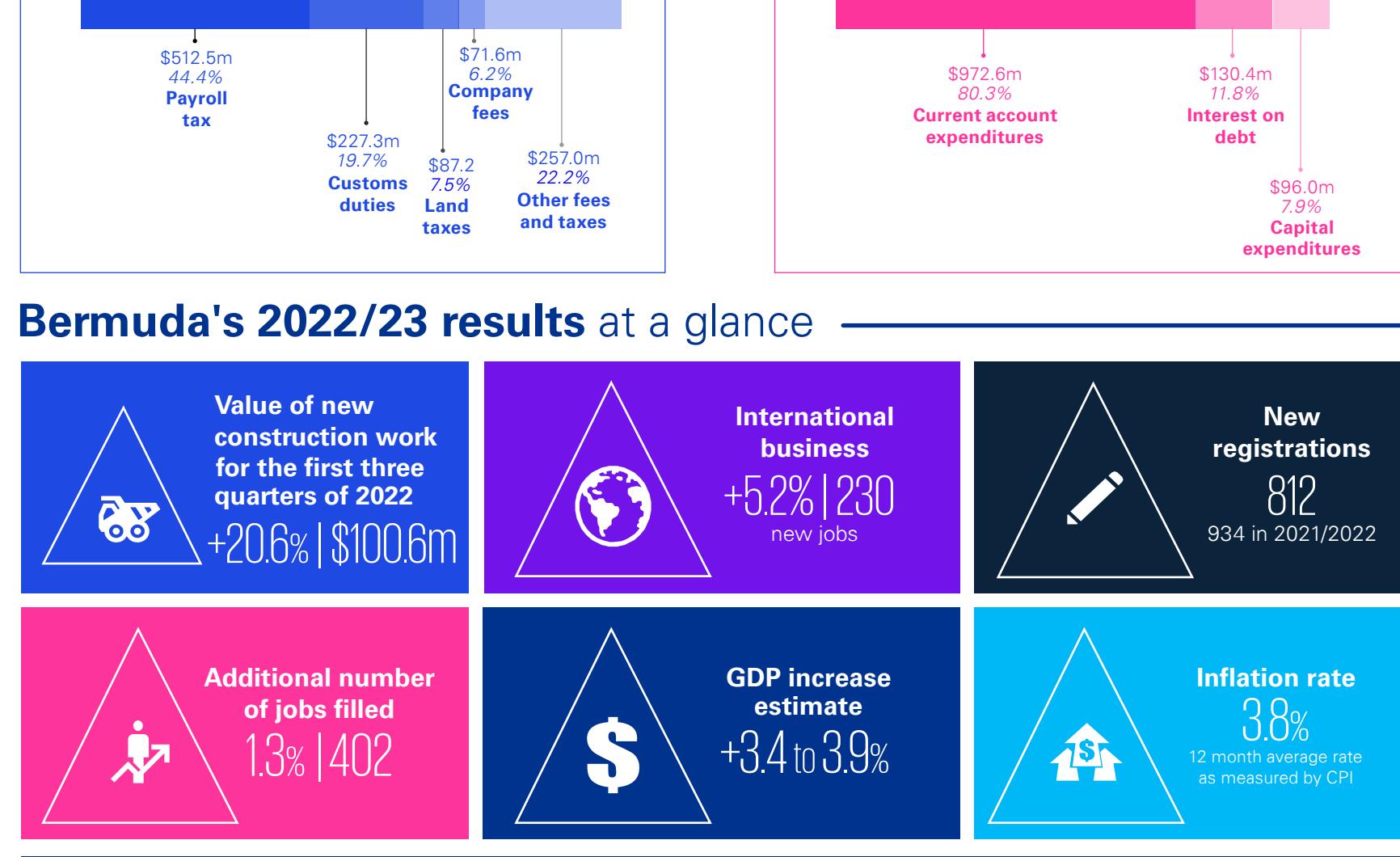


2023/24 Bermuda Budget Snapshot

"A sustainable economic recovery"

The 2023/24 budget highlights the Government's goal of achieving balanced and sustainable economic growth, which projects a balanced budget in 2024/25 and a \$29.0m surplus in 2025/26. Growth is anticipated to come from increasing our workforce in Bermuda and increased investment in capital expenditure for critical infrastructure such as education, housing and our tourism sector, including bold plans to repurpose the Morgan's Point development.

The Government's budgeted increase in revenues is heavily reliant on increased payroll taxes, much of which will be borne by those earning higher incomes over \$132,000. Concern has been expressed over the impact this may have on international business, many of which pay this tax on behalf of employees. Our national debt combined with the rising costs of doing business and increasing pension liability also require significant consideration. Macroeconomic factors such as inflation, international conflicts and global minimum tax will also have implications which are not yet fully known. The longer-term picture is likely to be one of significant change including climate change which the budget did not address as a potential enabler of sustainable economic growth. In this snapshot, we share the key points from the budget and our perspectives on the impact of this budget.



Bermuda's 2022/23 results at a glance



The implications: KPMG's perspective

- Tax reforms and cost of doing business:** While most international and local businesses are pleased to see that the increases in payroll tax are not as significant as originally proposed in the Pre-Budget report, there will still be a significant impact on international businesses, particularly those that pay both the employer and the employee portions of this tax.
- The 2023/24 budget includes a series of changes to the payroll tax marginal rates. While the decrease in employer payroll tax should act as a stimulus for economic activity, it is noted that exempt companies will not see a reduction in employer payroll tax, while the majority of employee payroll tax in the international business sector will increase under the new marginal bands.
- Other reforms such as the 5.0% fees on a range of business activities, the introduction of a regulatory fee for corporate compliance, as well as the upcoming 5.0% increase in immigration costs and the ending of COVID-19 payroll tax concessions will all increase the cost of doing business in Bermuda.

These factors will likely impact on our competitiveness with other jurisdictions for growing our workforce and attracting talent to the island.

- Infrastructure investment for sustained economic growth:** KPMG commends the Government for prioritising critical infrastructure projects which will work as stimuli for economic growth and job creation. The Government reiterated its commitment to fulfilling its investment promises regarding the Morgan's Point Project and proposed a new redevelopment vision and investment plans for the first development phase, which includes a range of residential rental apartments with a component for senior's housing, commercial retail and restaurant opportunities. There is risk associated with this strategy with an additional \$130m of new investment and further Government guarantees, but if successful will allow Bermuda to recoup some of the \$165m plus additional costs already incurred on the original project. The residential component is also welcomed in a context of the acute housing shortage on the island and the need to provide capacity to support the strategic growth of our workforce.
- Attracting Foreign Direct Investment and talents:** KPMG welcomes the Government's openness to reevaluating the inward investment rules later this year. KPMG would be supportive of further opportunities similar to the Digital Nomad and Economic Investment Certificates, which provide a much-needed boost to the economy, in a context of aging and declining population and job creation in the last 15 years. We are also pleased with the Government's position to consider options for different financing models for important infrastructure projects.

1. Climate Analytics, Thomas, A. and al. <https://bit.ly/3kikhry>
2. Net Zero Readiness Spotlight: Islands – The rise of small island economies – beyond net zero, attracting private capital. For full report: <https://bit.ly/3kr5Dun>

FY 2023/24 Budget Estimates

	ORIGINAL ESTIMATE 2022/23 \$000	REVISED ESTIMATE 2022/23 \$000	BUDGET ESTIMATE 2023/24 \$000
Revenue and Expenditure Estimates			
Revenue	1,077,802	1,111,036	1,155,525
Current Account Expenditure (excluding debt service)	945,065	932,625	972,632
Economic Relief/Additional Expenditures	-	8,000	-
Emergency BHB Grant	-	15,000	-
COVID-19	-	10,026	-
Current Account Balance (excluding debt service)	132,737	145,385	182,893
Interest on Debt/Guarantee Management	129,750	143,411	130,400
Surplus (Deficit) Available for Capital Expenditure	2,987	1,974	52,493
Capital Expenditure	72,987	79,338	96,007
Budget Surplus (Deficit)	(70,000)	(77,364)	(43,514)

Revenues

Total revenues

- Total revenues forecast for 2022/23 are \$1.1b which is 3.1% higher than the original forecast, driven by increased in tourism revenues, payroll taxes and stamp duty. These increases have offset the loss of revenue from the aircraft register owing to the Russia/Ukraine conflict, the freeze of fuel prices and the elimination of duty on essential goods.

- The revenue budgeted for 2023/24 is \$1.16b, an increase of 4.0% from the revised estimate for 2022/23. This increase is due to payroll tax changes, increases in certain government fees and passenger fees from tourism growth.

Key changes in revenues

- Employer payroll taxes will either stay the same or decrease compared with last year, depending on tax band size and sector. The temporary payroll tax concessions introduced during the COVID-19 pandemic will also end in March 2024.

Expenditures

2022/23:

- Current expenditure:** Total current account expenditure (excluding debt service and guarantee management) is expected to reach \$965.7m and an unbudgeted emergency grant of \$15.0m to the Bermuda Hospitals Board, \$10.0m in COVID-19 related expenses and the Government's funding to the Bermuda Police Service, Fire and Rescue Service, as well as mental health services.

- Interest on debt:** Owing to one-time cost associated with debt refinancing, debt servicing costs are projected to be \$143.4m or 10.5% higher than initially budgeted.

- Capital expenditure:** Capital expenditure is projected to be \$79.3m or 9.0% more than initially budgeted for 2022/23 due to additional funding approved to the Roads and Transport Authority for critical infrastructure including the Milton floating dock, Lanes Bay and Parish primary school education facilities.

Key changes in expenditures

- Extension of customs duty exemption for investments in plant and equipment to the personal care and personal fitness sectors (currently only for restaurants and retailers).

- Revisions to the Sugar Tax (this will now only apply to high sugar consumables).

- Elimination of taxes on aggregate imports used to manufacture concrete and concrete blocks.

- 5.0% increase fees for stamp duty, trademark fees, fines, solid waste, dumping fees, immigration fees, stamp duty (with the exception of passport fees), planning fees, seaborne shipping fees.

- 5.0% increase in the top two bands of Land Tax.

- Introduction of a regulatory fee for corporate compliance by the Registrar of Companies.

- Introduction of a fee to register properties as vacation rentals (based on the ARV of the property).

- Introduction of fees for access to government information through the Public Access to Information Regime (PAI).

- Increase in court fees.

2023/24:

- Total expenditure is projected to be \$1.2b, which is 3.8% higher than the highest budgeted or spent in 13 years to capitalise and fund the 2023/24 budget.

- Interest on debt: Owing to one-time costs associated with debt refinancing, debt servicing costs are projected to be \$143.4m or 10.5% higher than initially budgeted.

- Capital expenditure: Capital expenditure is projected to be \$79.3m or 9.0% more than initially budgeted for 2022/23 due to additional funding approved to the Roads and Transport Authority for critical infrastructure including the Milton floating dock, Lanes Bay and Parish primary school education facilities.

- Measures will be implemented to increase tax compliance (no announced policy or programme yet).

- Government relief for new hires will come to an end in March 2024 but the next year to compensate for this.

- Government reforms to the public sector to complete reviews and establish cost savings opportunities (no announced policy or programme yet).

Future changes

- Phase 2 of the Mortgage Guarantee Programme, which removes the age restriction so that any Bermudian applying for a new mortgage is eligible and serviceable.

- Amendments to the Tourism Investment Act to allow the Government greater discretion in the granting of relief under the act to developers and investors in the tourism sector.

- \$15.0m committed over three years to build more affordable housing units.

- Measures will be implemented to increase tax compliance (no announced policy or programme yet).

- Government relief for new hires will come to an end in March 2024 but the next year to compensate for this.

- Government reforms to the public sector to complete reviews and establish cost savings opportunities (no announced policy or programme yet).

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