

2021/22 Bermuda Budget Snapshot

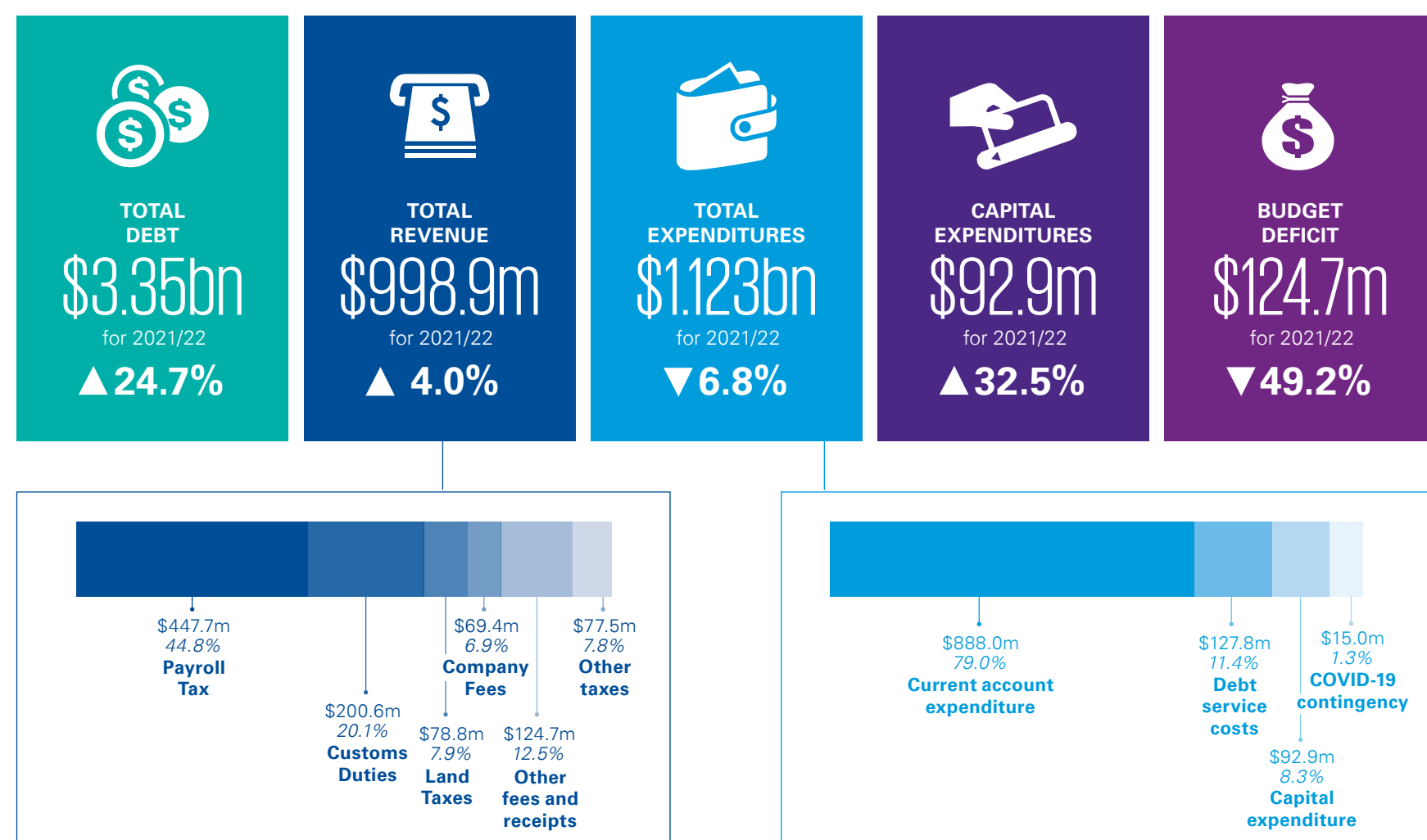
"A year like no other"

On Friday, February 26, 2021, the Honourable Curtis Dickinson JP, MP presented his third budget. He began his comments at the Chamber of Commerce Budget Breakfast on March 1 with a quote from boxer Mike Tyson: "Everybody has a plan until they get punched in the mouth." This could not be truer of the 2020/21 year.

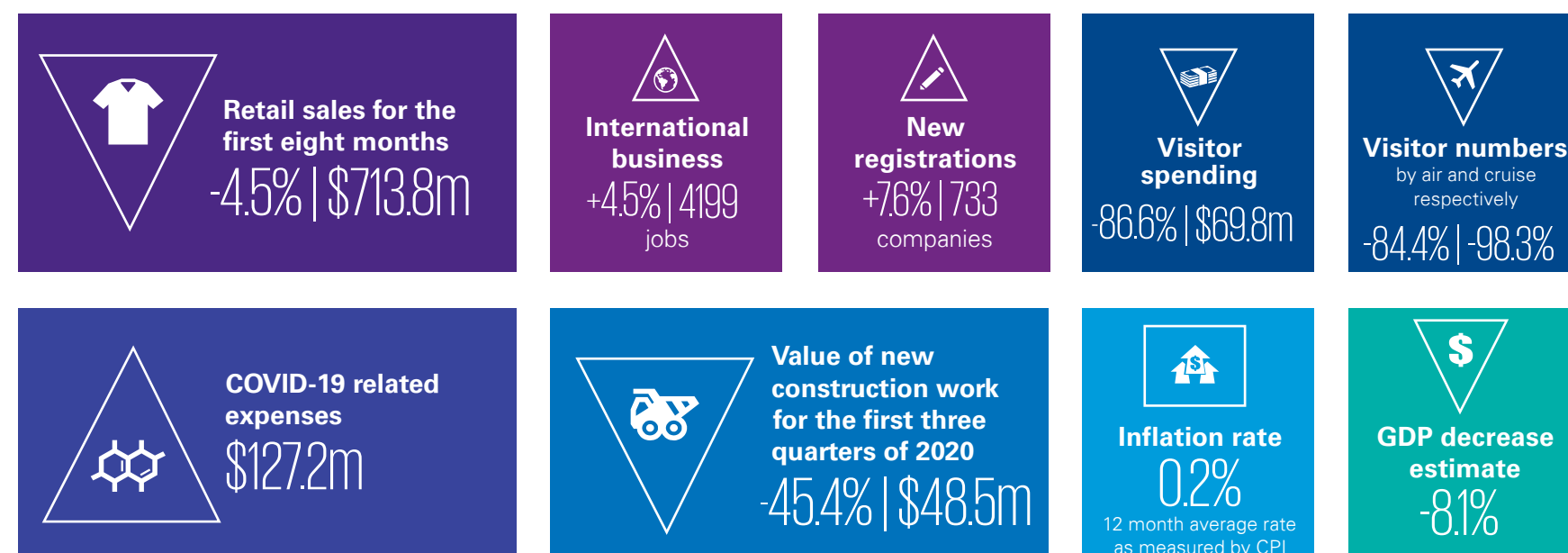
Minister Dickinson remains positive and committed to zero based budgeting with the plan for a budget surplus in 2023/24. International business and travel and tourism have a significant role to play to get Bermuda to that place.

Investment in infrastructure, and tax and immigration reform remain top priorities. It is hoped that travel and tourism will return to 2019/20 levels by 2023/24.

Bermuda has weathered the pandemic as well as could be expected. The Government forecasts a budget deficit of \$124.5m in 2021/22 as recovery from the pandemic continues. We commend the Minister for his prudent management of the economy and his collaborative approach to budget setting. We continue to look forward to furthering progress on wider tax reform, and much needed immigration policy changes, to create more jobs and investment in Bermuda and grow the economy.



Bermuda's 2020/21 results at a glance



Revenues

- Total revenues forecast for 2020/21 are \$960.6m which is \$161.6m or 14.1% less than the original budget of \$1.1bn, mainly due to the impact of COVID-19 across all revenue sources.
- The revenue budgeted for 2021/22 is \$998.9m which is \$38.3m or 4.0% higher than the revised forecast for 2020/21.
- COVID-19 will continue to impact revenues from cruises and air travel (down \$20.7m from the original 2020/21 budget) and customs duty and payroll taxes (down \$34.4m and \$19.3m respectively).

Payroll taxes

- No changes to tax rates. Payroll tax relief and tax incentives to grow jobs will be extended through to March 2022.
- Payroll taxes revenues are forecast to be \$447.7m, which accounts for 44.8% of total budgeted revenues.

Other taxes and duties

- Customs duties account for 20.1% of total revenues, being \$200.6m.
- Duty relief for renovation and refurbishment of retail stores is extended through to March 2026.
- No increases in land taxes – the current 2015 land valuations will remain in place for a further 10 years.
- There will be increases within the fee structure of the Registrar of Companies to support modernisation in this area. Details of these changes will be provided later in the year.
- No significant changes in taxes, duties or fees in other areas.

Expenditures

- Total expenditures for fiscal 2020/21 (including interest on debt and capital expenditures) are \$1.2bn. This includes an estimated \$127.2m on unbudgeted COVID-19 expenditures.
- Current account expenditure, excluding COVID-19 costs, is estimated at \$880.0m for 2020/21 which is \$55.6m or 5.9% lower than the original budget of \$935.6m.
- Total expenditure budgeted for 2021/22 is \$1.1bn which is \$82.4m or 6.8% less than the revised estimate for 2020/21. Debt service costs are budgeted at \$127.8m and capital expenditure at \$92.9m.
- Current account expenditure for 2021/22 is budgeted to be \$888.0m which is a decrease of \$47.6m or 5.1% from the original 2020/21 budget of \$935.6m.

COVID-19

- During 2020/21 the Government has estimated to have spent \$127.2m in unbudgeted COVID-19 expenditures including payment of unemployment benefits, purchase of PPE, the provision of COVID-19 testing, quarantine facilities and vaccinations services, embodying the Bermuda Regiment, enhanced cleaning contracts, supporting small business through the Bermuda Economic Development Corporation grant funding programme, and funding the Bermuda Airport Authority to honour the new airport's minimum revenue guarantee.
- These expenditures were offset as the Government implemented cost saving initiatives, including a freeze on the funding of non-essential vacant posts; a ban on non-essential Government travel; a reduction of discretionary spending; and temporary payroll and other Government employee overhead savings, including temporary suspension of matching contributions into pension funds. This resulted in a reduction in current account operating expenditures of \$55.6m less than the original budget for 2020/21.
- The current account budget for 2021/22 includes a further \$15m of COVID-19 related expenditures.
- The capital expenditure budget for 2020/21 was increased from \$85.0m to \$93.0m to allow for COVID-19 related capital purchases. However, due to delays in purchasing the actual capital expenditure in 2020/21 is forecast to be \$70.1m.

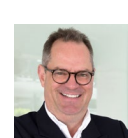
National debt

- \$662.6m was borrowed in 2020/21 to fund the overall deficit which included unexpected expenses of \$127.2m arising from the COVID-19 pandemic.
- The debt ceiling was raised in April 2020 to \$2.9bn to enhance liquidity to fund emergency financial measures expected from COVID-19. In July 2020, the ceiling was further raised to \$3.5bn.
- The Government has forecast an overall budget deficit of \$124.7m for 2021/22 which is \$120.8m less than the revised estimated deficit for 2020/21 of \$245.5m.
- The total debt at March 31, 2021 is estimated to be at \$3.35bn, after contributions from the sinking fund, which will be approximately \$348.8m.
- Debt service costs for the fiscal year 2021/22 are estimated to be \$127.8m, of which \$5.4m is related to the Caroline Bay project which has cost the Government close to \$200m as a result of the purchase of loans and settlement of other liabilities in 2019.
- In addition to its \$3.35bn gross debt, the Government has other guarantees in place of \$417m, excluding Caroline Bay. In 2020/21 the Government executed a \$10m guarantee to support funding for the tourism project at the site of the former Grand Atlantic on South Shore.

KPMG's Perspective

- The challenges of 2020 have demonstrated Bermuda's ability to react with efficiency and flexibility in the most uncertain and unprecedented circumstances.
- KPMG applauds the Government for its recognition of the need to continue to implement supportive measures regarding COVID-19 in next year's budget, many of which are influenced by the continued need to support Bermuda and its citizens as we navigate our exit from pandemic life and re-emerge into more familiar terrain.
- The "Work from Bermuda" Certificate, which allows individuals to work or study remotely from the island, has been very successful and recent changes to immigration policy allowing high net worth individuals to reside in Bermuda should provide further stimulus. It is vital for the local economy that we expand the resident population for the benefit of all businesses in Bermuda, through further reform of the immigration system.
- We also strongly support the Government's plans to promote investment in new infrastructure projects to stimulate the economy.
- As Bermuda seeks to maintain its position as a premier jurisdiction for international business, it will need to consider the changing landscape caused by global tax initiatives such as OECD's BEPS2.0 and continuing focus on economic substance.
- Bermuda's tax system remains heavily reliant on the taxation of employment, which is counteractive to the goal to grow the number of jobs in the economy. We need to consider wide ranging tax reform in order to broaden the tax base, increase equality and reduce the reliance on payroll taxes and customs duties.
- The Government should be commended for reducing current account expenditures in the face of the COVID-19 pandemic. We support its ambition to further modernise Bermuda's public services through investment in reskilling the workforce, collaboration with the private sector and digitisation across systems and departments to strengthen administrative processes and maximise efficiency.

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