

Bermuda Government announces potential overhaul of employment taxes

Briefing Summary: In a Pre-Budget Report (PBR) announced to Parliament last week, the Government has set out its priorities for next year's budget. These include proposals to increase revenues via significant changes to the current employment tax regime.

Service Area: Employment, Pensions and Incentives

Location: Bermuda

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Perhaps the most headline-grabbing aspect of these potential reforms is the proposal to increase the employer portion of payroll tax for exempted companies, from 10.25% to 10.75%. This would represent the first time that Bermuda's exempted companies have been required to pay a different payroll tax rate to local companies.

The PBR also proposes changes to the employee portion of payroll tax, which would place a greater proportion of the overall tax burden on higher earners. Firstly, the Government has confirmed that it intends to follow through on its 2020 election pledge to eliminate the employee portion of payroll tax for those earnings less than \$48,000 a year, from the current rate of 1.5%. All of the other income bands would see an increase, with the top rate – payable on annual remuneration of over \$235,000 – going up significantly, from 9.5% to 13%.

The new rates, which the Government states would result in all persons earnings less than \$105,000 per annum paying less tax overall, would be:

Income Bands	Previous Rates	Proposed Rates
\$0 - \$48,000	1.50%	0%
\$48,001 - \$96,000	9%	10%

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\$96,001 – \$235,000	9%	11.50%
\$235,001 and above	9.50%	13%

The PBR further states that an increase in the cap on annual taxable remuneration, from \$900,000 to one million, is under consideration.

Notably, the Government has also confirmed that it intends to consider changing Bermuda's social insurance system, from a fixed-rate contribution to one based on a percentage of income.

Both measures, if enacted, would further increase the tax burden on high-earners and their employers.

Other initiatives discussed in the PBR include:

- The elimination of payroll tax for farmers, fishermen, educational, sport and science institutions, and small businesses with an annual payroll of less than \$200,000;
- The reduction of the employer rate for certain retailers, as well as hotels and restaurants with an annual payroll of less than \$200,000;
- The removal of temporary payroll tax concessions introduced to mitigate the impact of the covid-19 pandemic; and
- The Government's intention to lobby the US Government to permit US taxpayers to deduct their Bermuda employee payroll tax from their US tax liability.

Overall, the measures set out in the PBR represent the most substantial changes to Bermuda's employment tax landscape for many years. Significantly, they would result in a sizeable increase in the payroll tax bill for exempt undertakings (many of which cover some or all of the employee portion, as well as the employer portion), given the proposed changes to the employer rate, combined with the increase of the employee rates for higher-earners.

Consultation on the PBR is now open, with the public and stakeholders able to provide feedback on the proposals until 13 January 2023, before the Government announces the budget, possibly as early as February. We will continue to update our clients on important developments.

Please contact the Carey Olsen team if you would like to know more.

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