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Contents

04 Introduction to BIF&B 2020
05 Chairman’s Message
07 Charting a Path in a Changing World
08 A Salute to Bernell Arrindell, CBE, SCM
09 Strengthening Ties Between Bridgetown and Beijing
10 The BSE: Buttressing Barbados’ Re-emergence Through Strategic Alliances and International Recognitions
12 Barbados Facilitating Innovation – The Fintech Silicon Valley
13 The Fed’s New Inflation Paradigm
14 Barbados Economic Substance Test – An Overview
15 CASE STUDY: A Perfect Base for Growing Global Operations
16 Economic Substance in a Low Tax Jurisdiction
18 The State of Technology – A Review
19 Tax Convergence and Harmonisation of International Tax Laws
20 Jefferson, Europe and The Hopeful
21 CASE STUDY: Building a Modern Investment Company
22 Recent Amendments to the Companies Act
24 Barbados Overhauls Its Exchange Control Regime
26 Legislative Changes in the Insurance Sector
28 Barbados Private Placement Life Insurance: A Wise Choice in a Transparent World
29 Barbados-Based Assignment Companies – Helping Settle Litigation
30 Streamlined Banking Solutions for Captive Insurance Companies
32 ...and so much more
34 Investment Strategies for Captive Insurance Companies
35 New Opportunities for Insurance Companies
37 Residency by Investment – Barbados’ Treaty Edge
39 Barbados and the United Kingdom – Business Opportunities
41 Seven Little Bajan Secrets!
Barbados is an International Financial Centre located in the Caribbean. Not only is it a leader in financial services, the country has expanded in several areas including international schools, Information, Communications and Technology (ICT) and alternative energy. Historically, it has been the domicile of choice for Canadian parented companies looking to expand globally and compete on the world stage. More recently, a diverse base of companies domiciled in Europe and Latin America have selected Barbados as their jurisdiction of choice in order to connect with key markets, to base their cross-border finance companies or to locate their captive insurance company.

Barbados continues to expand its double tax treaty network and to refine its competitive advantages, which include attractive corporate tax rates, no capital gains tax, quality of life, time zone location and pool of employable people.

Barbados also continues to focus on implementing a new Organisation for Economic Co-operation and Development Base Erosion and Profit Shifting compliant framework and introducing Substance legislation with an implementation deadline of January 1, 2021. To this end the Barbados Government has passed the Companies (Economic Substance) Act, 2019-43, effective November 28, 2019 and the Barbados Economic Substance Guidelines was issued on December 4, 2019. Legislative changes have also been made to the Companies Act and Anti-Money Laundering legislation.

For international companies seeking a global financial centre, Barbados remains a domicile of choice. I invite you to consider Barbados.

With very best wishes
James Gardiner
Warm greetings!

Welcome to the 12th edition of the Barbados International Finance & Business, a new decade and a new era. We look forward with great anticipation to signal achievements for our nation and more specifically our business sector, throughout this decade.

At the end of 2019, Barbados celebrated the news from Standard and Poor’s that the credit rating of its foreign currency debt was upgraded to B-. This encouraging report is certainly a fillip for the growth prospects of the economy, as it will instill a renewed sense of confidence to the discerning investor seeking to set up business or expand operations in Barbados. The country is indeed on a positive trajectory and the Government has pledged to stay the course and continue charting an upward path through economic reform and transformation.

Another positive occurrence during the previous year was Government’s announcement that Barbados will re-engage the Asian market, through the establishment of an Invest Barbados office in Beijing, China. This office will complement the thrust of its existing offices in New York, Toronto and at headquarters in Bridgetown. China with its strong economy, is a world leader in technology, exports and manufacturing.

In addition to strengthening relations in Asia, the recent deepening of ties with African countries such as Ghana and Kenya reflect an expanded global outlook. Barbados has signaled to these countries its desire to forge ahead with proposals relative to education, financial services, health, information communication technology, renewable energy and trade, as well as forming air and sea linkages. Africa will continue to be on our dashboard in 2020 and beyond as we explore mutually beneficial opportunities for our respective countries.

We fully recognise the times ahead will be challenging. However, we are confident that the Barbados brand, a resilient brand, will withstand these tests. We will not be daunted by a swirling geo-political landscape, the uncertainties of BREXIT or unprecedented impact of the coronavirus pandemic. Together, as a nation, we will face each challenge and find the opportunities for progress and success therein. We must and we shall. We encourage all Barbadians, by birth, descent, choice and those who simply love the country, to visit and join hands in an effort “to build the best Barbados... together.”

I invite you to explore the real advantages of setting up business in Barbados. Make Barbados your domicile of choice. Together, let us work to achieve new levels of growth and prosperity, through 2030 and beyond!

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Barbados International Finance & Business 2020 Edition Published by Invest Barbados
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It is with a special sense of pride and purpose that I engage with you for the first time since assuming leadership of Invest Barbados.

Invest Barbados, together with key stakeholders, continue to position Barbados to become a premier centre for global business. Particularly, the Invest Barbados team is engaging the world, as it executes its mandate of landing sustainable foreign direct investment and international business for Barbados.

This comes at a time when the economy continues to improve, following the successful implementation of the first phase of the Barbados Economic Recovery and Transformation programme. In addition, the Barbados Stock Exchange (BSE) was recently acknowledged by Her Majesty’s Revenue and Customs as a Recognised Stock Exchange. This allows listings on the BSE to qualify for the Quoted Eurobond Exemption with the benefit of withholding tax of 20% on interest payments.

Developments such as these reflect the country’s determination to remain resilient, displaying the dedication and vigour necessary to resuscitate and propel the economy. Our strategy now must be to use the solid base laid over the past year to pursue initiatives that will result in increased investment activity and economic growth for Barbados. This must still be our focus in the face of the coronavirus pandemic.

Our strategy is also aligned with the nation’s push towards a digital economy, designed to make Barbados more attractive in the medium and longer term. Additionally, it is certain to drive the ease of doing business in the country closer towards efficiency and best practice standards. As this cultural shift becomes the country’s modus operandi, our ranking in the international arena will also become even more competitive.

Similarly, the recently enacted legislation will tangibly enhance the Barbados value proposition. For example, the Companies (Economic Substance) Act, requires that “Core Income Generating Activities” be conducted in and from Barbados. Locally based foreign enterprises can meet this requirement by adding value, mainly by employing more of our skilled human resources, and continue to enjoy the benefits of maintaining their entities in Barbados. Given the country’s well-educated workforce and a range of professional and business services, Barbados remains attractive to potential investors as a jurisdiction that can readily satisfy the substance requirements in place globally.

Barbados also stands to benefit from a new and unorthodox area of opportunity that has emerged - medicinal marijuana. The Government, recognising the advantages to be derived from this sector, recently passed the Medicinal Cannabis Industry Act, which provides a framework for engagement. The establishment of a regulatory authority is another positive step in the advancement of this sector.

The medicinal cannabis opportunity reinforces the ongoing appeal of our country. We invite investors pursuing interests in medical marijuana as well as other health-related areas, to look no further. Invest Barbados will continue to be a lighthouse, steering you not only to emerging opportunities, but supporting interest in more traditional areas including, global banking and insurance, financial technologies, wealth management, global educational services, renewable energy, niche manufacturing and information communication technology.

During 2019, Invest Barbados participated in exploratory business development missions to Ghana, Kenya and Morocco. Plans are in train to establish a new office in Beijing to reinvigorate business with China and further afield in Asia. We will continue to strategically target markets with the best prospects.

Best wishes for the year and decade ahead. Our team is keen to assist in building a stronger Barbados. Let’s help you to make your investment goals a reality.

Kaye Brathwaite
CEO
A Salute to Bernell Arrindell, CBE, SCM

Invest Barbados joins with stakeholders engaged in global business from Barbados in extending hearty congratulations to Bernell ‘Ben’ Arrindell, Silver Crown of Merit (SCM), who was honoured in the Queen’s 2020 New Year’s Honour List for his outstanding contribution to the international business services sector in Barbados. He was awarded the Commander of the British Empire (CBE).

Presently the Deputy Chairman of Cidel, he also serves as Special Envoy and Advisor to the Government of Barbados, consulting on business and product development in relation to Barbados’ global business sector. He is a member of Invest Barbados’ Board of Directors. Ben is an ‘in-demand’ speaker on the international tax circuit.

This international tax consultant has a wealth of experience in international business, having worked for over 30 years in the UK and Barbados. During his distinguished career, he has held several executive positions, which include International Tax Partner and Country Managing Partner for Ernst & Young Barbados, where he provided tax advisory services to major multinational companies and high net worth individuals. He was also a Chairman and Director of the Barbados Private Sector Association, as well as a member of the United Nations Committee of Experts on International Co-operation in Tax Matters. Ben spearheaded the Joint Policy Working Group’s Strategic Planning Subcommittee, which developed Barbados’ International Business Strategic Plan 2007 – 2012 and was also a member of the team that developed the 2014 – 2019 plan.

Over the years, Ben has consistently made significant contributions to the development of Barbados’ business sector. In fact, he served as an adviser to the Barbados Government since 1998 on double taxation treaty strategy, the development of new legislation, and the impact of international tax developments on Barbados’ attractiveness as a domicile. He was awarded the SCM in 2012 for services to Barbados’ international financial services sector.

During 2018, Ben was Chair of the Barbados International Business Association’s Taskforce, charged with the responsibility of revising Barbados’ international business legislation to ensure the country’s compliance with the Organisation for Economic Co-operation and Development’s Base Erosion and Profit Shifting Action 5 initiative. Successive governments have valued his expertise. Making the 2020 New Year’s Honours List has added yet another accolade to this accomplished gentleman’s portfolio of noteworthy recognitions.

The Invest Barbados team and industry partners publicly salute Bernell Llewellyn Arrindell, CBE, SCM, for his sterling service to Barbados and extend best wishes for many more years of success.
Strengthening Ties between Bridgetown and Beijing

Hallam Henry was recently appointed Senior Business Development Officer at Invest Barbados. He is responsible for attracting foreign direct investment from China.

Hallam’s language skills, including fluency in Mandarin, experience in living and working in China, as well as his understanding of the intricacies of navigating Chinese cultural norms and business environment, are among the assets he brings to this assignment.

During 2010, Hallam made the trek from Bridgetown to Beijing to commence a Bachelor’s degree in Computer Science & Technology. He became fluent in Mandarin during his time at China’s renowned Tsinghua University, where he developed an interest in increasing his knowledge of China and its relations with the world. He pursued a Master’s in Chinese Politics, Foreign Policy and International Relations. On completion, Hallam embarked on a mission to actively promote relationships between Barbados and other countries with the economic powerhouse that is China.

During his eight-year stint in China, Hallam frequently served as an interpreter for both Chinese and international clients, including assisting in negotiations between Chinese contractors and several Caribbean governments. He also collaborated with the Barbados Embassy at Beijing to facilitate meetings and orientations for visiting Barbadian delegations representing both the public and private sectors.

China is the world’s largest economy, measured by purchasing power and the second largest, by gross domestic product. Barbados was among the first group of English-speaking Caribbean countries to have established diplomatic ties with China in the 1970’s. In fact, Barbados and China established diplomatic relations in 1977, and since then, relations have continuously been enhanced, economic co-operation expanded and educational and cultural co-operation strengthened.

Barbados has a double taxation and a bilateral investment protection treaty with China. Barbados continues to successfully attract foreign direct investment from its traditional partners of Canada, the UK and USA. The establishment of an Invest Barbados office in Beijing will boost business from this market and complement its other overseas offices located in New York and Toronto. It will also be testament to the country’s expanded global outlook and commitment to strengthening business ties with China.
The BSE: Buttressing Barbados’ Re-emergence Through Strategic Alliances and International Recognitions

by Marlon Yarde and Terry Belgrave

Barbados is back and open for business! With an enhanced disposition towards pursuing its potential, Barbados has emerged from the throes of mundanity to reclaim its luster as the gem of the Caribbean.

The Power of Strategic Alliances

Barbados is peerless as the Caribbean’s nexus, with a plexus of alliances that have lasted a lifetime. This, as it were, is actually unsurprising: Barbados has always pursued partnerships for progress. Our treaty network for taxation is the most extensive in the region. Significant too is our framework for investment protection. Whether formalised (as treaties) or casual (as commitments), our combinations of alliances have been invaluable for development.

These partnerships have also been abiding for their practicality, augmenting our renown as a business jurisdiction. Barbados is respected for its commitment to good governance. We are trusted even further with fidelity to transparency. Only recently have these assertions been reinforced internationally when on February 18, 2020, the European Union (EU) removed Barbados from its ‘grey list’. This list comprises countries deemed non-cooperative for tax purposes. One can imagine therefore, the consternation from our inclusion. Barbados is also recognised for its reforms, joining just 49 other countries boasting global best practice.

The BSE Strategy

The Barbados Stock Exchange (BSE) is committed to excellence but has acknowledged however, that it needs to do more. Implemented today is a global strategy that is fit for purpose in an interconnected world. This strategy includes two main components:

1) developing key alliances with international exchanges
2) procuring formal recognitions from international regulatory bodies.

This strategy will be positive not only for our evolution but also for Barbados as a confluence for capital.

Building Partnerships

Strategic alliances are the BSE’s main mechanism for building partnerships towards international development. Signed are Memorandums of Co-operation (MoCs) with three key exchanges: the London, Nairobi and Guyana stock exchanges. While primarily serving as an information exchange mechanism, these MoCs have been invaluable in a wider context. The BSE is always welcomed to visit the London Stock Exchange, for example, an offer that was recently utilised by one of our executives while in London. These MoCs are expected to play a critical role in continuing to grow our network for cross listings between markets.

International Recognitions

Comparatively, the BSE’s other strategy of procuring international recognitions is decidedly substantive. These recognitions require significant investments of resources, both human and pecuniary, in order to be achieved. They remain, however, our contemporary focus. As an incremental step towards global credibility, the BSE recognises the value of their procurement. A handful of markets therefore have been strategically identified including Canada, the UK and USA; for starters. We are pleased as a result to announce our
Our treaty network for taxation is the most extensive in the region. Significant too is our framework for investment protection.

recent designation as a ‘recognised stock exchange’ by the UK. This was achieved on April 2, 2019, and positions us to offer:

1) eligibility for BSE listed securities to be included in both UK pension funds and UK Individual Savings Accounts (ISAs)
2) the potential for inheritance tax allowances to accrue to UK holders of BSE-listed securities
3) holders of satisfying BSE-listed debt securities to avail themselves of the Quoted Eurobond Exemption – a mechanism that ensures an exemption from withholding taxes on distributions.

The BSE intends, by the end of 2020, to procure similar designations in Canada and the USA. Though the benefits derived will be similar to the aforementioned, they will accrue instead, to residents of Canada and the USA respectively.

Future

The BSE is committed to globalising its reach, much like Barbados is committed to expanding its treaty network. We aim to support Barbados’ timely resurgence by becoming a platform with global connectivity. Not only has this empowered us to redefine our purpose, it has also positioned us as a market of the future.
Barbados Facilitating Innovation – The Fintech Silicon Valley

by Robert Simmons

Be innovative or facilitate innovation! In 2013 it was said that in order for Barbados to maintain an upward trajectory of economic development which is supported by foreign direct investment, this would be the approach it would have to consider. Forward to six years later, to a renaissance period of sorts, Financial Technology (fintech) has presented itself as the innovative opportunity by which Barbados could be a facilitator for both local and international investors. Having recently assisted in establishing the world’s first tokenised Blockchain stock exchange in Barbados, this belief is more than just a creative marketing soundbite.

In recent times, the understanding of fintech for most has been limited to the marketing hype of bitcoin and for others, it has received similar apprehension as did the introduction of debit and credit cards. However, a greater appreciation for fintech is understood where financial technologies such as blockchain are adapted to financial service sectors in a way that transform the daily lives of individuals, the way investors and businesses interact, the way that transactions become more secure and transparent and as a whole, ultimately improves the accessibility, efficiency and expediency of doing business.

Though other jurisdictions such as Switzerland, Singapore and Estonia have made concerted efforts to facilitate fintech start-ups, Barbados is doing it in a way which is reminiscent to the earlier days of Silicon Valley, USA. Barbados is becoming the hub that facilitates the facilitators. This is essentially the mantra by which Silicon Valley has posed to illustrate to start-ups and the big players in the tech industry. The point is that Barbados can, and in some ways, has already started to set itself apart by being the home for fintech companies, which act as the platforms of the industry as a whole or push the boundaries as pioneers.

Consider Bitt Inc. (Bitt), an inward and outward thinking Barbadian fintech company whose initial existence was merely as a fintech company with specific emphasis on BitCoin. Since then, following significant investment from global brand Overstock.com, Bitt has shut down its generic blockchain exchange and has partnered with the Eastern Caribbean Central Bank to pilot a project creating the world’s first Central Bank backed digital currency.

Another major achievement for the jurisdiction has been the recent licensing of the world’s first tokenised Blockchain digital asset stock exchange, DAXNET BB (Barbados) Ltd. Tokenise International Limited, a mature fintech company based in Gibraltar, set it sights to create an exchange which removed all inefficiencies of traditional exchanges. Through this platform, Tokenise aims to create a market and trading infrastructure that will provide wider access, unlock liquidity and deliver flexibility to investors keen to buy or sell tokenised assets - ultimately generating more investment opportunities and offering access to institutional and qualified investors around the world.

What we are witnessing here is essentially the birth of start-ups with the potential of becoming juggernauts such as the likes of Google, Apple, etc., within the fintech industry. This possibility becomes even more achievable where they have situated themselves in a jurisdiction which understands business facilitation. From the operational and investor perspective, Barbados positions itself as a one-stop shop. By being a major player in the international business and financial services sector for a number of years, Barbados is capable of providing the legal support, technical workforce and being a natural destination location. Further to this, Barbados under the leadership of Prime Minister Mia Mottley, Q.C., M.P., has also projected itself as a jurisdiction willing to work with experts to improve their regulatory framework in an effort to offer an environment conducive to innovative sectors such as the fintech industry.
The Fed’s New Inflation Paradigm

by Ryle Weekes and Carlos Stevenson

On Feb 2, 2018, the US Bureau of Labor Statistics reported a 2.9% increase in average hourly wages, an indicator closely monitored by markets as a key determinant of inflation. That day the Dow Jones Industrial Average fell 665 points or 2.5%, and 1,175 points or 4.6% the following trading day. This essentially marked the end of what had been successive highs in US stock markets. It also marked the end of historically low levels of volatility as well as arguably the largest shift in market sentiment in almost a decade.

CPI and PCE

So what exactly is inflation and how is it measured? The most commonly reported indicator is the Consumer Price Index or CPI. This tracks the prices an average person pays for a fixed basket of goods. The Personal Consumption Expenditure or PCE is the Federal Reserve System’s (Fed’s) preferred measure and is based on the personal consumption component of GDP. This measures actual US household expenditures rather than the price movement of a ‘typical’ basket, and is seen as a more appropriate measure as populations shift from radios to Walkmans to iPhones. “Core” PCE excludes the price effect of food and energy which is believed to add volatility.

Stable Prices

The pillars of the Fed’s dual mandate are maximising employment and promoting stable prices. Since 2012, the latter has been defined as maintaining a long term inflation target of 2%. Much like the porridge in the Goldilocks’ story, inflation has to be just right for the economy to be on a sound, long term path. Too hot and this risks the economy overheating as the prices of everyday goods increase much faster than the price of wages. Too cold and the much greater threat of deflation lurks menacingly on the door step. This is the decrease rather than increase in prices, causing individuals and businesses to defer spending, which itself results in prices falling even further, a downward spiral which can be a boogieman for central bankers. To achieve this balancing act the Fed deploys its primary tool of monetary policy, slowing down or stimulating the economy as they see fit.

The Changing Inflation Landscape

The entire landscape on which this inflation battle has been fought has completely changed. Advances in robotics increase the downward pressure on wages, and this is only likely to accelerate in the future. Globalisation and the ability to import deflation by purchasing cheaper Chinese or Vietnamese products has also significantly impacted the longer term inflation picture. The Phillip’s rule, which states that as unemployment decreases, wage increases put upward pressure on inflation, has been under greater scrutiny as we face historic low unemployment rates and simultaneously low and stubborn inflation. And then there is Amazon! With a business model based on low margins, high volumes and global sales, The Everything Store exerts pricing pressure on every sector it touches and a few sectors it just winks at.

Japan’s Experience

The story of Japan’s inflation experience reads like a cautionary tale for central bankers worldwide. Following the bursting of the asset price bubble in the late 80’s the Japanese economy has suffered from two decades of economic malaise and stagnating wages and prices. Despite zero interest rates and quantitative easing aimed at injecting liquidity into the market and supporting asset prices, annual inflation in Japan has remained less than 1%, in 17 of the last 20 years, with negative rates in half of those years. This expectation of sustained low prices as well as a deteriorating demographic landscape, continues to dampen consumption and the prospects for longer term growth.

Unchartered Path

Over the last 18 months, the Fed has attempted to walk the fine line between applying just enough brakes in the face of unwarranted fiscal stimulus to avoid the US economy overheating, and deploying just enough monetary stimulus to prolong the market expansion; their eyes keenly focused on inflation. While higher wage and asset prices could signal a hawkish period to market participants, the much greater concern however, is a period of sustained low inflation, which resists the most powerful weapons in the Fed’s arsenal. ✻
Barbados Economic Substance Test – An Overview

by Liza A. Harridyal-Sodha

The Companies (Economic Substance) Act, 2019-43 (the ESA) enacted on November 28, 2019, is the latest iteration of economic substance legislation in Barbados, and repeals the Business Companies (Economic Substance) Act 2018-41. The ESA is accompanied by the Economic Substance Guidelines (the Guidelines), which provide guidance on the scope and application of the ESA. While the enactment of regulations and further publication of “sector-specific guidance” is forthcoming, the ESA and Guidelines currently provide a clear and certain framework for economic substance compliance and enforcement in Barbados.

The ESA targets companies engaging in geographically mobile business activities which must demonstrate that their business operations involve real economic activity in Barbados. The ESA applies to Barbados resident companies which derive income from carrying on one or more relevant activity, namely: banking, insurance, fund management, finance and leasing, headquarters, shipping, holding companies, intellectual property, distribution and service centre business. This effectively applies to entities that existed prior to January 1, 2019, except those entities that are grandfathered in which the date is January 1, 2021. For entities established after December 31, 2018, the effective date is the date of commencement of the relevant activity. Resident companies are required to satisfy the Economic Substance Test (the ES Test) prescribed by the ESA. The ESA does not apply to unincorporated associations, partnerships, trusts and entities that are tax resident outside of Barbados.

The Tests

A resident company meets the economic substance test in relation to a relevant activity carried on by the company where it conducts its core income generating activities in Barbados, and the company is directed, managed and controlled in Barbados in relation to that activity. There are two components to the ES Test; a core income generating activities test (the CIGA test), and a direction and management test (the management test). A resident company that is carrying on more than one relevant activity is required to satisfy the ES Test in relation to each relevant activity.

The CIGA test focuses on activities that are of central importance in terms of generating income and requiring that there is proportionate operational expenditure, physical assets and employees with regards to the level of income earned from the performance of such activities. Companies may outsource the performance of CIGAs to local service providers, providing that the company is able to monitor and control such performance. Where CIGAs are outsourced, the resources and employees of the service provider can be treated as those of the resident company for the purpose of determining whether the employees and physical assets element of the CIGA test is met.

The management test is concerned with ensuring that important and strategic company decisions are made within Barbados. The test is satisfied where the directors hold meetings in Barbados, where a quorum is physically present, the directors have the necessary knowledge and expertise and the company records are maintained in Barbados. What constitutes an adequate number of meetings in Barbados will be dependent on the relevant activities of the entity.

The ESA also prescribes a reduced ES Test which applies a less stringent criteria for single purpose equity holding companies, and companies that are beneficially owned or controlled by Barbadian residents, that engage in a relevant activity exclusively in Barbados and derive income solely from such relevant activities. Companies subject to the reduced test must demonstrate that they have adequate human resources and physical assets in Barbados, and are compliant with all applicable regulatory requirements.

Compliance

In order to demonstrate compliance with the ES Test, companies must submit a Declaration on an annual basis in the prescribed form to the Director of International Business. The Director is responsible for determining whether the ES Test is met and must render a decision no later than four years after the date of filing of the Declaration. The Director applies a “principles-based” approach to the determination which offers a degree of flexibility, and there is no prescribed minimum/maximum number of full-time employees or other personnel for a particular level of
The notice will also indicate the amount of penalty imposed, and the due date of the penalty. Additionally, it will indicate what action the Director considers should be taken...

income either generally or for any particular type of relevant activity.

The Guidelines also impose a requirement that companies retain documentary records (including those stored electronically) for a period of six years. The Director or a person authorised by him has the power to enter the premises of a company to examine/make copies of any business document, for the purpose of investigating any issue of compliance with the ESA.

Consequences

Where the Director determines that a company has failed to meet the ES Test, that company will be issued a notice and reasons for such failure. The notice will also indicate the amount of penalty imposed, and the due date of the penalty. Additionally, it will indicate what action the Director considers should be taken by the company to meet the ES Test, and the company’s right to appeal the imposition/amount of the penalty.

The penalty for failure to meet the ES Test can be up to US$150,000. Where a company fails the ES Test after two consecutive years, the company may be struck off the register. There is also a penalty of US$5,000 for failure to provide information or for intentionally providing inaccurate information in the Declaration, or where the person filing the Declaration subsequently discovers some inaccuracy and fails to take reasonable steps to inform the Director.

Where a company has failed to meet the ES Test, the Director will forward the information to the Barbados Revenue Authority, who in turn forwards it to the foreign competent authority of the holding and/or ultimate holding company of the delinquent resident company and its ultimate beneficial owner.

It is noteworthy that companies in Barbados have generally operated based on the principles and requirements set out in the ESA and the Guidelines, and therefore apart from the reporting requirements, resident companies will not find compliance with the ESA onerous. *

CASE STUDY

AFM International Inc. represents the Endurance brand of conveyor belting, managing the manufacture and global supply of a world-class product for some of the largest mines, construction companies and capital works projects across the globe. Our products are engineered in Canada, manufactured in China and delivered to customers on every continent, with heavy emphasis on the Americas and Europe.

We incorporated in Barbados in 2011. With 25 years of experience in our industry, Barbados was chosen as the location of our international office because of its rich history of commerce, as well as the stellar reputation the island has for international business. Barbados works hard to establish a solid reputation for integrity and transparency, built on a foundation of sturdy regulatory framework which consistently attracts substantive businesses to its shores rather than solely ‘brass plate’ companies.

The island offers a mix of tax treaties, favourable legislation, world-class telecommunications and solid legal framework, in addition to a highly educated and well qualified workforce. Local companies consistently provide professional services of a first-world standard and the island’s sophistication in supporting international business, has made it the perfect base for our growing global operations.
Economic Substance in a Low Tax Jurisdiction

by Louisa Ward

When the Organisation for Economic Co-operation and Development (OECD) embarked on the initiative to eliminate perceived Base Erosion and Profit Shifting, several international financial centres across the globe were viewed as having harmful and potentially harmful tax practices. Ring fencing of certain sectors thus created an uneven tax playing field in the jurisdictions. At that time there were two main tax rates in effect for Barbados, 25% for domestic companies and a maximum of 2.5% for companies operating in the international business sector.

Consequently, Barbados was identified as one of those jurisdictions that had in place a ring fenced regime. The island embarked on a monumental exercise to meet the criteria set out by the OECD and subsequently by the European Union (EU) in order to remove ring fencing and to maintain the country’s reputation as a premium jurisdiction with which to do business in the international financial services sector.

In December 2018, Barbados modified its legislative framework, most notably the repeal of the International Business Companies Act and the removal of offending provisions of other enactments, which were deemed to proliferate ring fencing. The Income Tax Act and the Companies Act were also suitably modified to achieve the convergence of the corporate tax rates at a new rate of 5.5% to 1% for all entities. Entities which were eligible to be grandfathered by virtue of their incorporation prior to October 17, 2017, maintain the maximum tax rate of 2.5% until June 30, 2021. On completion of these amendments and with the introduction of Economic Substance legislation, Barbados was then considered by the OECD and EU to be compliant.

For low tax jurisdictions the focus on fair taxation states that a jurisdiction should not facilitate offshore structures or arrangements aimed at attracting profits which do not reflect real economic activity in the jurisdiction. The implication was that profits were being shifted from high tax jurisdictions to low tax jurisdictions where there was no activity. To address this, the Companies (Economic Substance) Act came into effect in November 2019, and provides for the imposition of an economic substance test on companies carrying on business in Barbados.

<table>
<thead>
<tr>
<th>Relevant Activities</th>
<th>Economic Substance Test</th>
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<tbody>
<tr>
<td>- Banking</td>
<td>- The entity must be managed and controlled in the jurisdiction</td>
</tr>
<tr>
<td>- Distribution and service centres</td>
<td>- The core income generating activities must be undertaken with respect to the relevant activity in the jurisdiction</td>
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<td>- Finance and leasing</td>
<td>The company should have adequate:</td>
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<td>- Fund management</td>
<td>- physical presence</td>
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<td>- Headquarters</td>
<td>- full-time employees with suitable qualifications, who can be outsourced to third party service providers within the jurisdiction but with the company maintaining an adequate level of oversight and control of the functions</td>
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<td>- Holding companies</td>
<td>- operating expenditure must be incurred</td>
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<td>- Insurance</td>
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<td>- Intellectual property holding</td>
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<td>- Shipping</td>
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All companies must be resident in Barbados by way of management and control and should take the opportunity to review their modus operandi to ensure that they are controlled, managed and directed from Barbados.

Barbados stands ready to provide the environment to facilitate continued business activity in the international financial services sector. We have the people and the infrastructure to make business work!

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The State of Technology – A Review

by Lily Dash

The fintech future of finance is holistic, inclusive and mobile front-facing. In this article, a brief overview of the need for a bold embrace of fintech solutions is provided, supported by developments in the Barbadian market, and with a ground-breaking Caribbean platform – Rexy!

Banking in its present format can be exclusionary, leaving significant portions of the population without access to banking facilities (un-banked), often physically tethered and expensive. Currently, a host of financial market utilities provide the infrastructure for transferring, clearing and settling transactions among financial institutions. The current method is prohibitive due to its complexity and high settlement costs, leaving out small investors.

Modern financial technology reduces friction and the need for trusted third parties by vertically integrating the value chain’s core components – trading, clearing and settlement – in an elegant, efficient, mathematical manner. The enforcement of traditional contracts is costly and time-consuming where the cost of enforcement could equate to an amount larger than the original investment. Smart contracts can help to solve this specific problem! Smart contracts are coded and digitally recorded on a blockchain, which provides a host of benefits. Smart contracts are autonomous, do not require external verification or action and are self-executing; as a consequence they provide a more efficient and less costly alternative.

This recognition has led to Barbados making great strides in the securities and fintech industry with the approval of the new International Securities Market Special Listing Facility Rules of the Barbados Stock Exchange (BSE). It includes a provision to support property rights using legal and regulatory technology - it integrates smart contracts! Series 9000 defines a digital asset as a cryptographically secured digital representation of a set of rights provided on a digital platform (token), issued or created (or to be issued or created) for commercial exploitation or reward and which are exchanged and traded or cleared on a blockchain. This provides for digital assets to be traded on electronic trading systems and listed on the BSE.

This facility provides legal situs and characterisation as well as verification and validation on a nationally and internationally recognised stock exchange. The BSE is a Recognised Stock Exchange in the UK by Her Majesty’s Revenue & Customs. Thus securities listed on the BSE may be entitled to benefit from the Quoted Eurobond Exemption, a key prerequisite for debt capital markets. The recognition encourages investment by UK pension schemes, which exposes Barbadian securities to a large market of sophisticated well-capitalised investors. The recognition supports several tax advantages and positive developmental outcomes.

Beyond foreign investors, new E-crowd investing platforms like Rexy.com powered by legal and regulatory technologies, provide an opportunity for local (small-scale) investors to transform the investment landscape. Despite the existing surplus of unproductive capital in the form of liquidity in the system, there are limited options to access investable assets. This occurs for two reasons: the limits of equity financing and the large-scale investments required. The need for equity financing throughout the region is very real with most banks only willing to lend 60% on commercial projects. Likewise, large property-related investable assets have been historically limited to wealthy individuals or financial institutions because of the minimum capital requirements. Equity crowd-investing can, therefore, challenge these two sources and provide a sustainable solution to funding the equity required to make these projects a reality.

Fintech enables investors to provide smaller amounts of capital in exchange for electronically tradable equity and electronically distributed dividends into investors’ smart wallets. The solution will increase access and support for private-public participation and collaboration, opening up new forms of capital flow and financing opportunities to underserved communities and projects. In essence, communities can participate in the funding of their own communities and vote with their capital on the projects that are the most important to them. Rexy is therefore positioned to become an important tool to address the limited access to investable assets faced by Caribbean citizens on the one hand, while contributing to capital formation opportunities for regional developments.
Tax Convergence and Harmonisation of International Tax Laws

by Javier Lemoine

If one compares the tax laws of any two countries, the most obvious finding is divergence, which provides taxpayers with the opportunity of exploiting differences and inconsistencies in tax regimes to achieve mismatches in tax outcomes.

The Organisation for Economic Co-operation and Development (OECD) has encouraged rapid change in the international tax rules, as the Base Erosion and Profit Shifting (BEPS) package contains a number of recommendations to introduce coherence in the domestic rules that affect cross-border activities.

Tax harmonisation is generally understood, as a process of adjusting tax systems of different jurisdictions in the pursuit of a common policy objective. Tax harmonisation implies convergence toward a more uniform effective tax burden on income and value creation. Perhaps the most widely accepted argument for harmonisation involves convergence in the definition of product value and income for tax purposes. Such tax base harmonisation contributes to transparency for economic decision-making and efficiency in resource allocation. In particular, a common tax base for multinational companies operating in different jurisdictions is instrumental not only in enhancing tax efficiency, but also in preventing overlaps or gaps in tax claims by different jurisdictions. Tax harmonisation is an important part of the fiscal integration desired by the OECD.

However, the point to be addressed here is not the adoption of the recommendations contained in the BEPS package, but rather asserting whether a degree of convergence and harmonisation in tax laws relevant to the Barbados international business and financial services sector have emerged as a result of the pressures imposed by the OECD and the European Union. We are of the view that tax harmonisation can already be detected in certain areas and set out below are two relevant examples:

1. In November 2018, the OECD released a report entitled “Resumption of Application of Substantial Activities Factor to No or only Nominal Tax Jurisdictions”, which required zero and low tax jurisdictions to enact economic substance legislation. Although the statutes are not identical among the affected countries, they followed closely the approach taken to address the same issue by the Crown Dependencies of the UK, resulting in a significant degree of homogenisation among the relevant countries affected by the release of the mentioned report.

2. Another example of tax harmonisation is the adoption of the recommendations contained in BEPS Action 13, in which countries are directed to implement a standardised approach to transfer pricing documentation, which consists of a three-tiered structure: (i) master file; (ii) local file; and (iii) Country-by-Country Report (CbCR). In order to facilitate a consistent implementation of the recommendations, a CbCR implementation package is included in the Action 13 Report. This implementation package consists of the following:

   a) model legislation, which could be used by countries to require the ultimate parent entity of a multinational group to file CbCR in its jurisdiction of residence, including backup filing requirements
   b) three model Competent Authority Agreements that are to be used to facilitate implementation to exchange CbCR, respectively based on the:

   - Convention on Mutual Administrative Assistance in Tax Matters
   - Bilateral Tax Conventions
   - Tax Information Exchange Agreements.

In summary, the above is merely a short illustration of harmonisation. Other examples can be given, some of which might also be attributed to globalisation. For example, the rising popularity of Value Added Tax can be seen as a shift from primary reliance on taxing income on capital to a primary reliance on taxing consumption, which is equivalent to shifting the tax burden from capital to labour. Overall, the world is too diverse to have harmonised tax laws, but like Barbados, convergence and harmonisation have already occurred.*
Jefferson, Europe and The Hopeful

by Sir Trevor Carmichael, Q.C.

Thomas Jefferson, the American President lived from 1743 to 1826 and during that celebrated lifetime, he is credited with many prescient comments in his myriad speeches and letters. In his inaugural address in 1801, his following remarks were at the core of our current 21st century international regulatory challenges: “Sometimes it is said that man cannot be trusted with the government of himself. Can he, then, be trusted with the government of others? Or have we found angels in the form of kings to govern him? Let history answer this question.”

The current century and more particularly, the past 25 years have coalesced with a burgeoning and ongoing international regulatory struggle between the financially powerful and those seeking to be empowered with some of the private wealth of the powerful. It has ebbed and flowed with constant multilateral discussion and debate, negotiation and narration as well as promises and publications. Barbados has been at the core of this global financial battle and at one point around 2000, took on actual leadership when the strictures were canonical within the rubric of “Harmful Tax Practices”.

More recently in 2013, the Base Erosion and Profit Shifting (BEPS) emerged as a continuing but more poignant attack on the outer circle of jurisdictions including Barbados. For the first time, the Organisation for Economic Co-operation and Development (OECD), the G20 group of countries and non OECD member countries combined to, in their minds, fight tax competition, tax evasion and general abuse of tax rules. With over 12 action plans, the OECD as leader, sought to build a new platform for intra jurisdictional interaction in subject areas such as: the new digital economy; harmful tax practices; transfer pricing, and its related documentation with country by country reporting; a multilateral instrument to implement BEPS; the limiting of base erosion from interest deductions and other financial payments; the prevention of misuse of the “Permanent Establishment” status within treaties; modalities of analysis of BEPS data and the necessary action; the disclosure of aggressive tax planning schemes; and dispute resolution which is effective.

These elements have all coalesced and combined into the recent economic substance requirements, which have taken on a life of their own and sought to impose on Barbados and other international financial centres a new standard for living as opposed to a new standard of living. The response from Barbados has been a strident effort to meet this new regulatory pressure and like many of the other international financial centres, Barbados has heralded the introduction of new economic substance legislation as a positive new feature of its legislative architecture. Barbados, indeed, may however be well placed to take advantage of the new substance requirements as a result of its historical double tax jurisdictional status. For the associated “mind and management” and/or “central management and control” concepts – depending on the treaty and jurisdictional origin – were often not followed, since they were not prescribed by statute and assumed substance and relevance from case law. Indeed, the Barbados shelf company had never taken on a jurisdictional life of vigour and it gradually continued to languish towards its virtual demise. The new economic substance legislation calling for actual presence in Barbados as a marker of business legitimacy and substance will therefore buttress the presence already practised – albeit sometimes loosely – by many of the country’s existing international business entities.

While Jefferson questioned the right of governing others and the geopolitical question regarding true motives of the OECD may remain open, it may however still be safe to presume that the present state of affairs will be of more favour to Barbados’ policy making than the status quo ante.
Building a Modern Investment Company

During 2017, Williams Caribbean Capital (WCC) was formed as a modern impact investment company. Since then, WCC has been able to avail of and proudly promote all the wonderful benefits that the Barbados international business and financial services sector can offer in its operations. Using Barbados as its headquarters, WCC as an impact investment holding company, was able to rapidly advance its international business expansion through a series of acquisitions and investments both in the CARICOM region but also further into Europe.

Today, WCC has operations outside Barbados spanning three continents that include among others, tourism, sustainable non-plastic food packaging solutions, financial inclusion fintech, financial services and renewable energy.

WCC is a joint venture strategically formed between the well-known Barbados and Caribbean based conglomerate Williams Industries Inc., founded by its legendary Chairman Ralph “Bizzy” Williams and New Caribbean Capital Partners (NCC), the investment business of the former Digicel CEOs Barry O’Brien and Ciarán Burke. WCC also has David Staples, board director of Williams Industries as its Chairman.

WCC’s strategy is to invest in companies throughout the region which have a strong business model and the potential for enhanced growth levels, whilst making a genuine sustainable impact in the world through acquiring business operations that conform to all principles of good environmental and social protection and good corporate governance.

The Chairman of Williams Industries, Ralph “Bizzy” Williams, who has successfully led and grown Williams Industries for over 45 years, commented “that the time is right for increased investment in the Caribbean and we want to avail of these opportunities and are delighted to be partnering again with Barry and Ciarán. We are also delighted to promote our international business sector to everyone in the world where we expand into.”

NCC is also excited about teaming up again with Williams Industries. A key aspect of WCC’s strategy is to grow any business acquired based on the strong operational and financial expertise of NCC’s partners, Barry and Ciarán, who work hands-on with the various portfolio companies’ management teams to enhance growth and increase shareholder value for all stakeholders.

WCC recently re-structured and re-designed its operations by creating a new additional local Barbados centric legal structure, to turn its attention to expanding operations within Barbados and replicating the successes learned internationally to its home country.

At the 2019 Caribbean Renewal Energy Forum, WCC through its related companies, won the best innovative financing award in the entire region for its PV Green Energy Bond programme in Barbados. Furthermore, during 2019, WCC received certification from the Climate Bonds Standard Board approving its green bonds “as consistent with addressing the two degrees Celsius reduction targets in the Paris Climate Agreement.”

Further details of this new business venture can be found at www.williamscaribbeancapital.com
Recent Amendments to the Companies Act

by Mary Mahabir, Q.C., and Joanna Austin

The Companies Act, Cap 308 of the Laws of Barbados (the “Act”) was amended on January 1, 2019 (the January Amendment) to require companies generating 100% of their earnings in foreign currency to file certain information with the Director of International Business. It was further amended on May 20, 2019 (the May Amendment) and on December 3, 2019 (the December Amendment). This article highlights some of the other main amendments namely, Annual Return (“Return”) filings, beneficial ownership records, disclosure of politically exposed persons (“PEPs”) such as government ministers and corporate service providers (“CSPs”)¹ service requirements.

Annual Returns

Section 15A of the Act which provides for the filing of the Return was amended by the May Amendment and again by the December Amendment and now exempts companies whose gross revenue in its most recent financial statements exceeds US$500,000 from filing a Return.² Effectively smaller companies not otherwise exempt and CSPs will comprise the majority of Return filings as CSPs are excluded from the exemption. Returns must be filed by June 30 or December 31, subject to the date of incorporation. Entities within the international business (IB) sector and holders of foreign currency permits (FCPs) are exempt.

Prominent Public Office

The May Amendment introduces a definition of “prominent public office” at Section 2, which includes offices generally considered to be PEPs and others such as chief executive officers of international organisations. When filing articles of incorporation, incorporators must disclose the names of any director who holds or has held a prominent public office in Barbados or elsewhere.³

Beneficial Shareholding

The May Amendment includes definitions of (i) “beneficial owner” (ii) “beneficial ownership” and (iii) “beneficial interest”.

¹ Licensees under the Corporate Trust and Service Providers Act, 2016
² Section 15A 7(h)
³ Section 66
The December Amendment to Section 170 of the Act requires that companies retain up-to-date records of shareholder and beneficial ownership at their registered office. These records must also disclose whether any shareholder has held a prominent public office. Ultimate beneficial ownership information must also be provided to the International Business Unit for IB entities and FCP holders. The retention of beneficial ownership information at registered offices (versus the public record) appears consistent with Canadian law requirements and seems a step closer to the global trend for divulgence of beneficial ownership. There is presently no indication that the UK requirement to publicly divulge beneficial ownership information, is forthcoming.

CSP Services

The December Amendment provides that effective 180 days post its commencement on December 3, 2019, a company described in Section 15A(7)(h) (i.e., whose gross revenue exceeds US$500,000), that is not (i) a licensed financial institution; (ii) Financial Services Commission registered or licensed entity; (iii) a CSP or (iv) an external company not holding a licence under (i) or (ii), shall have a CSP perform its corporate services.4

Annual Meetings

Companies are now required to have annual meetings every 12 months instead of 15 months pursuant to the December Amendment of Section 105. Some of the major amendments are illustrative of increased disclosure and anti-money laundering compliance requirements and ever changing Organisation for Economic Co-operation and Development and European Union requirements. Matters, including notarisation of documents, the submission of tax and National Insurance Scheme clearance certificates for dissolution, are also formally addressed.

A detailed review of the Amendments is recommended.
Barbados has made it much easier for investors and residents to transact business that requires foreign exchange.

Barbados has traditionally maintained an exchange control regime to support and maintain the peg at USD$1 to BBD$2. Cleviston Haynes, Governor of the Central Bank of Barbados (CBB) explained that these controls are considered necessary to enable the CBB to manage large unplanned outflows. However, with trade liberalisation and globalisation, exchange controls, if not managed well, could create distortions and inhibit economic efficiency and growth.

“With a healthy stock of foreign reserves – close to 19 weeks of import cover – the time is right to gradually liberalise the controls,” the Governor noted. “The revised regime is intended to boost the country’s competitiveness, bolster investor confidence, and thereby increase investment flows, and support economic growth over time,” Governor Haynes explained.

The changes cover increased delegation of authority to authorised dealers, which include commercial banks and Part III companies, to approve certain foreign exchange transactions without reference to the Bank as was required previously.

Residents and non-residents can open interest-bearing, foreign-denominated deposit or current accounts. Individuals or companies that qualify to open such an account can now retain 100% of their holdings because the 70% surrender requirement has been abolished. Such account holders must use their funds to conduct foreign exchange transactions before they can purchase foreign exchange from the market.

The new regime also broadens the definition of “resident” for foreign exchange purposes. Barbadians living in Barbados or temporarily working or studying abroad are considered residents. CARICOM nationals living and working in Barbados under the Movement of Skilled Nationals Act, and citizens of other countries who have been working in Barbados legally, but not on work permits, for more than three years also qualify as residents. Spouses of residents are also now treated as resident, if the spouse lives in Barbados. Residential status for foreign exchange matters extends as well to majority-owned Barbadian companies, located outside the country.
President of ICAB, Lydia McCollin, said that the relaxed foreign exchange measures would increase foreign exchange availability and make it easier to do business, thereby improving confidence in the Barbados economy. She noted that defining majority-owned Barbadian companies domiciled overseas as resident will encourage these businesses to repatriate their profits to Barbados because they can hold their earnings in foreign currency accounts. “This development should boost the country’s foreign exchange and redound to our benefit,” she elaborated.

McCollin also noted that doubling from BBD$250,000 to BBD$500,000 the remittances of dividends, profits, interest and rentals for real estate, that banks and Part III companies can approve is excellent for business.

Authorised dealers can also renew existing credit facilities to non-resident-owned or controlled companies for working capital, except where loans are to pay dividends, management fees, royalties or remittances abroad. The authorised dealers may also lend up to BBD$500,000 in foreign currency to resident companies, once the beneficiary services the debt from foreign currency earnings or external sources.

“The business community lobbied for the freeing up of exchange controls to bolster economic activity and investment in the productive sectors. The Chamber sees the relaxation as important to improving efficiencies and facilitating our members’ involvement in international trade,” Misha Lobban-Clarke, Executive Director of the Barbados Chamber of Commerce and Industry commented.

The measures bring Barbados in line with several countries that have eased controls, and makes it easier for investors to transact foreign exchange-related business.

The suite of changes is available at www.centralbank.org.bb
The Financial Services Commission (FSC) is an integrated regulator whose mandate includes the oversight of all insurance companies; mutual funds and securities companies; credit unions and occupational pension plans operating from Barbados. The mandate is built on two key pillars: Consumer Protection and Systemic Risk.

Given this expansive responsibility, the approach to regulation looks at channels through which the two pillars can be impacted and sets out the governing principles that would minimise or counterbalance the inherent risks associated with the activity. Our framework will be explained over several articles. This, being the first, will focus on recent developments within our insurance sector.

The main legislation governing the regulation of international insurance companies previously were the Exempt Insurance Act, Cap. 308A (EIA) and the Insurance Act, Cap. 310 (IA). However, effective January 1, 2019, the EIA was repealed and several amendments made to the IA to capture some of the requirements previously stipulated in the repealed Act. The main amendment to the IA was the reclassification of insurance entities by class of license. The three new classes of business as outlined in Section 3A of the IA are:

- Class 1 licensee shall be an insurance company which underwrites related party business
- Class 2 licensee shall include an insurance company which underwrites risks of third parties
- Class 3 licensee shall include an insurance intermediary, an insurance management company and an insurance holding company.

A major improvement on the immediate horizon is the FSC digital platform. In early 2020, the FSC will be rolling out its e-filing platform. Registrants will be able to submit documents and statutory returns, make new applications and obtain information through a dedicated and secure portal. Entities are also encouraged to make payments electronically for faster and smoother processing.

Another significant legislative change was the economic substance requirement as stipulated in the Companies (Economic Substance) Act, 2019-43 (The Act). The Act requires that, effective November 28, 2019, all transitioning companies that are resident in Barbados must be:

- directed, managed and controlled in Barbados
- adequately staffed in Barbados, whether within the company or via contracted staff
- have adequate levels of expenditure and physical assets within the Barbados economy
- conduct its core income-generating activities in Barbados. This requirement ensures that companies set up to do business in Barbados are conducting meaningful business within the jurisdiction.

The FSC implemented a new fee structure in 2019. The fee structure allows the FSC to become a regulator that is more independent, and as such, can implement relevant platforms to develop regulatory toolkits and facilitate ease of doing business.
The move to an electronic system is expected to significantly improve the level of efficiency and facilitate the ease of doing business. The FSC has made strides in improving the average turnaround times on new applications from 12 to 3 weeks, surpassing our 4-week benchmark. We expect a further improvement when our digital platform is fully implemented. Part of our efficiency enhancements includes a review of current processes and adopting a more risk-based approach to supervision. We have already eliminated the annual renewal process for companies under the Securities Act, for example. These companies are now required to file annual declarations and submit to the FSC any material changes without delay.

As it relates to additional filings and obligations of entities in this sector, entities are to submit a list of shareholders in their register holding 5% or more of the capital value. This is in line with the requirements of the anti-money laundering and counter-financing of terrorism legislation, where the ultimate beneficial owners of the companies should be declared and determined to be fit and proper. This will be discussed in further detail in a subsequent article. Material changes to entities must also be declared to the FSC. A guideline detailing these changes will be released to the industry for consultation during 2020.

These are merely a few of the changes that may be anticipated by existing international insurance companies or those who may be seeking opportunities within that sector. Detailed information on these and other requirements may be obtained from the FSC Barbados website: www.fsc.gov.bb or by direct contact with the regulator. *

In early 2020, the FSC will be rolling out its e-filing platform. Registrants will be able to submit documents and statutory returns, make new applications and obtain information through a dedicated and secure portal.
Barbados Private Placement Life Insurance: A Wise Choice in a Transparent World

by Charles Gagnon

What is PPLI?

Private placement life insurance (PPLI) is a type of life insurance with an investment component designed for high net worth families. Greater investment freedom and customisation as well as lower costs differentiate PPLI from standard whole life and variable life insurance products.

Robust Tax Compliant Solution

Many countries afford favourable tax treatment to life insurance provided that certain requirements are met. Barbados’ insurance legislation allows Barbados PPLI providers to customise PPLI solutions in order to satisfy the requirements of the policyholder’s country of residence and issue fully tax-compliant policies. In most countries, such requirements are well-defined and constitute a bright line test. As a result of this test, PPLI affords greater certainty than other tax optimisation strategies by reducing the risk of an unfavourable outcome.

In this new era of tax transparency, robust tax compliance has become an absolute necessity and is the only viable option.

Strong Wealth Protection & Transfer Vehicle

Under Barbados law, the rights and interest in a life insurance policy are exempt from seizure and execution by the creditors of the insured.

Therefore, Barbados PPLI affords a high level of asset protection even if the insured enjoys important contractual rights. In contrast, under a trust arrangement, asset protection can be jeopardised if the contributor enjoys broad powers.

The ability to designate beneficiaries under a life insurance contract is another attractive feature. On the death of the insured, the insurance proceeds are remitted directly to the beneficiary and do not have to go through the estate of the insured. As a result, the insurance proceeds are not subject to probate fees and are protected against the claims of the creditors of the insured and more resistant to attacks under forced heirship legislation.

Barbados PPLI thus constitutes an excellent alternative to a trust as a wealth preservation tool.

Beneficial Tax Treaty Network

When choosing a PPLI provider, many people fail to consider whether the country of residence of the insurer has a tax treaty network. Several PPLI providers are based in countries that do not levy corporate tax and consequently, do not have double tax treaties. Investments held in PPLI policies issued by insurers in these countries face the highest level of withholding taxes. For example, US withholding tax on dividends is a whopping 30% in the absence of a tax treaty.

Barbados enjoys a combination of low corporate income tax and an attractive tax treaty network. Investments held within a Barbados PPLI policy may benefit from the reduced withholding tax rates provided under Barbados’ tax treaties. Policy holders may therefore enjoy higher net investment returns than with an insurer located in a country without tax treaties.

Competitive Costs

Premiums paid under an insurance policy on the life of a non-resident of Barbados are not subject to Barbados premium tax and can be invested without suffering a high level of taxes. Due to this favourable fiscal environment, Barbados PPLI providers can offer very competitive insurance rates to foreign clients, which can translate into significant savings over time.

In sum, Barbados PPLI is a compelling tax-compliant estate planning tool as it combines investment freedom, favourable tax treatment, asset protection and low costs of insurance.
Barbados-Based Assignment Companies – Helping Settle Litigation

by Kyle Rudder and Sean Coleman

Brief History of Structured Settlements in the United States

Structured settlement annuities (structured settlements) emerged in the 1970s as an alternative to lump sum cash settlements. The consistent stream of guaranteed income provided essential security for the catastrophically injured. Originally based on several rulings by the US Internal Revenue Service (IRS), structured settlements were codified in 1982 and expanded by US Congress in 1997. Section 130 of the US Internal Revenue Code (IRC) allows a defendant to assign a periodic payment obligation to a third party. Section 104(a)(2) of the IRC excludes damages received on account of personal physical injury, physical sickness, and workers’ compensation from federal income tax.

In a structured settlement transaction, the injured party elects to receive future periodic payments. The obligation for future payments is subsequently transferred to an assignment company in exchange for the defendant’s release from liability. All structured settlement providers have established US-based assignment companies to assume the payment obligations. Per the IRC, the funding assets used for such personal physical injury settlements are either fixed annuity contracts or US Treasury obligations.

Effect on Litigation in the United States

By 2001, the structured settlement industry had grown to US$6 billion. Guaranteed payments, tax-free gains and full release for the defendant proved to be effective settlement tools. Structured settlement dollars often bridged the gap between a plaintiff’s demand and available settlement dollars. Defendants felt confident in their ability to settle claims faster while lowering administrative and legal expenses. Plaintiff attorneys were able to address their clients’ future needs while concurrently taking advantage of structured attorney fees to fund their own financial and retirement plans.

Evolution of the Industry

While structured settlement annuities remained effective settlement tools, the US industry remained relatively stagnant. Restrictions within the IRC limited the use of structured settlements to claims resulting from personal physical injury, which represented only half of the settlements paid out annually. The desire to assist non-physical settlement recipients drove annuity providers to develop alternative assignment mechanisms.

The first Barbados-based assignment company was established in 1998, opening a new market for structured settlements. Working with a Barbadian partner enabled US life insurance companies to offer their annuity products for a broader range of case types, including employment, contract dispute and environmental claims.

The industry proceeded in a steady fashion for more than a decade until fixed annuity rates of return began dipping to historical lows. The waning appetite for fixed annuity products presented an opportunity for further innovation, and providers began seeking alternative funding mechanisms. Independent assignment companies were established to offer a variety of funding assets, including market-based options to complement the existing fixed annuity options. The increased suite of products and services exposed structured settlements to a broader marketplace, with market-based products offering solutions for those seeking more than a conservative return.

An Eye on the Future

It is an exciting time in the settlement industry. Barbados’ well-founded network of global banking resources, accounting professionals and specialty legal support are ideally situated to continue evolving and capitalising on additional growth opportunities. For instance, Canadian structured settlements, while not as large as the US market, present an expanded opportunity for investment. Indeed, as interest in market-based structured settlements gains momentum, the industry is already seeing a positive impact.

Barbados-based assignment companies are using innovative business models to facilitate more efficient claims resolution and better results for all parties involved in US litigation. These companies are driving increased Barbadian business and revenue opportunities while promoting the island for what it is—a first-rate location for conducting global business.
Streamlined Banking Solutions for Captive Insurance Companies

by Paul Jenkins

Organisational commitment to an industry, principle, jurisdiction or purpose can take patience, fortitude and time. When a financial institution commits to a niche industry, tangible evidence of such commitment can take longer than anticipated; as internal operations approvals, staffing and resources need to be mobilised and correctly positioned.

As it pertains to the insurance industry in Barbados, some financial firms are unfortunately retrenching services and outsourcing operations in the name of ‘operational efficiency’ or ‘cost savings’. Sadly, this has the potential to send a negative message to the global market place. Such corporate decisions can possibly diminish the overseas perspective of Barbados’ international service offering. This is rather unfortunate, especially at a time when this nation needs to display a coordinated and positive message as it pertains to international business.

However, some Barbados financial institutions are ‘shoring up’ resources, capabilities and displaying unwavering commitment to Barbados and the Eastern Caribbean. In the midst of cost analysis and budget reviews, some institutions have found savvy strategies to eliminate costs by streamlining services and increasing internal collaborations to offer clients services and products that are domiciled and headquartered in Barbados.

There are distinct benefits for clients when firms streamline services and ground their expertise and capabilities locally. Clients can, and have, reaped the benefits of lower costs when wealth management and corporate credit (letters of credit) combine their services. For example, many international clients have been successful in lobbying financial firms to reduce costs of select services by viewing the banking relationship holistically and inclusive of the captive or insurance company’s parental banking relationship in North America.

Of equal importance is the time saved by collaborative banking services working together for the benefit of the client. Account onboarding time can be significantly reduced when a financial firm shares due diligence internally and across divisions, illustrating best practices that have been established to facilitate this purpose.

A specific example of this is when different divisions within a financial organisation address the duplication of required due diligence and internal reporting. By aligning efforts internally, banks can empower employees to save time in their onboarding processes and become more efficient as efforts, and saved time, can be redirected elsewhere and most importantly allow the client’s onboarding experience to be more pleasant to the valued customer.

There are also equally important requirements stemming out of the new economic substance legislation contained in the Companies (Economic Substance) Act enacted in November 2019.

By harmonising efforts with other jurisdictions worldwide, Barbados has introduced economic substance requirements that require businesses with certain types of activities domiciled in Barbados, to have adequate substance in the jurisdiction. In other words, companies who wish to benefit from Barbados’ low tax environment, excellent infrastructure and nexus of tax treaties must meet certain requirements in order to be granted a business license. Requirements to meet the economic substance test could include an adequate number of employees physically situated in Barbados, adequate expenditure in Barbados, physical
... some financial firms are unfortunately retrenching services and outsourcing operations in the name of ‘operational efficiency’ or ‘cost savings’

assets located domestically and appropriate control and oversight over operations performed here.

To attract desired international clients, essential banking services should be offered from the shores of Barbados, thus paralleling the economic substance requirements.

The ‘trifecta’ of financial services required by global insurance companies are usually considered to be wealth management, corporate/operational banking and credit writing. These banking solutions, mandatory for most captive or self-insurance entities, should be offered and controlled in and from Barbados. Not only would this decrease ‘client wait time’ associated with select service offerings, it would also harmonise essential banking services with government legislature of substance and confirm Barbados’ status as a legitimate and attractive international financial service centre.

An intelligent argument can be made that the foundation of financial management and banking is based on relationship quality and client engagement. In our modern world of digital advancement and expedited expectations, service providers should not lose sight of the critical ‘client experience’ dynamic. Rather than having services in different time zones and operations in lower wage countries, banks should remove internal barriers to providing a cohesive service to clients, streamline their products and services, and view clients holistically (inclusive of captive parent relationship in North America).

Additionally, they should localise efforts to better the client experience and reduce wait time. Presumably, the results of these efforts can and will improve international perception of financial offerings in Barbados.

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Investment Strategies for Captive Insurance Companies

by Andrew Alleyne

Captive insurance companies operate in a unique environment which requires specific investment strategies. The current low interest rate environment in North America, and negative rates in many European countries, has made it more challenging for captives to achieve reasonable net rates of return. To enhance returns, investment managers may combine an active fixed income strategy with low-cost ETFs. Higher returns can also be achieved by investing in convertible bonds (convertibles), which have both fixed income and equity characteristics, typically providing higher returns than bonds with less volatility than equities.

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Many captives are increasing their exposure to equities which requires the investment manager to be skilled in managing this additional risk. Mature captives seeking a higher return and willing to assume additional risk, may also consider alternative investments. Possible alternative investments include principal protected notes, which guarantee the principal, combined with a coupon. A small allocation to gold can also add diversification to the portfolio because of gold’s low correlation to other asset classes.

Risk management is the most important aspect of managing a captive portfolio. There are several types of risk management tools. These include portfolio diversification, using stop losses to reduce the downside in falling markets, hedging strategies, as well as certain structured investments. Trailing stop losses – the most common technique – are relatively straightforward to implement. For more sophisticated captives, options can be used as a hedging tool. Some option strategies are akin to buying insurance on a portfolio and are executed by purchasing puts. The cost of the insurance depends on the volatility of the underlying security; the lower the volatility the cheaper the cost. As a result, hedging should be put in place during periods of low market volatility.

The appropriate asset allocation differs between new and mature captives. A new captive will tend to be heavily invested in high quality fixed income securities, until it has a history of its claims experience. As the captive matures, it will accumulate a surplus in excess of its reserve requirements and will tend to increase its allocation to equities, and possibly alternative investments, to enhance investment returns. The exposure to equities typically varies from 10% to 40%, depending on the captive’s capital surplus and maturity. Global equities can enhance returns and add another level of diversification to the portfolio. Portfolio managers will typically invest in actively managed “long only” equity funds or exchange traded funds (ETFs), combined with shares of publicly traded companies. Investing in third party funds often adds an additional layer of fees, so it is important to select a fund that will consistently outperform its benchmark. ETFs provide broad market or sector diversification and have much lower fees than funds. Experienced investment managers can outperform the broad market indices by overweighting/underweighting sectors and companies that perform better at different stages of the business cycle.

Some of the characteristics captive managers should require in selecting an investment manager include skills in both fundamental and technical analysis, the selection of low-cost investment vehicles, experience in managing portfolios with credit facilities and a strong ability to manage investment risk. Managers who follow disciplined risk management techniques will be more successful in preserving capital and reducing portfolio volatility, especially during difficult market conditions.
New Opportunities for Insurance Companies

by Maria Robinson

Changes in tax legislation, especially in international and financial business centres like Barbados, can send shivers of worry up the spines of international companies doing business on the island or thinking of doing so.

Those shivers may have been sharply felt by the many Exempt Insurance Companies (so-called captives or EICs), as well as Qualifying Insurance Companies (QICs) when, on January 1, 2019, the country dismantled a tax system that had created a fence between the tax regimes for international and domestic insurance companies.

The result is that, allowing for some grandfathering provisions, EICs and QICs are now things of the past. They are now regular insurance companies which are subject to tax based on the class of insurance products they offer.

Has removing the fence harmed international insurance companies? Are the shivers warranted? No they aren’t.

In fact, the legislative changes offer a few new benefits to insurance companies.

But let’s start with the legislative changes. To begin with, the Exempt Insurance Act (EIC Act) has been repealed along with the provisions of the Insurance Act which facilitated the existence of QICs. All insurance companies operating in Barbados now come under the Insurance Act, and there are now three classes of companies.

Many foreign investors outside of the insurance regime have also voiced appreciation for the new access…
Class 1 includes those companies insuring/reinsuring related party risks. They will pay a license fee, but they will be taxed at 0%, so there is no change there for those who previously operated as EICs.

Class 2 includes all insurance companies that insure and/or reinsure the risks of third parties. They will pay a rate of 2% of taxable income.

Class 3 includes insurance brokers, insurance management companies and the like. These will also be taxed at 2% of taxable income.

What are the benefits? For a start, former captives can now do business in Barbados. They were formerly prevented from doing so because of the incentives they had received under a special regime. In essence, the local market is now open to them. This creates a wealth of opportunities for captives within multinational groups which previously could not provide insurance products to their Barbados affiliates.

Reputationally, Barbados insurance companies can also breathe a sigh of relief as they are no longer considered to be operating under harmful tax practices based on the Organisation for Economic Co-operation and Development’s criteria.

The ability to use Barbados double tax treaties by entities which were previously carved out, such as EICs, would be a considerable benefit allowing for access to reduced withholding tax rates among other things. Many foreign investors outside of the insurance regime have also voiced appreciation for the new access to the treaty network which resulted from the removal of ring-fencing of International Business Companies and other internationally licensed entities.

It is widely accepted that the new insurance regime no longer allows for the harmful practice of ring-fencing as the provisions which govern its rate of taxation, as laid out in the Income Tax Act, apply to all insurance companies licensed under the Insurance Act. Specifically, all entities within the insurance regime are subject to tax either at a rate of 0% or 2%.

The importance of this is underscored when access to Barbados’ tax treaty network is considered. Previously, captive insurance companies were excluded or “carved out” from enjoying benefits under some treaties because of the “special” incentives they received. Now that all insurance companies are taxed the same, depending on their Class 1 or 2 classification, it therefore seems that the carve outs may no longer apply.

All in all, the changes in legislation create no disadvantages for former or new captive insurance companies. Indeed, the opposite is true: there are fresh opportunities they can exploit.

*To learn more about doing business in Barbados please visit the following website – [www.investbarbados.org](http://www.investbarbados.org)
Residency by Investment – Barbados’ Treaty Edge

by Ruan Martinez

For high net worth individuals (HNWIs) seeking a warm climate, laid back, quality lifestyle and light tax burden, Barbados offers an interesting residency-by-investment programme.

Qualifying Criteria

In order to qualify for the programme, a person must generally have a net worth in excess of US$5 million and an investment of US$2 million or more. In addition, one must secure private health insurance coverage and satisfy normal due diligence requirements.

Successful applicants receive a special entry permit (SEP) allowing them to reside in Barbados either for a period of five years or indefinitely.

Tax Regime

As a former British colony, Barbados’ tax system has retained the distinction between residence and domicile. All residents of Barbados are taxed on their worldwide income but those who are resident without being domiciled in the island are only taxed on their foreign-source income upon remittance to Barbados. In other words, a HNWI holding a SEP who solely derives income from foreign sources, will not have to pay any Barbados personal tax unless he or she decides to remit some or all such income to Barbados.

Foreign income remitted to Barbados must be included in the computation of taxable income but is eligible to a foreign currency earnings tax credit which brings down the effective tax rate to approximately 10%. If the foreign income was subject to withholding or other form of income tax in the source country, then a foreign tax credit can be claimed to offset the Barbados tax. However, Barbados tax cannot be reduced to less than 1% through the foreign tax credit mechanism.

Treaty Benefits

Most countries that do not levy income tax are unable to establish a tax treaty network with high-tax countries. As a country with an income tax system, Barbados has been able to sign tax treaties with several major countries as well as smaller ones over the years and now enjoys an ample tax treaty network. These treaties can reduce or eliminate the withholding tax that may be levied by the source country on interest, dividends or royalties. In addition, the treaties generally limit the scope of capital gains that may be subject to tax in the source country and prevent the taxation of business profits in the absence of a permanent establishment in the source country. Finally, tax treaties protect from discriminatory taxation in the source country and provide tie-breaker rules in order to resolve dual-residency situations. However, some treaties contain an anti-abuse rule denying treaty benefits unless the income has been remitted to Barbados.

Many retired HNWIs derive a significant portion of their income from dividends on a portfolio of large cap equities which normally include US multinationals. In the absence of treaty benefits, US-source dividends are subject to 30% withholding tax. A Barbados resident non-domiciled HNWI who receives dividends from sources in the US is entitled to a treaty-reduced US tax rate of 15% on these dividends, and if such income is remitted to Barbados will only pay an additional 1% tax in Barbados (because of the foreign tax credit mechanism). This HNWI is therefore paying significantly less tax on US dividends than if he or she were a resident of a tax haven without a tax treaty with the USA.

Several HNWIs who have relocated to traditional tax haven countries frequently visit their country of origin (for business or family reasons) and may unwittingly...
... Barbados has been able to sign tax treaties with several major countries as well as smaller ones over the years and now enjoys an ample tax treaty network.

Because of its treaty network, Barbados may be more attractive than tax havens in many cases. While an increasing number of European countries offer a residency by investment programme combined with a tax treaty network, Barbados is one of the only Caribbean options for those seeking this favourable combination.

**Know where to go?**

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Barbados and the United Kingdom – Business Opportunities

by Justin Cole

Barbados’ connection to the UK is steeped in nearly four centuries of history. The country was so highly esteemed in the eyes of the British that it was known as “Little England”. Barbados continues to be highly regarded as a tourism destination. However, we are not as well known as an International Financial Centre in the UK.

That may be surprising to many involved in the sector here in Barbados who would expect that as a global brand, there would be more recognition by UK professionals. There is work to be done to achieve this and we must work to build relationships with a familiarity similar to those we have in the Canadian financial community.

So then, what are some of the mutually beneficial opportunities on which to build these relationships?

The Birthplace of Trust Law and the Centre of Financial Innovation

The UK is the birthplace of trust law, so let’s start there. The English developed trust law at the time of the Crusades in the 12th century. Trust planning remains a large traditional market, with many trusts being established in the Channel Islands. Barbados can tap into this line of business as an attractive alternative to the Channel Islands, with our sophisticated trust services and much lower cost structure.

Having gifted the world the trust, it is not surprising that the UK continues to be a major centre for worldwide financial planning, with their services taking on a completely international nature. In this regard, it is important to speak to their professionals about Barbados to explain our tax system so that they can think of innovative ways to include them in structures. For example, just a couple years ago, Barbados’ profile was raised as the island became home of many structures as a result of hybrid mismatch rules in the UK.

More recently, with the convergence of the Barbados tax system, the full benefits of the Barbados – UK Double Taxation Agreement comes into play as Barbados’ previous international business legislation may have excluded some structures from the Treaty. It will be interesting to see how the Treaty can be used going forward.

In addition, with changes to the UK’s well known “non-dom” rules which attracted wealthy immigrants to establish tax residence in the UK, Barbados could now provide an attractive alternative as UK advisors relocate their clients. Our tax system still follows the traditional “non-dom” regime and our Special Entry Permits provide immigration status in Barbados.

The Barbados Stock Exchange and HMRC Recognition

The Barbados Stock Exchange (BSE) recently received Her Majesty’s Revenue & Customs (HMRC) acknowledgement as a Recognised Stock Exchange. This allows listings on the BSE to qualify for the Quoted Eurobond Exemption from withholding tax of 20% on interest payments.

Early indications show excitement to list Eurobonds by UK businesses to issue debt in order to finance their
operations. The cost advantage of listing in Barbados combined with recognition by HMRC make Barbados an attractive domicile through which lenders can gain access to the Exemption.

In addition, the BSE has created a digital asset listing facility, one of the first, which creates another unique offering.

In a similar vein, Daxnet, a company with UK shareholders, received approval from the Barbados Financial Services Commission to establish a stock exchange for security tokens.

With their connections in the UK, we are sure to see an uptick in business from the digital asset market as they promote the opportunity. Their efforts will further raise Barbados’ profile.

We now have an opportunity to look at our centuries old relationship in a new light, built around financial services and innovation with our oldest trading partner.
Seven Little Bajan Secrets!

by John McLeod

Lawyers, accountants, financial and insurance planners, family offices and high net worth individuals are all searching for the ideal intergenerational wealth transfer structure for themselves or their clients’ families and the best jurisdiction to operate the structure.

When crafting intergenerational estate plans, wealthy individuals are seeking asset protection, confidentiality, flexibility in dealing with changes in family circumstances, predictability, confidence in the jurisdictions of their structure, tax minimisation and 100% regulatory and tax compliance; and they want all that at reasonable prices.

Barbados has become a jurisdiction of choice for clients and their advisors when setting up companies, trusts, captive insurance companies, private placement insurance contracts and international asset management accounts. So what are the seven attributes that make Barbados ideal?

1 Today, asset protection in many countries is almost impossible to achieve! Courts have reached into trusts, companies, estates, retirement vehicles and investment portfolios to satisfy creditors. We need only to look at Canada, USA, and the UK. Properly structured, Barbados trusts can significantly enhance bullet proofing of family assets for many generations. Did you know that Barbados has a three year statute of limitations after which Barbados courts won’t hear a creditor action?

... individuals are seeking asset protection, confidentiality, flexibility in dealing with changes in family circumstances, predictability, confidence in the jurisdictions of their structure...

2 Double taxation treaties. Barbados has 40 bilateral income tax treaties and five tax information exchange treaties which bring certainty to the tax outcome. Barbados is NOT a tax haven. Yes, there are taxes, albeit modest and some would say, “it’s better to pay a little tax somewhere than no tax anywhere.”

3 Bilateral investment treaties are a range of treaties which protect investors from illegal expropriation or seizure of assets in other countries. These treaties allow companies to take their claims to the international tribunal where they can seek a judgment against the foreign assets of the offending company/country. Barbados has 11 bilateral investment treaties, nine of these are in force, further enhancing asset protection.

4 Legislation and case law. With 300 years of common law, strong and current legislation (much of it updated in the last 12 months), legal and tax planners rely on predictability of outcome should there be a claim against the settlor, founder, beneficiaries or shareholder of a structure.

Robust regulatory framework with strong supervision. Barbados’ banks, trust companies and corporate service providers are regulated by world-class federal regulators who impose strict standards on all aspects of their business. Regular audits and strict compliance requirements ensure clients and their assets are supervised and protected.
... Barbados service providers hold the reputation of providing the best value for their services among their international peers.

6 Substance. Economic substance has become an international issue as governments and pan-government agencies like the Organisation for Economic Co-operation and Development seek to prevent Base Erosion Profit Shifting (BEPS). Barbados and its financial services providers have the staff and competencies necessary to ensure compliance with BEPS.

7 Accessibility. Oh yes, and you can get here easily whether from Canada, the USA, Europe or Latin America as there are multiple daily direct flights. For some strange reason visits seem to be concentrated in the months of December, January, February and March when it’s coldest in the northern hemisphere and Barbados is sunny and 28-30 degrees Celsius every day!

Ok, now for the big one! So how much will all this cost? Barbados is a very cost effective jurisdiction and Barbados service providers hold the reputation of providing the best value for their services among their international peers.

Comparing Barbados to other international jurisdictions such as Bahamas, British Virgin Islands, Cayman, Channel Islands, Cook Islands, Delaware or Singapore, you will likely find that Barbados offers the best value for services rendered, best overall legislation, highly educated staff, good case law supporting asset protection, highly qualified ancillary service providers such as investment management firms, insurance managers, lawyers, accountants, auditors and efficient government services.

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