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Cayman Islands – Premier Drops Plans for Payroll Tax for Expatriate Employees

by KPMG, Cayman Islands (a KPMG International member firm)

Just days after announcing that a new payroll tax on expatriates would be introduced, the Cayman Islands government dropped those plans. (For prior coverage, see *Flash International Executive Alert* 2012-143, 31 July 2012.) It is understood that various spending cuts and revenue raising measures – some of which have yet to be revealed – will take the place of the now-dropped payroll tax.

The so-called "community enhancement fee" proposal, as originally conceived, essentially would have imposed a 10-percent tax on expatriate workers earning more than $20,000 annually (that threshold was later raised in a subsequent revision to the proposal). (All dollar figures expressed are Cayman Islands dollars.)

Critics of the proposal claimed the Caymans would have difficulty recruiting and retaining top talent and it would lose its competitive edge as international investors would seek out other jurisdictions where the cost of doing business is lower.

On 6 August, Cayman Islands Premier McKeeva Bush announced the government's about-face on the matter. The Premier had met on 1 August with business and community leaders and interest groups. In light of that meeting, where much apprehension and anxiety had been expressed about the government's plans, Mr. Bush indicated the government would drop the plans as long as alternate revenues could be identified. In a statement released on 6 August, Mr. Bush publicly stated "The community enhancement fee is now off the table and will not be implemented."

The Premier met with concerned parties in a public meeting on 8 August. According to reports, the Premier took the community enhancement fee off the table and proposed instead to fill the gap with spending cuts and by raising fees and other charges.

Among the measures proposed that will impact international executives and their multinational employers are changes to work permit fees. Current work permit fees of:

- between $1,000 and $2,999 will go up by 5 percent;
- from $3,000 to $3,999 will increase by 10 percent;
- between $4,000 and $4,999 will go up by 15 percent;
- from $5,000 to $5,999 will increase by 20 percent;
- between $6,000 to $7,499 will go up by 25 percent;
- from $7,500 to $14,999 will increase by 30 percent; and
- between $15,000 to $24,000 will go up by 35 percent.

Other revenue raising measures aired by the Premier include:

- Increase of the tourism accommodation tax from the present 10 percent to 13 percent;
- Rise in the departure tax by $10 per person.

The Premier also confirmed that pension contributions for work permit holders in the private sector would no longer be mandatory.

As noted above, these measures, and others that have not yet been made public, will be accompanied by spending cuts in order to redress the imbalances in Caymanian public finances.

What's Next?

These and other proposals will be submitted to the U.K.'s Foreign & Commonwealth Office for its review. If approved, the Premier hopes to deliver the budget to the Legislative Assembly within two weeks time.

References:

S. Robbins, "Cayman Islands Drops Plan to Tax Foreign Workers' Income" in Reuters online (8 August 2012).

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Norma Connolly, "Bush Presents Budget Alternatives to Expat Tax" in cayCompass.com (8 August 2012) at: http://www.compasscayman.com/caycompass/2012/08/09/Bush-presents-budget-alternatives-to-expat-tax/ **.**

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CI$1 = C$1.207	CI$1 = €0.989

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