes.

3.4.4 The allocation to the Sinking Fund is subordinate only to the funding of the Stability Fund.

3.4.5 Government may use the entire balance of the Sinking Fund to pay upcoming debt maturities.

3.4.6 To the extent there are balances available in the Stability Fund, Government may use amounts in excess of $300M in the Stability Fund to make additional debt payments at upcoming maturities. The mechanism for using such funds, and their replenishment, are outlined in section 3.3.8.

3.4.7 To the extent government revenues are in excess of budgeted expenditures, and further that the Stability Fund has reached a balance equal to its Target Minimum Balance, then the TRC proposes that, in the absence of strategic infrastructure projects of national importance, excess revenues are used to increase the Sinking Fund for debt payment.

3.4.8 Once Government Debt is reduced by 50% of the current level ($1.6 billion), contributions to the Sinking Fund proposed herein may stop; the normal funding requirements that form part of Government's planned saving to meet debt maturities should continue.

3.5 Future Fund

3.5.1 While the amount and ultimate tenor of future CIT revenues are yet unknown, it is anticipated that with time these will be large enough to contribute to the Government's annual budget and reduce government debt by at least 50%. To the extent government debt has reached this target level, and CIT revenues have contributed to the annual budget, then any potential additional CIT revenues should be allocated to a Future Fund to support longer-term strategic priorities of the jurisdiction. Potential uses and benefits of a Future Fund include:

3.5.1.1 Investment in strategic priorities (e.g. infrastructure) to support economic growth.

3.5.1.2 Funding for major projects can become less reliant on external debt and can instead be financed from the fund.

3.5.1.3 The fund may boost international credibility and support a higher credit rating for the jurisdiction.

3.5.1.4 The fund may support the mobilization of private investment by co-investing and/or bearing some of the risk.

3.5.1.5 The fund may help insulate the jurisdiction from longer-term economic shocks (e.g. recession, substantial industry changes, etc.).

3.5.1.6 The fund could be a source of repayment of any maturing debt obligation.

3.5.1.7 Once the fund reaches a sustainable size ($5-10 billion), Government could then consider receiving annual distributions from the fund.

3.5.2 The Tax Reform Commission recommends Government establish an advisory panel to investigate and recommend an appropriate structure, fund objectives, and rules of governance and oversight for a Future Fund to be established at the appropriate time.

SECTION 4:
Building a more equitable, affordable Bermuda

4.1 Overview

4.1.1 The introduction of CIT in Bermuda will provide a new source of government revenue, presenting an opportunity to review and refine existing revenue streams to better meet policy objectives.

4.1.2 In Bermuda, the burden of high costs has a pervasive impact, hampering personal prosperity and the island's economic growth. For lower-income households, elevated costs can result in difficult trade-offs between essential needs on a month-to-month basis. The high cost of doing business influences company decisions on hiring and investing in Bermuda, potentially leading to missed job growth opportunities. In the TRC's outreach meetings, stakeholders stressed the urgency of addressing these issues.

4.1.3 The recommendations proposed in this section are designed to provide tangible and broad benefits through the reduction of many regular household expenses, in line with the TRC's remit of recommending the uses of taxes to reduce the cost of living and doing business and promoting a more equitable and affordable Bermuda.

4.1.4 Utilizing the limited available data sets, the TRC analysed estimated effective tax rates for people at different income levels, with a focus on the payroll- and consumption-based taxes that are the two largest sources of government revenues.

4.1.5 The TRC opted to include healthcare costs in the analysis. The reasoning was that although not a tax, health insurance can have a similar effect to regressive taxes, in that premiums have a larger proportional effect on the income of lower earners. Health insurance is also effectively a tax on employment, given employers' legal obligation to pay a share of their employees' premiums. The inclusion of health insurance also allowed for more effective comparison with other jurisdictions where healthcare provision is largely funded by taxes.

4.1.6 For ease of understanding and to reduce duplication, the TRC has listed its recommendations below in themes. Given that the amount and consistency of CIT revenues are uncertain, the TRC recognizes there may not be immediate capacity to fund all these recommendations, and therefore the TRC has adopted the "waterfall" concept as a prioritization model.

4.1.7 This waterfall model outlines how funds should be distributed to specific uses as CIT revenue becomes available. In developing the waterfall, the TRC has incorporated stakeholder feedback, aligned with government economic development policies, analysed financial data from government sources and beneficiaries, and remained guided by our mandate.

4.1.8 The TRC proposes that Government phase out the 2025 budget allocation of $187.5M over three years and reallocate in line with our waterfall. An illustration of applying the waterfall is in the table below. Line 1 will be filled first and fully each year; then line 2, then line 3, and so on.

	Description	Amount in millions	Category	Commentary
1.	Stability fund	$100	Funding	To protect against revenue variability. See section 3.3
2.	Debt Sinking fund	$200	Funding	To fund debt repayment. See section 3.4
3.	Seniors Healthcare support	$30	Expenditure	Means based support to seniors. See Section 4.2.6
4.	Underinsured Healthcare support	$12	Expenditure	Supporting government's promise of access to quality healthcare for all. See section 4.2.7
5.	Employer Payroll Tax reduction	$68	Reduction of existing tax	Reducing the cost of employment and stimulating jobs. See section 4.3.10
6.	Low Income Healthcare subsidy	$18	Expenditure	Reducing the cost of living. See section 4.2.8
7.	Utility Duty and Payroll tax relief	$8	Reduction of existing tax	These are proposed on the condition they are passed on to people and businesses through reduced utility bills. See section 4.4.7
8.	Employee Payroll tax reduction	$24	Reduction of existing tax	Increasing disposable income for lower earners. See section 4.3.9
9.	Health Insurance – Employer Subsidy	$19	Expenditure	Reducing the cost of employment and stimulating jobs. See section 4.2.9
10.	Elimination of Foreign Currency Purchase tax	$31	Reduction of existing tax	Reducing an inequitable cost of living and doing business element. See section 4.6
11.	Surplus to Stability Fund, Debt Fund, Strategic Investments		Funding	See Section 3

4.1.1 Bermuda's existing tax system has historically been focused on payroll- and consumption-based taxes. These taxes have historically been a reliable source of government revenue, are easily applied to a variety of industries, and are relatively straightforward to administer.

4.1.1.1 However, these taxes contribute to a high cost of living and doing business in Bermuda and are generally less progressive than income-based taxes.

4.1.2 Overall, the TRC recommends that the Government should reduce certain existing taxes, incur expenditures, and implement tax credits with the objectives of:

4.1.2.1 Reducing the cost of living in Bermuda, thereby increasing household income and stimulating growth in the domestic economy

4.1.2.2 Reducing the cost of doing business in Bermuda, thereby increasing the attractiveness of the jurisdiction to new and existing businesses and further stimulating economic growth

4.1.2.3 Reducing the level of inequity which arises due to certain regressive features of the existing tax system

4.1.2.4 Recognizing and encouraging the contributions made to support the third sector that provide stability and support to the community.

4.1.3 However, the Tax Reform Commission recommends that the Government should not seek to eliminate any of the existing tax provisions (except as noted below).

4.1.3.1 While CIT will represent an important source of future revenue, these revenue levels are likely to be more volatile due to a variety of factors beyond the control of Government. The reliability of the existing tax provisions will continue to serve as a stable foundation for overall government revenues.

4.1.3.2 As in most jurisdictions, a balance between payroll-, consumption-, and income-based taxes (individual and corporate) promotes resilience through diversified sources for government revenue levels. Bermuda needs to ensure that a diverse group of Bermuda stakeholders are responsible for proportionately funding general government expenditures.

4.1.4 Further, the effective dates for implementing each of the proposed tax reductions will depend on the Government's expectations regarding the timing of recognition of new CIT revenues, and some of these reductions may need to be implemented over a multi-year period.

4.1.4.1 The CIT provisions are effective beginning in 2025. While CIT payments will be made on an ongoing and periodic basis (beginning with the first instalment payments in August 2025), final CIT revenue amounts will not be determinable until tax returns have been filed and assessed late in 2026. In the interim, the Government must continue to rely heavily on existing tax revenues.

4.1.4.2 Consideration must also be given to other near-term funding requirements related to fiscal obligations identified in the fiscal year 2025/2026 Budget Report (e.g. impending maturity of government debt).

4.2 Health Insurance Initiatives

4.2.1 As part of its recommendations related to changes in existing tax provisions, the TRC is recommending the implementation of certain measures related to the provision of health insurance in Bermuda.

4.2.2 These support programmes are intended to provide temporary measures of relief over the next 3 to 5 years with the expectation that the Government will fundamentally reform healthcare during that period and should be considered in conjunction with the stated government plans to introduce universal healthcare. The underlying decreases in our people's wellbeing combined with related increases in health costs are neither desirable nor sustainable.

4.2.3 While the requirement to pay health insurance premiums is not, strictly speaking, a tax on individuals or employers, the effects can be similar.

4.2.3.1 Health insurance costs contribute to increased cost of living and cost of doing business in the jurisdiction.

4.2.3.2 Health insurance is legislated such that every employer is required to provide health insurance for employees working over 15 hours per week and more than two months in the calendar year, according to the Health Insurance (Exemption) Regulations 1971. They must also insure an employee's non-working spouse. The employer is responsible for the insurance policy premium. They are only required to contribute half of the standard premium rate. The employer may deduct the rest of the premium amount from the employee's pay.

4.2.3.3 If a person is not employed or retired without a retirement health benefit from a previous employer, then 100% of the premium is paid by the individual.

4.2.3.4 Individuals who are not insured generally have inequitable health outcomes as they rely on the services of the hospital (emergency department) as a last resort rather than preventative care, leading to escalating long-term healthcare costs and negative outcomes for both individuals and Bermuda as a whole.

4.2.4 Interaction between these recommended healthcare support programmes and existing government-provided subsidies should be addressed to ensure equitable outcomes.

4.2.5 The Tax Reform Commission recommends the implementation of the following health insurance-related measures:

4.2.6 Senior Healthcare Support

4.2.6.1 The programme would provide for a base level of benefits (Future Care) for seniors who are below the prescribed household income threshold.

4.2.6.2 It is anticipated that this programme would provide insurance coverage for up to 4,500 participants, representing approximately 30% of the estimated population of seniors.

4.2.6.3 At current future care rates, the estimated cost of this programme would be approximately $30M.

4.2.6.4 If the annual funding for this programme is not fully utilised providing future care premiums, the remaining funding should be deployed to provide home care subsidies to seniors who are below the prescribed household income threshold.

4.2.6.5 A senior without other income sources, receiving the maximum monthly payment from the contributory pension plan, receives $1752.00 per month. Paying the Future Care premium of $530.14, they spend 30.26% of their income on healthcare.

4.2.7 Underinsured Healthcare Support

4.2.7.1 The programme would provide for a base level of HIP benefits to individuals who are unemployed or working below a threshold that provides for legislatively mandated employer-provided insurance coverage.

4.2.7.2 It is anticipated that this programme would provide insurance coverage for up to 2,100 participants.

4.2.7.3 The estimated cost of this programme would be approximately $12M.

4.2.8 Low Income Healthcare Subsidy

4.2.8.1 The programme would provide support based on the HIP cost for families falling below the prescribed household income threshold.

4.2.8.2 HIP premium would be refunded to the extent that it exceeds a prescribed percentage of household income.

4.2.8.3 It is anticipated that this programme would target families earning less than $72,000.

4.2.8.4 The estimated cost of this programme would be approximately $18M.

4.2.9 Health Insurance – Employer Subsidy

4.2.9.1 The TRC recommends the implementation of the following health insurance-related measure to help offset the increasing cost to employers.

4.2.9.2 Refund to employers equal to 25% of the Standard Premium Rate ("SPR") contribution paid by employers (2024: $400.41 per policy per month), resulting in a direct reduction in a business cost which might otherwise serve as a disincentive to further hiring. This is not a reduction in the amount of funding for the hospital from Government, it simply uses the SPR fee as the base for the calculation to refund to employers a portion of their health insurance premium costs.

4.2.9.3 The estimated cost of this programme would be approximately $19M.

4.2.9.4 Benefits of reducing health insurance premiums could include stimulating job growth and incenting hiring by reducing the cost of employment.

4.3 Payroll Taxes

4.3.1 As part of its proposed changes in existing tax provisions, the TRC recommends the implementation of changes to the payroll tax system.

4.3.2 Payroll taxes are currently the largest single source of revenue for the Government. Given the scale and breadth of economic activity upon which the tax is assessed, modifications to the payroll tax system are an important policy lever and can have significant economic impacts. Several changes have been made to the payroll tax system since the 2018 TRC Report, including:

4.3.2.1 A reduction in the employee portion of the tax rate for lower earners combined with an increase in the employee portion of the tax rate for high earners and an increase in the capped level of compensation upon which payroll tax may be assessed, to enhance progressivity and promote greater equity.

4.3.2.2 An increase in the payroll tax levied on employers classified as an Exempt Company.

4.3.3 The TRC identified the following key areas of concern related to the existing payroll tax system:

4.3.3.1 The lower progressivity of the effective payroll tax rate for employees earning more than $48,000 – see Appendix 7.

4.3.3.2 The employer portion of payroll tax represents a significant cost to businesses that can discourage job growth, since the rate of payroll tax increases based on the compensation of employees, it is not tied to profitability, and growing the number of employees or increasing the rate of pay could be discouraged by an increased tax rate.

4.3.3.3 The existing payroll tax filing procedures only require the submission of aggregated employee data. While this methodology simplifies payroll tax administration for both taxpayers and the Office of the Tax Commissioner, the absence of employee-specific data limits the ability to analyse the impact of payroll tax policy initiatives which could be contemplated in future.

4.3.4 In recent years, there have been several reductions by the Government in the employee portion of the tax rate for lower earners.

4.3.5 The latest changes reduced the payroll tax rate to 0.5% for individuals earning less than $48,000 per annum while increasing the tax rates applied to all other categories.

4.3.6 Approximately 70% of Bermuda's working population earn less than $96,000. While individuals earning between $48,000 and $96,000 per annum have benefited from previous reductions in the lowest rate band, there remains an opportunity to further alleviate the tax burden on these individuals by increasing the progressivity of the effective payroll tax rate.

4.3.7 The TRC recommends rate changes in both the employer and employee portions of payroll tax to lessen the burden on lower and middle-income earners and incentivize hiring, while maintaining fairness in the tax system.

4.3.8 Targeting reductions in the employer portion of the payroll tax will support struggling sectors and encourage new business formation.

4.3.9 Payroll Tax – Employee

4.3.9.1 The Tax Reform Commission recommends adjusting the employee portion of the tax rates to further increase the progressiveness of the payroll tax. The proposed changes to the wage bands and rates are as follows:

Income Band	Current Rate	Proposed Rate
< $48,000	0.50%	0.50%
< $96,000	9.25%	5.00%
< $120,000	10.50%	12.00%
< $192,000	11.50%	12.00%
> $192,000	12.50%	12.00%

4.3.9.2 The primary focus of these adjustments is to lessen the burden on lower and middle-income earners, while maintaining fairness in the tax system. Approximately 95% of the payroll tax benefits resulting from these adjustments would be attributable to employees earning less than $144,000 – see Appendix 7.

4.3.9.3 It is estimated that the recommended changes to the employee portion of the payroll tax will result in a reduction in government revenues of approximately $24M per annum.

4.3.9.4 The following are examples of the saving on employee payroll tax contributions:

- An individual earning $60,000 pays approximately $510 less annually and has an effective rate of 1.14% down from 2.25%
- An individual earning $90,000 pays approximately $1,785 less annually and has an effective rate of 2.6% down from 4.59%
- An individual earning $120,000 pays approximately $1,680 less annually and has an effective rate of 4.6% down from 6.00%

4.3.10 Payroll Tax- Employer

4.3.10.1 The Tax Reform Commission recommends a reduction in the employer portion of payroll tax rates, effectively capping the higher rate bands at 7% for all taxpayers. It is estimated that this measure will reduce Government revenue by approximately $68M per annum – see Appendix 6.

4.3.10.2 The Tax Reform Commission further recommends that consideration be given to additional rate reductions in future with the objective of reducing the maximum employer rate to 5%, subject to analysis of the outcomes achieved by the initial round of rate reductions and levels of CIT revenue that is experienced.

4.3.10.3 Benefits of reducing the employer rate of payroll tax include:

4.3.10.3.1 stimulating job growth and incenting hiring by reducing the cost of employment

4.3.10.3.2 enhancing Bermuda's attractiveness as a place to locate employees and teams.

4.3.10.4 The Tax Reform Commission recommends that the payroll tax filing procedures should be revised to accommodate the mandatory provision of payroll data by employers on an employee-by-employee basis, which would be consistent with the approach applied in many other jurisdictions.

4.3.10.5 These new filing requirements may pose administrative challenges to businesses, particularly in the initial period following implementation, as businesses work to enhance their internal systems and procedures to accommodate the revised data reporting requirements.

4.3.10.6 In acknowledgement of this fact, compliance with the revised data reporting requirements should be on a voluntary basis for at least the first two years following the introduction of the revised data reporting requirements, with possible extensions for specific categories of taxpayers.

4.3.10.7 However, to incentivize voluntary compliance with the revised data reporting requirements, taxpayers who do not comply with the requirements will not be eligible for the rate reduction in the employer portion of payroll taxes summarized above.

4.3.10.8 The following are examples of the employer savings on payroll tax contributions:

- **$72,000:** Payroll tax saving for a local business with 30 employees earning an average of $80,000 when employer's portion is capped at 7%
- **$120,000:** Payroll tax saving for the same business, when employer's portion is capped at 5%

4.4 Utility Based Initiatives

4.4.1 The TRC recommends that a utilities infrastructure tax credit, combined with specific reductions in payroll tax and duty, be implemented to encourage continued capital investment in utility infrastructure and to reduce the cost of living and cost of doing business.

4.4.2 Due to a variety of factors (i.e. relatively small size of the jurisdiction, high cost of local construction, resource constraints, etc.) it can be challenging to undertake significant infrastructure projects in Bermuda. This is particularly concerning with respect to strategically important infrastructure supporting the utilities sector.

4.4.3 The TRC feels it is imperative that utilities in the jurisdiction continue to develop infrastructure to support ongoing growth in the productive capacity of the economy.

4.4.4 The TRC took note of electricity costs contributing to the high cost of living and doing business in Bermuda.[2]

4.4.5 Assets used in the generation of bulk electricity and distribution are also subject to import duties that are ultimately paid for by the consumer.

4.4.6 Costs levied by Government (import duties or payroll tax) on an electrical utility, and passed directly to the consumer, are equivalent to a tax levied on to the consumer, based on the current KWH rate calculation methodology, administered by the Regulatory Authority, under the return-on-capital rate structure enshrined in the Electricity Act 2016.

4.4.6.1 The Government took a significant step towards the reduction of energy costs in 2024 by decreasing the duty rate applied to fuel used for electricity generation by 60%. The Government has announced a further 20% rate reduction in the fiscal year 2025/2026 Budget Report.

4.4.7 Bulk Electricity Generation Incentives

4.4.7.1 The TRC recommends the elimination of:

4.4.7.1.1 All remaining duty related to the production, supply, and delivery of electricity, and

[2] Since January 1, 2020, the cost of electricity for the average consumer (575-650 kwh per month) has increased 40%, excluding the pass-through fuel adjustment charges. Additionally, the cost of electricity is further exacerbated by customs duties applied to the importation of fuel, with the costs passed on to consumers. Since January 1, 2020, the fuel surcharge has ranged from $.1143 per kwh to a high of $.2452 per kwh depending on the market price fluctuations in oil purchases compared to the amount recovered from customers. The present rate is $.1552 after a 60% reduction in fuel duty in 2024. (sourced from Regulatory Authority Filings)

4.4.7.1.2 The elimination of the employer portion of payroll taxes for entities engaged in regulated bulk power generation and distribution using fossil fuels.

4.4.7.2 Eliminating these taxes will reduce the overall cost of electricity, benefiting consumers and businesses alike. These recommendations are not intended to increase the after-tax profitability of the utility and should be passed through to the consumer. The duty- and payroll-tax-related measures are estimated to reduce annual Government revenues by $4.5M and $3.5M, respectively.

4.4.7.3 The removal of duty will reduce the fuel surcharge by approximately $.01867 cents per KWH (August 2025) and a consumer using 600 KWH of electricity will save $11.38 or 3.89% per month.

4.4.8 Utility Infrastructure Credit

4.4.8.1 The Tax Reform Commission recommends that the Government develop and implement a Utilities Infrastructure Tax Credit to support the ongoing development of infrastructure in the utilities sector.

4.4.8.1.1 Eligible recipients would include entities (or groups of related entities) providing strategically important services in the utilities sector (e.g. power generation and distribution, telecommunications, oil and gas distribution, etc.).

4.4.8.1.2 The tax credit would be based on the Substance-Based Income Exclusion provisions in the Global Minimum Tax Rules, including the payroll-based and tangible asset-based benefit factors. Leveraging these well-developed concepts will reduce development time for the jurisdiction while facilitating administrative efforts for those recipients of the Utilities Infrastructure Tax Credit who are already required to apply the Substance-Based Income Exclusion provisions to comply with the Global Minimum Tax Rules.

4.4.8.1.3 With reference to local utilities sector companies, the tax credit's potential benefits should be based on the number of staff employed in Bermuda, local expenditure, and local resources used in operations.

4.4.8.1.4 The TRC proposes that the tax credit would also have a cost-of-living benefit, in that upward pressure on utility rates, arising from the substantial cost of new infrastructure projects, would be lessened.

4.4.8.1.5 The scale of infrastructure investment in this sector can be very significant, creating a risk to the Government that tax credit benefits may exceed expectations. To mitigate this risk, the Utilities Infrastructure Tax Credit should be structured as a non-refundable tax credit (i.e. tax credit benefits in any given year would be limited to the total tax charge incurred by the eligible recipient during such year).

4.4.8.2 The TRC recommends that the Utilities Infrastructure Tax Credit should be enacted during 2025 with respect to fiscal year benefit periods beginning on or after January 1, 2025.

4.5 Community Development Tax Credit

4.5.1 The Tax Reform Commission recommends the Government develop and implement a Community Development Credit which would be intended to incentivize higher levels of charitable giving in Bermuda.

4.5.1.1 This is a relatively common incentive. Many jurisdictions, including the United States, Canada and the United Kingdom, have implemented provisions in the tax system intended to incentivize charitable giving.

4.5.1.2 Nonprofits are crucial to Bermuda: they provide essential services in education, social welfare and financial assistance, health, housing, human rights, workforce development, education, sport, the environment, disability services, ageing, and the arts. In 2024, there were approximately 300 Registered Charities filed with the Registrar pursuant to the Charities Act of 2014. They provide necessary essential services, youth programming and education scholarships, and quality of life programming. While some nonprofits generate revenues such as fees for services, most are financially supported by corporations, individuals, and foundations in the form of cash grants. (Bermuda Foundation, Third Sector Financial Snapshot Report 2024)

4.5.1.3 The Third Sector is highly dependent on charitable donations to support its various charities and programmes. According to the Bermuda Foundation's report, of the approximately $173M in revenues attributable to Registered Charities in 2022 (excluding the Bermuda Hospital Board), total grants and donations contributed approximately $90M. While the private sector has been a strong supporter of the Third Sector in Bermuda, charities may still struggle to fund critical initiatives, and this is particularly evident where larger contributions are required to support a specific need. The TRC believes it is important for the Government to encourage continued and expanded charitable support for the Third Sector.

4.5.2 The TRC recommends the Government establish a Community Development Credit which provides a credit equal to 25% of annual aggregate donations for donors whose aggregate average annual cash donations exceed a minimum threshold.

4.5.3 Eligible Donations would include any charitable contributions paid during the fiscal year, to the extent such contributions are:

4.5.3.1 paid to registered Bermuda charities described in the Charities Act 2014 that provide audited financial reports to the Registrar of Charities.

4.5.3.2 initially, the TRC recommends that the credit be provided only for donations paid in cash. Further analysis will be required to determine whether the credit should also be permitted for donations of property. Donated goods and services do not qualify as Eligible Donations.

4.5.3.3 used primarily (e.g. 75% or more) in the fulfilment of a charitable purpose in Bermuda and/or for the benefit of Bermudians, as attested to by the charitable recipient.

4.5.4 To encourage larger donations and mitigate the administrative challenges that would arise from a high volume of small charitable contributions, the TRC recommends that the Community Development Credit would be available to donors whose average annual charitable contributions over a three-year period are more than $100,000.

4.5.4.1 The $100,000 minimum average aggregate annual donation would be calculated based on the current and two prior years' cash contributions.

4.5.4.2 The credit would be payable on any aggregate amount donated in the year, even if it is less than $100,000, if the three-year average annual aggregate of donations is more than $100,000.

4.5.4.3 While the programme would be effective starting in 2025, donors would be grandfathered credit for the prior two years to calculate the 3-year average. However, the credit would only be provided for years beginning in 2025.

4.5.5 The credit would be either paid in cash or provided as credit against any form of taxes paid in the year in which the submission for credit is filed.

4.5.6 Supporting documentation required to apply for the Community Development Credit would be in the form of Letters of Acknowledgement from a Qualifying Charitable Organization for the receipt of a donation.

4.5.7 A Qualifying Charitable Organization would be:

4.5.7.1 A Registered Bermuda Charity, as described by the Charities Act of 2014, that provides audited financial statements in accordance with the Charity Regulations 2014 paragraph 9.2(c).

4.5.7.2 Fundraising proceeds used primarily (e.g. 75% or more) in the fulfilment of a charitable purpose in Bermuda and/or for the benefit of Bermudians, as attested to by the charitable recipient.

4.5.8 The TRC recognizes that many small charities that provide important services may not file audited statements, and that occasionally an international incident or cause may require humanitarian aid to beneficiaries outside Bermuda. In recognition of these conditions, notwithstanding the qualification conditions listed in Section 4.5.7, The Minister of Finance should have full discretionary authority to add to the list of Qualifying Charitable Organizations an organization that does not meet all the conditions set forth.

4.5.9 The TRC recommends the Community Development Credit should be enacted during 2025 with respect to fiscal year benefit periods beginning on or after January 1, 2025.

4.6 Foreign Currency Purchase Tax

4.6.1 The TRC recommends that the Foreign Currency Purchase Tax ("FCPT") should be eliminated.

4.6.2 Eliminating the FCPT would reduce the costs of living and doing business in Bermuda and promote equity by alleviating the disproportionate financial burden on those most affected by the tax.

4.6.3 FCPT is imposed at a rate of 1.25% on the value of Bermuda dollars converted to other currencies.

4.6.4 FCPT affects all overseas purchases, adding an exchange charge to the cost of doing business, importing items, overseas education, travel, and more. This effect can be compounded with respect to imported goods sold in Bermuda due to the application of profit margin mark-ups to layers of transactions within wholesale and retail distribution chains.

4.6.5 The financial burden of FCPT is disproportionately borne by Bermudians and Bermudian businesses, given that Bermudians are more likely to be compensated in Bermuda dollars and local businesses are more likely to generate Bermuda dollar-denominated income than international businesses.

4.6.6 Lower-income individuals are also more likely to feel the impact of this tax as they convert Bermuda dollars to fund their basic living, healthcare, and education needs.

4.6.7 Elimination of the FCPT would result in a fall in Government revenues of approximately $31M.

4.7 Customs Duties

4.7.1 Customs duties are a key component of Bermuda's revenue system. However, opportunities remain to restructure these duties to enhance tax collection and address public health concerns. The OECD report "Revenue Statistics 2024" highlights the rise in taxes on products with negative public health impacts, such as tobacco, alcohol, and sugar. In Bermuda, there are areas within the current duty tax structure that could be adjusted to improve wellbeing and equity.

4.7.2 The TRC concluded that it would recommend only minor changes in customs duties for several reasons (complexity, ability to ensure the relief reaches the end consumer, government policies, etc.). As such the TRC limited its recommendations to modify the following duty rates:

4.7.2.1 Introduce a value-based component for alcohol: Currently, the duty rates on alcohol are not based on value, unlike non-alcoholic beverages. The proposed changes aim to include a value-based component in the customs duty without reducing the current duty collection rate.

Current rates (as published in the Bermuda Customs Tarriff 2025 Schedules):

Product	Duty Rate per Liter
Wine	$6.00
Spirits	$32.00
Beer & Malt Beverages	$1.36

Proposed changes:

Product	Duty Rate per Liter	
Wine	$6.00 up to $40.00	15% on remaining value
Spirits	$32.00 up to $50.00	15% on remaining value
Beer & Malt Beverages	$1.36 up to $10.00	15% on remaining value

4.7.2.2 Increase the tax on tobacco products, including cigars, cigarettes, and tobacco, by an additional 20%: This increase aligns with global trends in health-related taxation and aims to discourage consumption of products with negative health impacts.

4.7.2.3 Restructure the duty on motor vehicles, considering the choice of vehicles by offering a reduced duty structure for basic vehicles.

4.7.2.3.1 In other jurisdictions governments are accepting declines in tax collection due to a reduced volume in fuel sales resulting from increasing EV use combined with lower taxes on the purchase of EVs.

4.7.2.3.2 Bermuda historically has had a zero rate of duty on EVs. While this supports efforts to reduce carbon emissions, it does not change the underlying cost for Government to maintain the required roads and infrastructure.

Current rates:

Vehicle Type	Duty Rate
Motor Vehicles	75% on first $10,000, 150% on balance
Hybrid Vehicles	35%
Fully EV Vehicles	0%

Proposed changes:

Vehicle Type	Duty Rate
Motor Vehicles < $20,000	50%
Motor Vehicles > $20,000	75% on first $20,000, 150% on balance
Hybrid and Full EV Vehicles	25%

4.7.2.3.3 Example of the savings on a basic car with a first cost of $20,000. The current rates mean that $22,500 of duty is charged to import the vehicle. The proposed rates would reduce the duty cost to $10,000, a saving of $12,500 to the consumer.

SECTION 5:
Creating new jobs and growing the Bermuda economy

5.1 Overview

5.1.1 The prior recommendations address the long-term financial strength of Bermuda as well as factors relating to the cost of living and doing business on the island. As summarized in the previous sections, modifications to Bermuda's existing tax system should serve to mitigate the cost of living and doing business in the jurisdiction, thereby stimulating economic activity and supporting real GDP growth.

5.1.2 It is anticipated that higher levels of growth can be achieved by augmenting the modifications to the existing tax system to incentivize expansion in the overall productive capacity of Bermuda's economy, which remains highly exposed to external factors. Bermuda would be well served to recover the jobs lost since the Financial Crisis of 2008, as a larger economy would be more resilient to economic cycles.

5.1.3 In addition to the steps enumerated in the prior sections, the TRC recommends Government put in place various incentive programmes to attract international business and increase jobs in Bermuda. This would not only provide attractive opportunities for employment for Bermudians, but the multiplier effect of expenditures in Bermuda by international business would result in increased business activity and jobs across the economy.

5.1.4 The country's low reported unemployment rate may be misleading. Generally, a low unemployment rate indicates a healthy balance between labour supply and business demand for jobs. However, in Bermuda, the unemployment rate is also kept to a low level because many Bermudians who cannot find satisfactory employment leave to find attractive employment – and a lower cost of living – elsewhere. The TRC believes that if new, attractive jobs were available in Bermuda, it would encourage Bermudians to repatriate to the island, in addition to also bringing in expatriates who would contribute to the local economy.

5.1.5 The TRC notes that any increase in jobs and demands on housing from Bermudians returning to the island, or additional expatriates, would likely put further stress on housing supply, thus programmes to increase jobs should be accompanied by incentives to promote housing construction and supply.

5.1.6 Incentive programmes have been implemented by many jurisdictions to support the achievement of specific governmental objectives.

5.1.6.1 Incentives are frequently used to attract and promote economic activity within a jurisdiction.

5.1.6.2 Incentive programmes may include eligibility criteria that target specific industry sectors, activities, behaviours, or investments which are expected to result in cascading benefits to the local economy.

5.1.6.3 A summary of common incentive programme structures is included in Appendix 1. Examples of incentive programmes across the world are found in Appendix 8.

5.1.7 The TRC recommends that the Government should develop and implement incentive programmes intended to stimulate higher levels of sustainable growth in real GDP through the achievement of the following objectives:

5.1.7.1 Expanding the overall number of individuals employed in the jurisdiction, with corresponding increases in:

5.1.7.1.1 the base for existing local taxes, such as payroll taxes and customs duties, allowing for the burden of these taxes to be borne by a larger population of taxpayers at lower rates,

5.1.7.1.2 economic activity due to increased demand for local goods and services, and

5.1.7.1.3 CIT revenues due to a higher level of profitable activity undertaken in the jurisdiction.

5.1.7.2 Promoting the training and advancement of Bermudians to more senior roles.

5.1.7.3 Increasing available infrastructure (e.g. housing) to support the economy's capacity to grow and mitigate inflationary pressures on available resources.

5.1.7.4 Overall, nurturing an environment that will support the attraction and retention of businesses in Bermuda which are likely to have the greatest impact on its overall economy.

5.1.8 The TRC further recommends that each incentive programme should include some or all the following design features:

5.1.8.1 The incentives should be structured to follow OECD guidelines. Currently, the OECD indicates tax credits should be refundable tax credits to meet the criteria to be treated as Qualified Refundable Tax Credits ("QRTCs") for purposes of the Global Minimum Tax Rules (see Appendix 1 for further information regarding tax credits). This would ensure that all entities that qualify for the credits receive their intended benefits, regardless of whether they are MNEs or CIT payers.

5.1.8.2 Tax credit benefit determinations should be expenditure-based.

5.1.8.3 Incentive programmes should be focused on specific aspects of Bermuda's economy to ensure that limited government resources are deployed to maximum benefit for the overall jurisdiction.

5.2 Tax Credit Recommendations

5.2.1 The TRC has analysed various potential tax credit proposals to achieve the outcomes summarized in this section.

5.2.1.1 The TRC recommends the implementation of a Substance-Based Tax Credit for Insurers with effect from 2025.

5.2.1.2 The TRC also recommends the prompt implementation of a Housing Infrastructure Tax Credit and Innovation Tax Credit. While these tax credit proposals are expected to provide significant long-term benefits to the jurisdiction, they are more complex and require further development. The TRC recommends that the Government should continue to develop these proposals with an implementation goal of 2026 or 2027.

5.2.1.3 While the focus of this section is on specific incentives, other factors should be considered to ensure that the ability to meet the objectives of each incentive programme is augmented and not inhibited. For example, an incentive programme intended to increase Bermuda's workforce may not achieve the desired outcome if immigration policy, or the service capacity of the Department of Immigration, is not conducive to supporting increased levels of immigration to the jurisdiction. Similarly, programmes to increase housing construction and supply may require modifications to existing policies, rules and regulations to accelerate development.

5.3 Structural Considerations for Incentive Programmes

Incentives structured as tax credits

5.3.1 The TRC recommends that any incentive programmes implemented by the Government should be structured as refundable tax credits and should meet the requirements to be treated as QRTCs for purposes of the Global Minimum Tax Rules. The following is a brief overview of the proposed operation of the tax credits:

5.3.1.1 An entity would determine its eligibility for incentive benefits, as well as the relevant benefit amount, for any fiscal year based on the specific technical provisions of the incentive programme. The CITA would have a right to audit and challenge such determinations to ensure that they are compliant with the credits as promulgated.

5.3.1.2 Once a benefit amount has been established for the fiscal year, benefits may be used to offset tax payments due. To the extent benefits are not fully utilized to offset taxes, the unused balance may be paid by Government.

5.3.1.2.1 Benefit utilization for any fiscal year will be limited to a prescribed portion of the entity's total tax liability for such year.

5.3.1.2.2 For this purpose, the total tax liability would include the employer portion of payroll tax and, for those entities that are subject to the Act, the CIT charge incurred by the entity during the fiscal year.

5.3.1.2.3 To the extent that the benefit balance exceeds the prescribed portion of the entity's total tax liability for the fiscal year, utilization of the excess amounts would be deferred to a subsequent fiscal year, subject to the continued application of the tax-based payment limitation.

5.3.1.2.4 Any benefit payable amount not used to offset current taxes by the end of the fourth fiscal year succeeding the benefit period will be paid in full at the end of the fourth year succeeding the benefit period.

5.3.1.2.5 Example: An incentive programme is established in Bermuda which provides refundable tax credits based on specific expenditures incurred in Bermuda. Entity A meets the eligibility requirements and establishes its entitlement to a benefit amount of $100 for fiscal year 1. The terms of the incentive programme provide that benefits are usable annually up to an amount equal to 50% of the total tax liability of the entity for the relevant fiscal year. Entity A incurs a total tax liability of $150 in fiscal year 1 and is entitled to use an offset of $75 (i.e. 50% of the $150 tax charge) of the $100 overall benefit amount. The remaining $25 of the fiscal year 1 benefit amount would be used in a subsequent year, subject to the continued application of the tax-based payment limitation in such subsequent year(s). Any residual amount remaining after application of the tax-based payment limitation in fiscal years 1 through 4 would be paid in full at the end of the fourth year succeeding the benefit period.

5.3.2 There are several practical requirements associated with the implementation of incentive programmes. Overall, these requirements are best addressed by structuring the incentive programmes as refundable tax credits.

5.3.2.1 To achieve intended outcomes, the specific benefit provisions will need to be drafted by reference to highly technical accounting, tax, and legal concepts.

5.3.2.1.1 Structuring the incentive programmes as tax credits supports greater alignment with well-developed technical concepts from existing tax provisions, reducing the time required of existing taxpayers to gain an understanding of the incentive provisions and facilitating the administration of benefits.

5.3.2.2 Incentive programmes are less effective in promoting certain activities if different entities engaged in such activities do not benefit from the incentives in a consistent manner.

5.3.2.2.1 Structuring the incentive programmes as refundable tax credits which meet the requirements to be treated as QRTCs supports consistent benefit levels for eligible entities, regardless of their profitability levels and whether they fall within the scope of the Global Minimum Tax Rules.

5.3.2.3 CIT revenues, which are likely to be a key source of funding for these incentive programmes, may be difficult to estimate in advance of any given tax year. The Act has only recently come into effect, resulting in an inherent degree of uncertainty in estimating sustainable CIT revenue levels. In addition, as a smaller jurisdiction with a limited industry base, Bermuda is more exposed to ongoing volatility in annual CIT revenues due to market conditions which are beyond its control.

5.3.2.3.1 As summarized above, structuring the incentive programmes as tax credits allows benefit payments to be limited to a portion of tax receipts for the benefit year (and the four succeeding tax years), thereby mitigating concerns regarding the ability of the Government to fund benefit payments in the short term when faced with volatility in CIT revenues.

Expenditure-based benefit determinations

5.3.3 Incentive programme benefits are generally calculated by applying a prescribed benefit rate to a specific financial base amount. Jurisdictions employ various approaches in determining the relevant financial base amount.

5.3.3.1 Many incentive programmes are expenditure-based, meaning that the financial base amount is determined by reference to expenditures incurred by the entity in association with the conduct of certain activities (e.g. labour costs incurred with respect to employment activities).

5.3.3.2 Other incentive programmes are income-based, meaning that the financial base amount is determined by reference to revenue or net income earned by an entity.

5.3.4 Expenditure-based incentives are most common and are generally considered to be more effective in achieving favourable economic outcomes, given that the expenditure base can be directly linked to the activities the incentive programme is trying to motivate. By contrast, income-based incentives may boost the overall profitability of the recipient with little spillover benefit to the broader economy.

5.3.5 The TRC recommends that any incentives implemented by the Government should focus on increasing the overall level of sustainable economic output in Bermuda by basing incentive benefit calculations on expenditures incurred with respect to substantive activities undertaken in Bermuda (e.g. employment, training, infrastructure investment, innovation, etc.).

Substance-Based Tax Credit – Sector Focused

5.3.6 The TRC recommends that the Government develop and implement a Substance-Based Tax Credit. The Substance-Based Tax Credit is intended to incentivize higher levels of sustainable growth in real GDP through the encouragement of higher employment levels and expenditure in Bermuda.

5.3.7 The desired outcome from any incentive programme would be to achieve higher levels of growth in all aspects of Bermuda's economy.

5.3.7.1 However, incentive programmes are generally more effective when they are focused on maximizing the impact on those industries, activities, or behaviours which have the greatest potential to generate positive spillover effects for other facets of the economy.

5.3.7.2 Conversely, incentive programmes which have a broader application may result in limited Government resources being spread too thinly to encourage the desired outcomes and may increase the likelihood of unintended consequences.

5.3.7.3 The TRC recommends Government roll out different Substance-based incentives over time, as it obtains more clarity on the extent of the tax base and stability of tax revenues, and applies learnings from experience in the earlier incentive programmes to optimize the structure of future programmes in alignment with economic policy.

5.3.8 It is the TRC's view that the overall economic benefit from the Substance-Based Tax Credit will be maximized if the benefit provisions are focused, at least initially, on the insurance industry in Bermuda. Other sectors and industries may follow in accordance with Government's economic development policies.

5.3.9 The TRC believes Substance-based incentives provide a unique opportunity to invest in the country's leadership and reputation in global insurance markets. There are persuasive factors in establishing Substance-based incentives to encourage even more companies to establish in Bermuda, and for existing entities to grow their local operations.

5.3.9.1 The insurance industry is one of the largest contributors to Bermuda's GDP, due not only to direct industry output but also its substantial spillover effects to the broader economy.

5.3.9.2 Over the years, Bermuda's economy has benefited from the evolution of a highly integrated ecosystem surrounding this industry, including prudent and effective regulation, accounting, legal and tech support, and an expansive network of insurers and service providers supporting a robust and efficient marketplace.

5.3.9.3 The industry operates with a substantial level of economic substance in Bermuda. It is one of the largest employers in the jurisdiction, one of the most significant consumers of local goods and services, and one of the largest investors in local business infrastructure. However, historic levels of economic substance in Bermuda have been challenged in recent years by the high cost of living and doing business and corresponding challenges in recruiting and retaining personnel in the jurisdiction.

5.3.9.4 With an already existing operating base on the island, the re/insurance industry is the most likely to ramp up employment quickly in response to attractive Substance-based incentives.

5.3.9.5 An incentive programme which is specifically designed to encourage the attraction and growth of the insurance industry is likely to maximize the benefits to the overall economy, given the industry's track record as a key contributor to jobs, education and employment of Bermudians, raising the attractiveness of Bermuda, and Bermuda's economy.

5.3.10 While focusing the Substance-Based Tax Credit on the insurance industry in the near-term is expected to maximize early benefits to the jurisdiction, further consideration should be given to future expansion of the eligibility criteria to encompass other key industry sectors after incorporating any lessons learned with respect to the insurance-focused tax credit.

Proposed benefit structure – Overview

5.3.11 The TRC recommends the establishment of meaningful Substance-Based Tax Credits to encourage job growth and local spending by the insurance industry. The Substance-Based Tax Credit would be comprised of a Job-based component and Expenditure-based component.

Job-based Component:

5.3.11.1 This benefit component would be determined by applying the Payroll Benefit Rate to Eligible Payroll Costs.

5.3.11.2 The Payroll Benefit Rate would be determined for each entity (or group of related entities) on an annual basis by reference to five separate factors, each of which is intended to incentivize specific behaviours.

5.3.11.3 The Payroll Benefit Rate could vary significantly depending on the nature and extent to which the entity engages in the desired behaviours (e.g. an entity that employs more people in Bermuda would generally receive a higher benefit level than an entity that employs fewer people).

5.3.11.4 Eligible Payroll Costs would include payroll costs deducted in the computation of the entity's financial accounting net income or loss which are related to the performance of services by Eligible Employees in Bermuda. For this purpose, payroll costs would include salaries and wages, bonuses, stock-based compensation, allowances, payroll and employment taxes, employer social insurance contributions, and other expenditures that provide a direct and separate personal benefit to the employee, such as health insurance and pension contributions.

5.3.11.5 Eligible Employees would include employees participating in the ordinary operating activities of a Bermuda entity under the direction and control of the entity.

5.3.11.6 The detailed definitions of Eligible Payroll Costs and Eligible Employees should be closely modelled after the definitions provided for these terms as part of the Substance-Based Income Exclusion provisions in the Global Minimum Tax Rules. In addition to supporting consistency with global standards, leveraging these well-developed concepts will reduce development time for the jurisdiction while facilitating administrative efforts for those recipients of the Substance-Based Tax Credit ("SBIE") who are already required to apply the SBIE provisions to comply with the Global Minimum Tax Rules.

Headcount Factor:

5.3.11.7 A prescribed range of benefit rate factors which vary based on the entity's average headcount in Bermuda during the fiscal year. An entity which employs more individuals in Bermuda would be eligible for a higher Headcount Rate than an entity which employs fewer individuals in Bermuda.

Bermuda Employment Factor:

5.3.11.8 Eligible Payroll Costs attributable to individuals described in any of the following categories would be subject to a benefit rate that is 50% higher than Eligible Payroll Costs incurred with respect to other individuals, thereby encouraging recruitment and retention of Bermudians and other individuals who have demonstrated a longer-term commitment to the jurisdiction.

5.3.11.9 Employees eligible for the Bermuda Employment uplift would include:

5.3.11.9.1 Bermudian or spouse of Bermudian,

5.3.11.9.2 Permanent Resident Certificate holder,

5.3.11.9.3 Bermuda-resident British Overseas Territory Citizen, and

5.3.11.9.4 Holder of a work permit exemption pursuant to the Job Makers Act

Bermudian Training Factor:

5.3.11.10 Eligible Payroll Costs attributable to designated training activities for the employee categories described in section 5.3.11.9 would be subject to a further 25% uplift in the benefit rate as compared to non-training costs. Designated training activities would include training courses, relevant accreditation programmes, internships, and certain costs incurred by the entity (or other group entities) in connection with providing a first job to the employee or the transfer of junior employees to other jurisdictions within the group structure to gain international experience.

Employment Growth Factor:

5.3.11.11 The benefit rate would be further increased in proportion to year-on-year growth in Bermuda headcount and decreased in proportion to a year-on-year reduction in Bermuda headcount.

Transition Factor:

5.3.11.12 The overall benefit rate would be phased in over a three-year period, providing Government with the opportunity to monitor the performance and outcomes of the Substance-Based Tax Credit in a measured fashion. The phase-in would be achieved by applying a Transition Factor of 33% in 2025, 66% in 2026, and 100% in 2027 and subsequent periods.

5.3.11.13 The Payroll Benefit Rate would be calculated as follows for a fiscal year:

Headcount Factor

multiplied by

Bermuda Employment Factor

multiplied by

Training Factor

multiplied by

Employment Growth Factor

multiplied by

Transition Factor

Equals

Payroll-Based Benefit Rate

Expenditure-Based Component

5.3.11.14 This benefit component would be determined by applying the Expenditure Benefit Rate to Eligible Expenditures.

5.3.11.15 The Expenditure Benefit Rate would vary depending on the extent to which the entity incurs expenditure in Bermuda (e.g. an entity that incurs more expenditure in Bermuda would generally receive a higher benefit level than an entity that incurs less expenditure).

5.3.11.16 Eligible Expenditures would include expenditures (other than payroll costs included in the determination of the Payroll-Based Component) incurred with respect to the acquisition of local goods or services. Specific examples may include costs associated with office premises in Bermuda, the receipt of services which are delivered in or from Bermuda, or the acquisition of tangible assets in Bermuda.

5.3.12 As discussed in section 5.3.1.2, the annual usage of any benefits payable pursuant to the Substance-Based Tax Credit provisions will be limited based on a fixed proportion of total tax incurred by an entity during the fiscal year. Annual utilization of the credits would be limited to:

5.3.12.1 25% of the total tax incurred in 2025

5.3.12.2 50% of the total tax incurred in 2026

5.3.12.3 75% of the total tax incurred in 2027

5.3.12.4 100% of the total tax incurred in 2028 and subsequent years

5.3.12.5 Any benefit payable amount which had not yet been utilised by the end of the fourth fiscal year succeeding the benefit period would be paid in full at the end of the fourth year.

5.3.13 The TRC recommends that the Substance-Based Tax Credit should be enacted during 2025 with the first benefit periods being fiscal years beginning on or after January 1, 2025. (see section 6 for administrative notes)

5.4 Housing Infrastructure Tax Credit

5.4.1 Housing costs continue to escalate in Bermuda and are a significant contributor to the high cost of living and doing business in the jurisdiction. In addition to the burden that these costs place on household incomes in Bermuda, they pose significant challenges to businesses in attracting and retaining talent in Bermuda.

5.4.2 The development of additional housing infrastructure is inhibited by the high cost of property development in Bermuda.

5.4.3 Neither of these challenges are unique to Bermuda. Many jurisdictions have well-established tax credits or other incentive programmes which are intended to encourage the development of residential real estate to meet specific needs – see Appendix 10.

5.4.4 The TRC recommends that the Government develop and implement a Housing Infrastructure Tax Credit, which would leverage relevant aspects of existing tax credits employed in other jurisdictions with appropriate modifications to meet Bermuda's needs.

5.4.5 Further analysis will be required to refine the desired policy objectives and the specific technical features of the Housing Infrastructure Tax Credit required to support such objectives. Specific considerations include whether the tax credit provisions should:

5.4.5.1 Support the development of smaller housing projects which may be easier to complete in the short-term vs. larger projects which may take longer to complete but which could have a more significant impact on the jurisdiction's overall housing situation (and which, absent of incentives, may struggle to be realized).

5.4.5.2 Target specific population demographics (e.g. affordable housing may address a specific jurisdictional need whereas moderate-income housing may ease pressure on businesses seeking to attract and retain talent, some jurisdictions look to balance both needs in the same developments).

5.4.5.3 Target specific areas (e.g. construction of residential units in or near the city of Hamilton may appeal to many prospective tenants, with the added benefits of mitigating the potential for traffic congestion and stimulating further development of urban amenities (e.g. restaurants and hospitality).

5.4.5.4 The degree to which the Housing Infrastructure Tax Credit should be integrated with existing government initiatives with respect to housing.

5.4.6 The TRC acknowledges that the development of a Housing Infrastructure Credit is likely to involve complexities (e.g. the significance of associated costs, legal and property ownership considerations, location selection, planning permission etc.) which are not present in other tax credit proposals, and which may result in the need for additional time to develop the Housing Infrastructure Tax Credit.

5.4.7 However, there is some urgency associated with timing of implementation of a Housing Infrastructure Tax Credit, given that:

5.4.7.1 The Substance-Based Tax Credit is intended to incentivize growth in the working population of Bermuda, which may ultimately drive further inflationary pressures on housing costs unless available housing inventory is increased.

5.4.7.2 Construction projects may take several years to complete, so sufficient lead time will be necessary in advance of the desired date for new housing inventory to be available.

5.4.8 The TRC recommends that detailed analysis regarding the potential structure of a Housing Infrastructure Tax Credit should begin during 2025, with the objective of enacting the relevant provisions during 2026 or 2027.

5.5 Innovation Tax Credit

5.5.1 Tax credits which incentivize research, experimentation, and other innovation efforts are a common feature in many tax systems – see Appendix 9.

5.5.2 In addition to the behaviours incentivized by the Substance-Based Tax Credit (e.g. increase in working population of Bermuda), ongoing innovation is an important factor in increasing the productive capacity of Bermuda's economy.

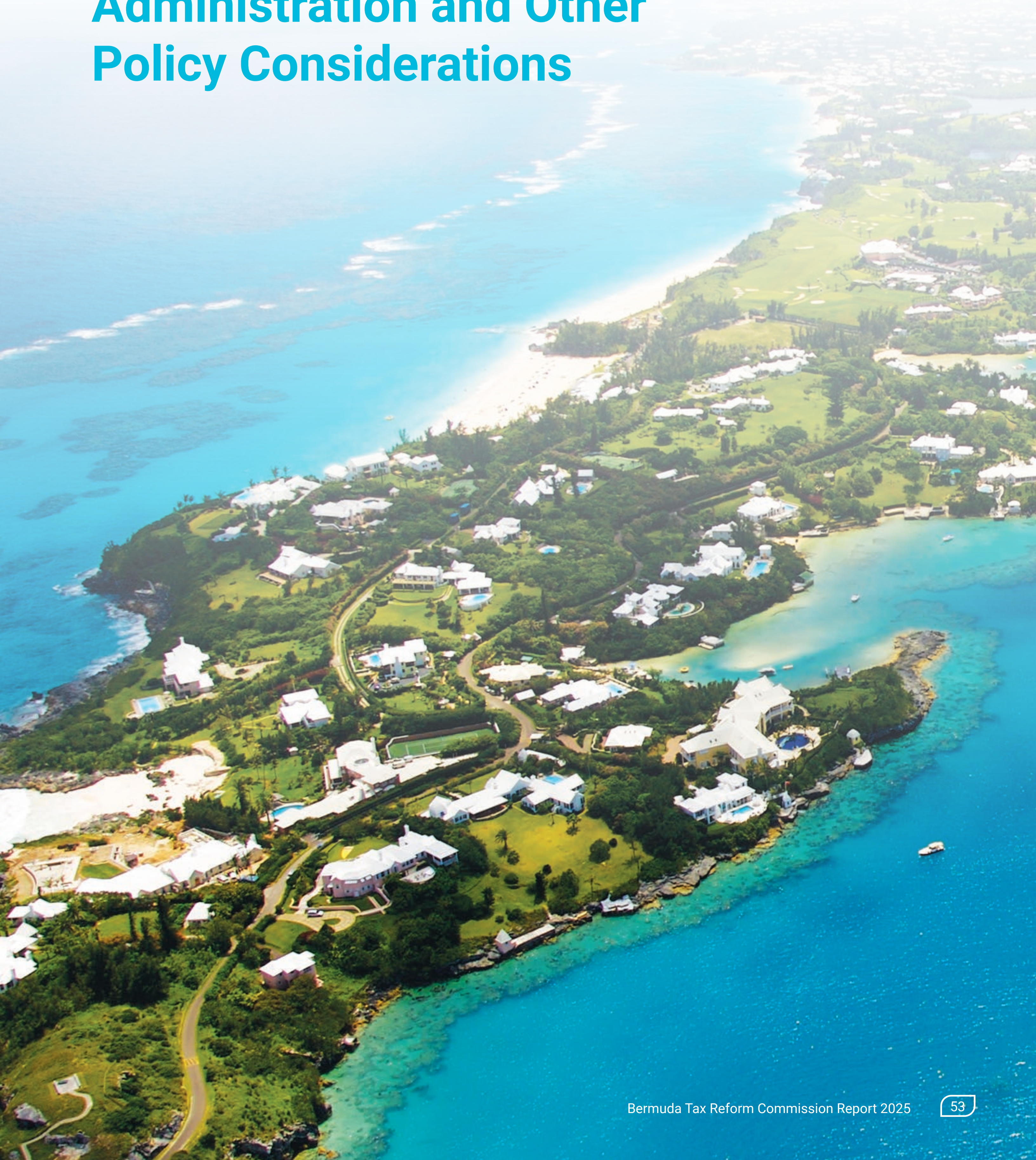
5.5.3 The TRC recommends that the Government develop and implement an Innovation Tax Credit which would be intended to encourage ongoing innovation in technical areas of specific relevance to Bermuda.

5.5.4 The Innovation Tax Credit would leverage relevant aspects of existing tax credits employed in other jurisdictions with appropriate modifications to align with key Bermuda industries. For example, the Innovation Tax Credit could be structured to support innovation in AI, data science, quantum computing, robotics, fintech, climate modelling, risk analytics, and product development which would have clear and direct relevance to Bermuda's economy.

5.5.5 The Innovation Tax Credit benefit would be determined as a fixed percentage of qualifying expenditures incurred with respect to activities primarily (i.e. 75% or more) undertaken in Bermuda.

5.5.6 The TRC recommends that detailed analysis regarding the potential structure of the Innovation Tax Credit should begin during 2025, with the objective of enacting the relevant provisions during 2026 or 2027.

SECTION 6:
Administration and Other Policy Considerations



6.1 Overview

6.1.1 It is essential that appropriate review, oversight, and administrative procedures are implemented to support the achievement of the desired outcomes from the incentive programmes summarized in sections 4 and 5.

6.1.2 While the TRC is not responsible for the application or processing, it is imperative that adequate safeguards, including verification and audits, are implemented by the Corporate Income Tax Agency.

6.2 Ongoing Review Considerations

6.2.1 The incentive programmes recommended by the TRC are intended to have a substantial impact on the nature and extent of economic activity in Bermuda. However, these incentives represent a new direction for the jurisdiction, and, given the lack of historical precedent, it will be difficult to precisely estimate the extent of the economic effects.

6.2.2 Concerns regarding this inherent level of uncertainty can be mitigated, at least in part, by various measures.

6.2.2.1 The incentive legislation should be carefully designed to support the desired outcomes and reduce the potential for unintended consequences.

6.2.2.2 To the extent possible, potential outcomes should be modelled based on available data.

6.2.2.3 Stakeholder input should continue to be obtained throughout the ongoing development process for the technical provisions.

6.2.2.4 As recommended, the Substance-Based Tax Credit should incorporate the Transition Factor to achieve a phased approach to implementation, allowing time to assess the effects of this incentive in a more measured environment and to make any necessary adjustments prior to the application of the full benefit rate.

6.2.2.5 The technical provisions should mandate appropriate data collection to support a detailed analysis of the effects of these incentives relative to a baseline. This analysis should be ongoing and should be performed on a timely basis to ensure that any significant issues or unintended consequences are identified and actioned.

6.3 Administrative Considerations

6.3.1 The proposed incentive programmes need to be carefully administered to support accurate and timely benefit calculations, while ensuring compliance with the benefit eligibility requirements.

6.3.2 Incentive legislation should be drafted in a clear and transparent manner which promotes certainty for taxpayers, while facilitating the administrative efforts of the agency tasked with the implementation and ongoing operation of the incentive regimes.

6.3.2.1 Eligibility criteria should be clear, verifiable, and require minimal discretion, thereby supporting self-assessment of benefit entitlements.

6.3.2.2 Incentive beneficiaries should be subject to appropriate reporting obligations to facilitate agency review and confirm that eligibility requirements have been met.

6.3.2.3 The administering agency should have sufficient powers and resources to enforce compliance with the incentive provisions.

6.3.3 To ensure consistency and efficiency, the TRC recommends that the proposed incentive programmes should be administered by a single Government agency which has sufficient resources and expertise to oversee the delivery of benefits and compliance with programme requirements.

6.3.3.1 The Corporate Income Tax Agency, which was formed in 2024 to administer the CIT provisions in Bermuda, would appear to be the most appropriate candidate to administer the various incentive programmes.

6.3.3.2 While not all recipients of the proposed incentive benefits will be subject to the CIT provisions, it is anticipated that much of the infrastructure being developed by the Corporate Income Tax Agency to administer the CIT provisions could be leveraged to support the administration of the incentive programmes (e.g. tax administration portal to support sophisticated filing requirements, development of team overseeing compliance with complex legislative requirements, etc.).

APPENDIX 1:
Incentive Programme Structures

Appendix 1

A1.1 The structural form of an incentive programme can have a profound impact on its ability to achieve the desired outcomes.

A1.2 Incentive programmes may be structured in a variety of forms, including:

A1.2.1 Government grants

Grants are cash payments made by governments to fund projects that are expected to provide public benefits.

Grants may be applied to a diverse range of activities and are often highly targeted to address specific governmental objectives.

Grant programmes may be administered by a variety of ministries within government, depending on the discrete activities the programmes are intended to support.

Grant programmes often have extensive qualification requirements and contemplate governmental discretion in the awarding of benefits, which may impose a significant administrative burden on grant beneficiaries and government.

A1.2.2 Tax rate reductions

A government may reduce the rate of tax applicable to specific activities, entities, or industry sectors in an effort to stimulate certain behaviours or attract investment.

Tax rate reductions tend to be more effective when applied within the context of expenditure-based tax systems. For example, a reduction in payroll tax rates may stimulate job growth within a jurisdiction, creating a direct link between the rate reduction and the activity it is intended to promote.

Tax rate reductions tend to be less effective when applied within the context of income-based tax systems, given that the benefit to the taxpayer is not directly tied to the activity that the benefit is intended to encourage. For example, a reduction in income tax rates which is intended to attract businesses to a jurisdiction may result in an increase in the level of profits allocated to the jurisdiction without a commensurate increase in local employment levels or tangible investment in the jurisdiction, thereby limiting the potential benefits to the local economy.

A1.2.3 Tax credits

Tax credits are a form of government incentive delivered via the local tax system which operate primarily as offsets against existing tax liabilities. Tax credits are generally calculated by reference to expenditures incurred in the jurisdiction and are tailored to promote specific activities. Unlike government grants, tax credits are generally structured to support self-assessment with clear eligibility criteria which do not require the application of government discretion. There are two primary categories of tax credits:

- Non-refundable tax credits (“NRTCs”): Non-refundable tax credits may only be applied to reduce an entity’s local tax liability. To the extent the potential value of a non-refundable tax credit exceeds the amount of tax available to be offset, no benefit will be derived from the credit. Non-refundable tax credits pose a lower degree of risk to governments (i.e. benefits can never exceed the amount of tax collected) but will generally result in a higher concentration of benefits to profitable entities which may not be consistent with policy objectives.

- Refundable tax credits: Refundable tax credits are applied to reduce an entity's local tax liability. However, to the extent the value of a refundable tax credit exceeds the amount of tax available to be offset, the benefit will be refunded to the credit beneficiary. Refundable tax credits pose a higher degree of risk to governments in that benefits can exceed the amount of tax collected, with the potential that benefit payments may need to be funded from other government revenue sources. However, refundable tax credits provide greater flexibility in reaching a broader range of beneficiaries.

Global Minimum Tax Considerations

A1.3 The introduction of the Global Minimum Tax Rules has had a significant effect on the design of incentive programmes in many jurisdictions.

A1.3.1 Incentive benefits are often delivered through a jurisdiction's tax system to facilitate administration and better coordinate benefit levels with available CIT revenues.

A1.3.2 The Global Minimum Tax Rules are intended to ensure that MNE Groups are subject to a minimum rate of tax in every jurisdiction in which they operate. This objective is achieved by applying one or more top-up tax mechanisms to undertaxed income in the jurisdiction.

A1.3.3 To the extent that a tax-based incentive benefit reduces an MNE Group's effective tax rate below 15% in a jurisdiction, the Global Minimum Tax Rules could effectively result in a recapture of some or all of the benefit through the application of top-up taxes, thereby inhibiting or negating the ability of the incentive to motivate the desired activity of behaviour in the granting jurisdiction.

A1.3.3.1 Traditional tax credit regimes often result in a reduction in the effective tax rate of the recipient and increased exposure to top-up taxes.

A1.4 The Global Minimum Tax Rules provide for a specific form of tax credit benefit, referred to as a Qualified Refundable Tax Credit ("QRTC"), which is substantially less likely to result in the imposition of top-up tax on the recipient.

A1.5 Tax credit regimes must meet a variety of criteria to qualify for QRTC treatment. Most notably, the tax credit regime must be designed such that the credit becomes refundable within four years from the date when the conditions for granting the credit are met. For this purpose, the term "refundable" means that the amount of the credit which has not already been applied to reduce the tax obligations of the credit recipient must be paid to the credit recipient in cash (or cash equivalent).

A1.6 Many jurisdictions have revised their incentive programmes to ensure appropriate alignment with the Global Minimum Tax Rules (including by revising existing tax credit regimes to qualify for QRTC treatment) to ensure these programmes continue to support the desired outcomes.

APPENDIX 2: Income Tax

Appendix 2

A2.1 The Fiscal Responsibility Panel made the following recommendations in its 2023 report:

A2.1.1 A move from the payroll tax, especially the employer element, to an individual income tax that would also tax income from capital. This would both make the system more progressive and could help reduce the cost of labour, especially for international business, thus boosting employment. The additional revenues from a CIT might mean that such an income tax could be introduced at relatively low levels by international standards, easing the transition and improving Bermuda's competitiveness.

A2.1.1 Such a tax would need to be designed carefully to ensure that it maintained – and if possible enhanced – Bermuda's attractiveness to those moving to the Island on either a permanent or a temporary basis. It may be advisable to adopt some form of remittance-based tax for those residing for only a few years — but these decisions should come within the remit of the TRC.

A2.1.3 Ideally, reductions in import tariffs would be combined with a move towards a broad-based consumption tax that would cover domestically consumed services as well as goods. Again, the increased revenues from the CIT mean this could be set at a relatively low level to maintain competitiveness, reduce costs for international business, and ease the transition. Such a tax would be applicable to hospitality services and thus would need to be coordinated with existing tourism taxes.

A2.2 Several stakeholders and members of the TRC similarly suggested that the Government should broaden the tax base even further by introducing a personal income tax regime and/or a corporate income tax regime that would apply to entities which are not subject to the recently enacted CIT provisions. These provisions could augment and/or replace various aspects of Bermuda's existing tax system.

A2.3 Proponents of this approach cited the desire for a more progressive tax system, and to ensure that Government revenues are supported by a broader subset of the activities which contribute to Bermuda's GDP (e.g. personal taxes expanded to apply to property ownership and investing, rather than just employment).

A2.4 Opponents of this approach cited the complexity associated with the development and implementation of a comprehensive income tax system, along with a belief that the incremental gains from such a system (particularly considering Bermuda's relatively small population) would not justify the related cost and effort.

A2.5 At present, insufficient data is available to model and assess the cost vs. benefit of developing and implementing a comprehensive personal and corporate income tax system in Bermuda.

A2.6 The TRC strongly recommends that the Government implement enhanced data collection regarding personal and business income, in addition to the revised payroll data collection procedures summarized in section 4.3.10.4. This data set could be used for future modelling to assess the relative merits of imposing a broader-based income tax system.

APPENDIX 3:
Tax Reform Commissioners

Appendix 3:

Darren Johnston, FCPA, FCA, CPA, CFA

Chairman; Chief Operating Officer of Orbis Investments, and a Director of Orbis Holdings Limited and other subsidiaries

Albert Benchimol

International Business representative; Former President and Chief Executive Officer and Strategic Advisor of AXIS Capital Limited

Brian Holdipp, JP

Progressive Labour Party representative, Counsel, MJM Limited

Dr. Claudette Fleming, Ph.D

General Member; Nonprofit Professional; Director Emeritus and former Executive Director of Age Concern

Chris Furbert JP

Bermuda Trade Union Congress representative; President of the Bermuda Industrial Union

Douglas De Couto, Ph.D., JP, MP (from November 2023 to January 2025)

One Bermuda Alliance representative; EVP Aspen Insurance Group

The Hon. Jeanne Atherden, FCPA, FCA, JP (from April 2025)

One Bermuda Alliance representative; Vice President, Paragon Brokers (Bermuda) Limited, Director BCB

Jonathan Howes, CPA, CA, MCSE

Bermuda Chamber of Commerce representative; Chief Executive Officer of Bermuda Press (Holdings) Limited and subsidiaries

APPENDIX 4:
Stakeholder Meetings

Appendix 4:

Stakeholders engaged with included representatives from:
Association of Bermuda International Companies
Association of Bermuda Insurers and Reinsurers
Bar Association
Bermuda Economic Development Corporation
BELCO
Bermuda Educators Focus Group
Bermuda Hospital Board
Bermuda Health Council
Bermuda Monetary Authority
Bermuda Trade Union Congress
Bermuda International Long-Term Insurers and Reinsurers
Chamber of Commerce – including three divisions
CPA Bermuda
Fiscal Responsibility Panel
HOTT 1075 radio show with Anthony Richardson
Insurance Advisory Committee
International Tax Working Group
Ministry of Finance
Non-Profit Alliance
One Bermuda Alliance
Registrar of Companies
Seniors Focus Group
Tax Commissioner
The Progressive Labour Party
Public Townhall
Youth Entrepreneurship Initiative
Youth Focus Group
US Consulate

APPENDIX 5: Mandate

Appendix 5:

The TRC has been tasked with incorporating the potential revenues that may accrue to the Government of Bermuda due to the implementation of the Corporate Income Tax Act 2023 ("CIT"); and to make policy recommendations to the Government for the establishment of a revised Bermuda tax system that achieves the following objectives:

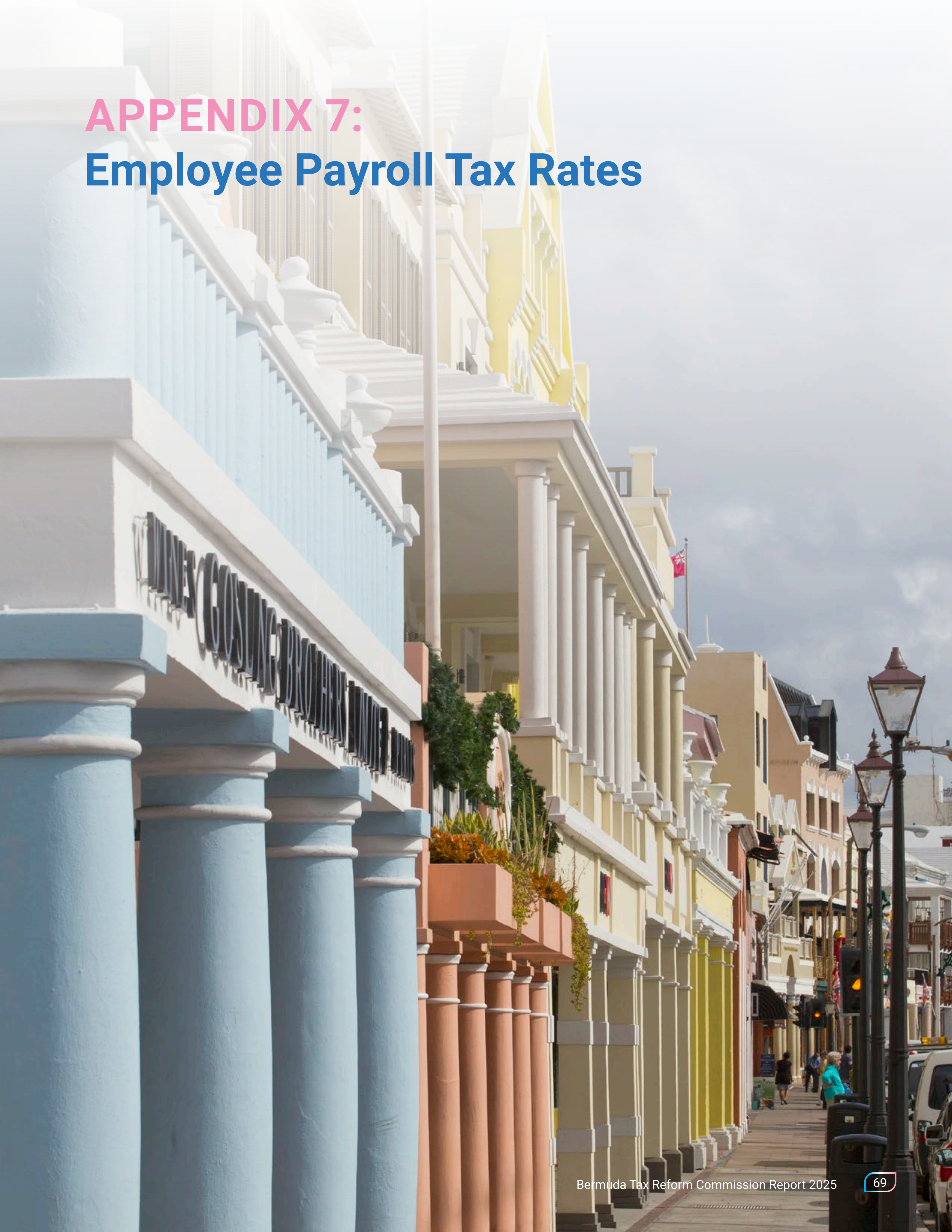
- To complement the CIT by making recommendations on how Qualified Refundable Tax Credits, and other permissible tax reductions or incentives might be implemented to ensure that CIT payers continue to contribute to and find Bermuda to be a fiscally attractive.
- To revise the tax system to enhance Bermuda's competitiveness from local and international perspectives.
- To reduce the impact of taxes on the cost of living and the cost of doing business in Bermuda.
- To broaden and balance the tax base, reduce the variability of revenues given the CIT, and consider alternate forms of taxes.
- To consider how the Government's revenue and reserves management can be improved and to recommend appropriate changes/guardrails to Bermuda's founding instruments such as the constitution, legislation, and/or policies.
- To engage and build trust with stakeholders to support the design and acceptance of the TRC policy recommendations.

APPENDIX 6:
Employer Payroll Tax Rates

Appendix 6:

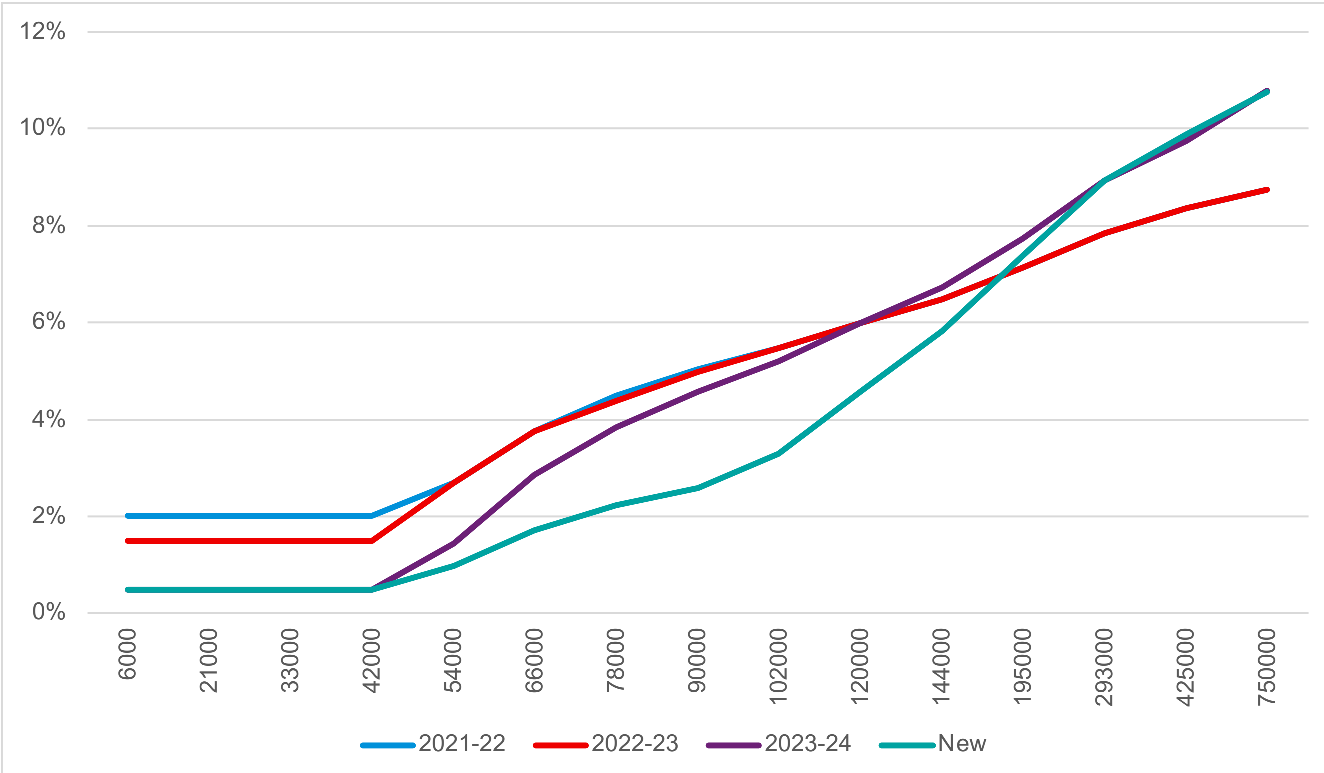
CLASS OF TAX PAYER	RATE 2024/25	RATE Phase 1	RATE Phase 2
The Government, Parish Councils, Government Boards, the Bermuda College, approved schools, registered charities, religious and cultural organizations and the Bermuda Festival Ltd., New Start-up businesses (4 quarters) and an employer in an Economic Empowerment Zone (9 quarters).	0%	0%	0%
New Hire remuneration and remuneration, *(excluding dividend and bonus payments)* paid to employees in Special Situations e.g. persons on jury duty or on duty with the Bermuda Regiment or Bermuda Volunteer Reserve, persons employed as farmers, fishermen or horticulturists, hotel and restaurant employees from November – March, retail employees from January – March, employees with permanent disabilities, employees on approved Training Schemes, persons or maternity or paternity leave, and persons hired as entertainers or musicians.	0%	0%	0%
Self Employed Farmers and Fishermen	0%	0%	0%
Taxpayers with an annual payroll less than $200,000 (or less than $50,000 p/qtr.), educational, sporting, or scientific institutions, associations or societies and horticulturists.	1.00%	1.00%	1.00%
Taxpayers with annual remuneration of not less than $200,000 and not more than $350,000 (or < $87,500 p/qtr.); the Bermuda Hospitals Board and the Corporations of Hamilton and St. George's	2.50%	2.50%	2.50%
Taxpayers operating a restaurant or hotel with an annual payroll of $350,000 or greater (>$87,500 p/qtr.).	5.00%	5.00%	5.00%
Taxpayers with annual remuneration of more than $350,000 and not more than $500,000 (>$87,500 up to $125,000 p/qtr.).	5.25%	5.25%	5.00%
Retail Establishments with annual remuneration over $500,000 p/a (or >$125,000 p/qtr.) and whose primary business is the sale of fashion, shoes, jewellery and perfume.	6.00%	6.00%	5.00%
Taxpayers with an annual payroll greater than $500,000 and up to $1,000,000 (>$125,000 up to $250,000 p/qtr.).	7.50%	7.00%	5.00%
Taxpayers with an annual payroll greater than $1,000,000 p/a (>$250,000 p/qtr.)	10.00%	7.00%	5.00%
All Exempt Undertakings	10.25%	7.00%	5.00%

APPENDIX 7:
Employee Payroll Tax Rates



Appendix 7:

Effective Payroll Tax rates based on Employment Income



The data for the report was derived from the Department of Statistics and the Ministry of Finance. The mid-point of each band was used for analysis. The data for the chart is included and shows wage band approximate worker distributions.

Estimated Effective Tax Rates Based on Recommended Employee Payroll Tax changes

					Effective	Effective
Wage	Median	% of Workers	2021-22	2022-23	Current	Revised - TRC
Under $12,000	6,000	4.2%	2.0%	1.5%	0.50%	0.50%
$12,000 to $29,999	21,000	7.4%	2.0%	1.5%	0.50%	0.50%
$30,000 to $35,999	33,000	4.3%	2.0%	1.5%	0.50%	0.50%
$36,000 to $47,999	42,000	11.4%	2.0%	1.5%	0.50%	0.50%
$48,000 to $59,999	54,000	15.4%	2.7%	2.7%	1.44%	0.98%
$60,000 to $71,999	66,000	10.3%	3.76%	3.76%	2.86%	1.72%
$72,000 to $83,999	78,000	9.7%	4%	4%	3.85%	2.22%
$84,000 to $95,999	90,000	7.7%	5.03%	4.99%	4.57%	2.60%
$96,000 to $107,999	102,000	6.9%	5.47%	5.47%	5.20%	3.28%
$108,000 to $131,999	120,000	7.4%	5.99%	5.99%	5.98%	4.57%
$132,000 to $155,999	144,000	3.8%	6.49%	6.49%	6.74%	5.82%
$156,000 to $234,999	195,000	5.8%	7.13%	7.13%	7.73%	7.38%
$235,000 to $349,999	292,500	3.3%	7.85%	7.85%	8.94%	8.92%
$350,000 to $499,999	425,000	1.4%	8.36%	8.36%	9.74%	9.89%
$500,000 and over	750,000	4.0%	8.74%	8.74%	10.78%	10.77%

APPENDIX 8:
Global Approach to Job Creation and Training Incentives

Appendix 8:

Tax incentives which incentivize job creation and employee training are a fundamental component of economic policy frameworks in various major economies. The overarching goal of job creation tax incentives is to promote employment growth by lowering the cost of hiring, making it more feasible for businesses to expand their workforce. By doing so, these incentives help stimulate local economies, reduce regional disparities, and support sectors critical to economic recovery and growth. Moreover, they often include provisions for skills development and training, ensuring that the workforce is equipped to meet modern economic challenges.

Across different regions, the implementation of job creation tax and training incentives varies, reflecting the unique economic challenges and priorities of each country. While some focus on reducing regional disparities by promoting employment in rural or underdeveloped areas, others prioritize sectors vital for economic recovery or growth. By leveraging tax policy, these incentives aim to create a favourable environment for businesses to expand their workforce, ultimately contributing to broader economic stability and prosperity.

Below are a few select examples of job creation and training incentives implemented in other jurisdictions.

Country/Region	Incentive Name	Description
Australia	Job Maker Hiring Credit	Offers financial support to businesses hiring young workers, encouraging employment post-COVID-19 pandemic, and fostering youth employment.
Brazil	Employment Generation Programme	Provides tax benefits to companies that create new jobs, aiming to reduce regional disparities and stimulate economic growth.
Canada (Nova Scotia)	Nova Scotia Jobs Fund	Provides financial assistance to businesses creating jobs in the province, supporting economic growth and development and attracting businesses to leverage Nova Scotia's skilled workforce.
China	Rural and Regional Job Tax Reductions	Provides tax reductions for businesses creating jobs in certain regions, promoting balanced growth.
France	Job Creation Support Scheme	Offers financial incentives to businesses that increase hiring of certain individuals, aiming to reduce unemployment rates.
Germany	Federal Employment Agency Subsidies	Offers subsidies to companies creating jobs in certain regions, reducing employer cost burdens and encouraging job creation.
India	Pradhan Mantri Rojgar Protsahan Yojana (PMRPY)	Incentivizes employers to create jobs by covering social security contributions for new employees, supporting job creation and workforce expansion.
Japan	Employment Promotion Tax Incentives	Provides tax relief to companies expanding their workforce, particularly in strategic sectors, to boost employment and economic growth.

Country/Region	Incentive Name	Description
Singapore	Skills Future Credit	Provides credits to individuals for skills development and training, enhancing workforce capabilities and employability, and promoting lifelong learning.
United Kingdom	Employment Allowance	Provides relief on National Insurance contributions for employers, encouraging job creation and reducing the cost of hiring.
United States	Work Opportunity Tax Credit (WOTC)	Provides tax relief to employers hiring individuals from targeted groups facing employment barriers, promoting workforce diversity and inclusion. This programme expires December 31, 2025.

APPENDIX 9:
Global Approach to R&D and Innovation Incentives

Appendix 9:

On a worldwide basis, expenditure-based tax credit incentives are generally structured to provide immediate financial relief to businesses engaging in research and development ("R&D") and innovation activities. These incentives typically cover a broad range of eligible expenses, including:

- **Payroll costs:** Compensation for researchers and technical staff directly involved in R&D activities.
- **Materials and supplies:** Costs of raw materials and components used in the development of new products or technologies.
- **Overhead costs:** Indirect costs associated with R&D and innovation, such as utilities and administrative expenses.

By reducing the upfront costs of innovation, expenditure-based tax incentives play a critical role in fostering technological advancement, economic growth, and global competitiveness. These incentives support businesses during the early stages of the innovation lifecycle, ensuring that R&D and innovation-boosting activities remain financially viable and sustainable. Refundable credits are particularly beneficial for businesses that are not yet profitable, as they allow companies to receive cash refunds for unused credits.

Below are a few select examples of R&D and innovation credits implemented in other jurisdictions.

Country/Region	Incentive Name	Description
Australia	R&D Tax Incentive	Provides refundable tax offsets for eligible R&D expenditures. Targets innovation in key industries to drive economic growth.
Canada	Scientific Research and Experimental Development (SR&ED) Tax Credit	Provides refundable and non-refundable tax credits for eligible R&D expenditures, including salaries, materials, and overhead costs.
France	Crédit d'Impôt Recherche (CIR)	Offers a tax credit on eligible R&D expenditures, including wages, equipment, and external research contracts.
Germany	Forschungszulage (Research Allowance)	Introduced in 2020, Germany's refundable R&D tax credit provides financial relief for eligible R&D expenditures, including wages, materials, and contract research.
Italy	Tax Credit for R&D Expenses	Provides tax credits for eligible R&D expenditures, including wages and external research contracts. Italy's incentive is designed to support innovation in strategic sectors.

Country/Region	Incentive Name	Description
Japan	R&D Tax Credit	Provides tax credits for eligible R&D expenditures, including wages and contract research.
Netherlands	WBSO (R&D Tax Credit)	Offers payroll tax credits for R&D labour costs, as well as allowances for non-labour R&D expenditures. Designed to reduce the cost of hiring skilled researchers.
Singapore	Research and Development Tax Incentive	Offers enhanced tax deductions for qualifying R&D expenditures, including wages, materials, and outsourced R&D activities. Strengthens Singapore's position as a global R&D hub.
South Korea	R&D Tax Credit	Offers tax credits for eligible R&D expenditures, including wages and materials.
United Kingdom	R&D Tax Relief	Offers enhanced deductions for eligible R&D expenditures. Refundable credits available for loss-making businesses.
United States	Research & Experimentation (R&E) Tax Credit	Offers tax credits for qualified R&D expenditures, including wages, supplies, and contract research. Incentivizes businesses to increase their R&D spending over time.

APPENDIX 10:
Global Approach to Housing Infrastructure credits

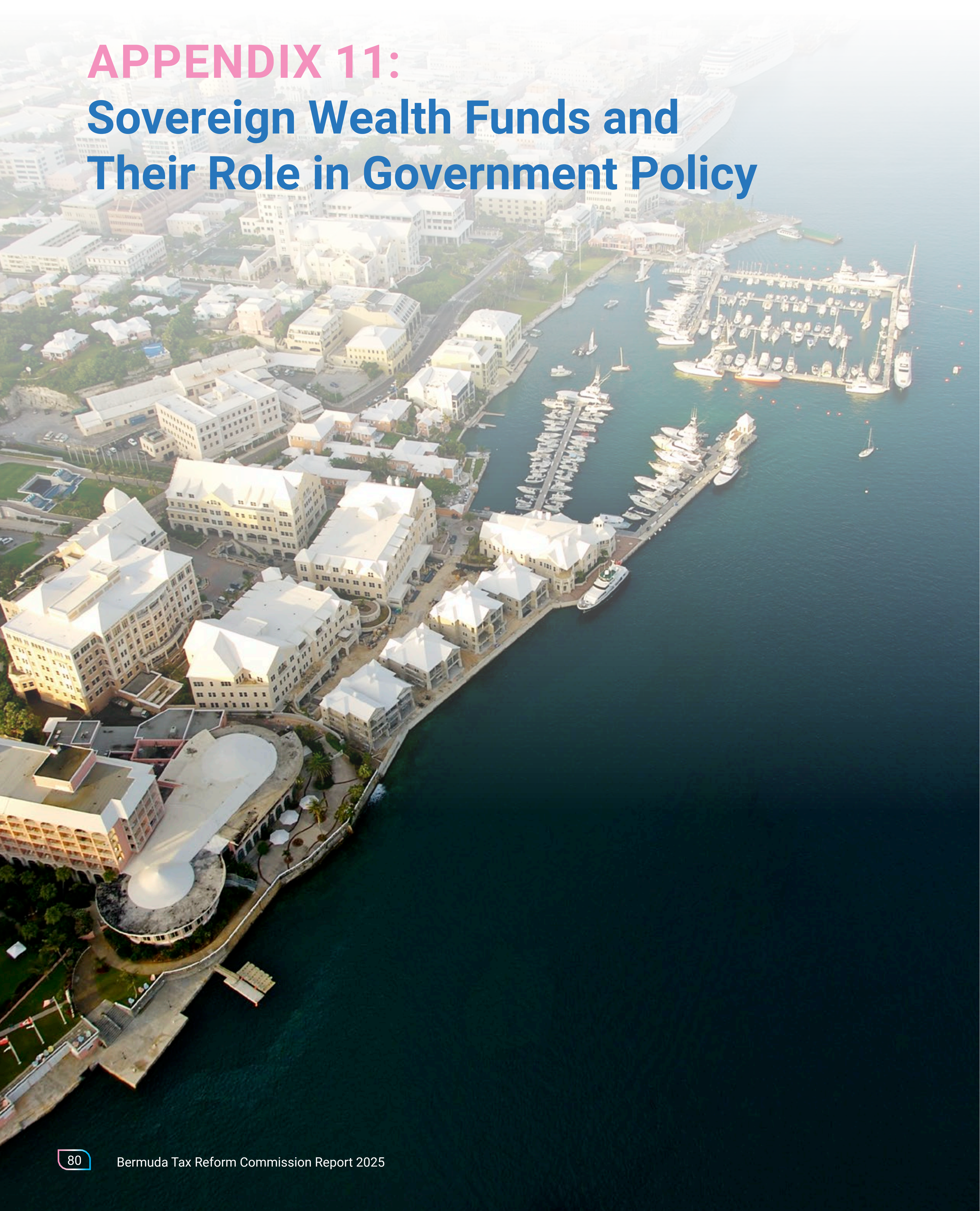
Appendix 10:

Housing tax credits are vital components of fiscal policy frameworks in various major economies. These incentives aim to stimulate investment in housing development and infrastructure projects by providing tax relief to individuals and businesses. Housing tax credits encourage the construction and renovation of housing, addressing housing shortages and promoting community development, economic growth and societal well-being.

Below are a few select examples of housing and infrastructure tax credits implemented in various jurisdictions.

Country/Region	Incentive Name	Description
Australia	National Rental Affordability Scheme (NRAS) Credit	Provides tax credits to developers and investors who build and rent affordable housing to certain qualifying households.
Austria	Housing Construction Subsidies	Offers financial incentives, including tax benefits, to developers for constructing affordable housing, promoting sustainable urban development.
Canada	Affordable Housing Tax Credit	Provides tax credits to developers who construct affordable housing units, promoting access to housing for low-income families.
Italy	Superbonus and Ecobonus	Offers tax deductions for energy efficiency upgrades, seismic retrofitting, and housing renovations, benefiting developers and property owners involved in improving residential buildings.
Japan	Urban Redevelopment Tax Credit	Offers tax credits to developers investing in urban infrastructure projects, including housing and public amenities.
United States	Low-Income Housing Tax Credit (LIHTC)	Offers tax credits to developers who build or rehabilitate affordable rental housing for low-income households.
United States	Opportunity Zones Tax Credit	Provides tax credits to investors funding development projects in designated economically distressed areas, including housing and infrastructure.
United States (New York)	New York Brownfield Redevelopment Tax Credit	Offers tax credits to developers investing in the cleanup and redevelopment of brownfield sites, including housing and infrastructure projects.

APPENDIX 11:
Sovereign Wealth Funds and Their Role in Government Policy



Appendix 11:

Sovereign Wealth Funds (SWFs) are government-controlled investment vehicles designed to manage large pools of state-owned assets with the aim of achieving various national objectives. These objectives can include diversifying assets, obtaining better returns on reserves, providing for future generations, buffer sustained downturns in economic conditions, and pursuing strategic and political goals. Historically, SWFs have often been created and funded in response to unanticipated increases in government revenues (e.g. additional tax revenue resulting from natural resource extraction) which are in excess of current government funding requirements.

One of the key motivations behind establishing SWFs is rooted in development economics, which explains both the funding sources and motives that have led to their rise. For commodity-rich countries, SWFs provide a mechanism to transform resource revenues into other forms of wealth, thereby avoiding the pitfalls of the "resource curse," where resource wealth is squandered rather than invested for future prosperity. In Section 3 the TRC describes a Future Fund that would be comparable to SWFs in other jurisdictions.

Examples of SWFs implemented in certain major economies:

Country	Sovereign Wealth Fund	Primary Objectives
Canada (Alberta)	Heritage Savings Trust Fund	Aims to invest in projects that would improve life in Alberta but would not provide a financial return, strengthen and diversify the economy and save money for the future when non-renewable resources had been depleted.
China	China Investment Corporation (CIC)	Improve returns on foreign exchange reserves, strategic investments in global markets.
Ireland	The Ireland Strategic Investment Fund (ISIF)	Sovereign Investment Fund with a mandate to invest on a commercial basis to support economic activity and employment in Ireland.
Norway	Government Pension Fund - Global	Intergenerational equity, reinvestment of oil proceeds into financial assets for future stability.
Singapore	Government Investment Corporation (GIC)	Economic diversification, efficiency gains, investment in global markets.
Singapore	Temasek Holdings	Focus on strategic sectors, economic diversification, and long-term value creation.
United Arab Emirates	Abu Dhabi Investment Authority (ADIA)	Diversification from oil, investment in tourism, aerospace, and finance sectors.