

INTERNATIONAL BUSINESS COMPANIES

An International Business IBC (“IBC”) is defined by the International Business Companies Act (the “Act”) as a company that satisfies the conditions set out below and holds a valid licence under the Act:

- (a) it is resident in Barbados; and
- (b) the company satisfies the Minister by furnishing the Minister with such information as he may require that it is financially capable of carrying on the business of international manufacturing or international trade and commerce and of complying with any prescribed conditions.

The Act defines "International business" as the business of international manufacturing or international trade and commerce.

"International manufacturing" is defined as the business of making, processing, preparing or packaging within Barbados, any product which is exclusively for export to countries outside the Barbados region.

"International trade and commerce" is defined as:-

- (a) the business of being a broker, agent, dealer, seller, buyer or factor within Barbados of goods existing outside Barbados or of goods to be trans-shipped through or from Barbados;
- (b) the business of the selling of services which, if originating in Barbados, are to or for, or on account of, persons resident outside of Barbados;
- (c) the business of providing from within Barbados a prescribed service for a IBC carrying on an international business or for a IBC carrying on business in Barbados under an enactment referred to in Section 7(2) of the Act, other than a licensed bank referred to in paragraph (e) of that subsection; or
- (d) subject to this Act, any other business carried on from Barbados.

A licence to engage in international business remains in force until 31st December of the year in which it is issued and may be renewed before the 1st day of January in each year on payment of the prescribed fee. At present the prescribed fee is BDS\$850.00.

IBCs pay income tax at the following rates:-

2½% on all profits and gains up to BDS\$10,000,000;

2% on all profits and gains exceeding BDS\$10,000,000 but not exceeding BDS\$20,000,000;

1½% on all profits and gains exceeding BDS\$20,000,000 but not exceeding BDS\$30,000,000; and

*0.5% on all profits and gains exceeding BDS\$30,000,000.

***To be reduced to 0.25% on all profits and gains exceeding BDS\$30,000,000 for fiscal year 2013.**

An IBC may elect to take a credit in respect of taxes paid to a country other than Barbados provided that such an election does not reduce the tax payable in Barbados to a rate less than one (1) per cent of the profits and gains of the IBC in any income year.

Provision is also made in the Act for an IBC to pay tax at a rate other than the prescribed rate by order made by the Minister of Finance provided that such rate shall not be less than 1% on the profits and gains of the IBC in any income year.

The term "profit and gains" is not defined in the Act. However, "profits and gains" under the Act has the same meaning as "taxable income" under the Income Tax Act, and the criteria used in calculating "profits and gains" for the purposes of the Act are to be drawn from the Income Tax Act.

Among the amounts that may be deducted in calculating taxable income under the Income Tax Act are the following:

- (1) a disbursement or expense made or incurred for the purpose of production of assessable income from property or a business; and
- (2) amounts paid as interest on borrowed money, whether secured by mortgage or otherwise or unsecured, used for the purpose of the production of assessable income.

There is no limitation imposed under the Income Tax Act on the amount of interest that may be deducted, whether the interest is paid to an arm's length lender or to one with whom the borrower does not deal at arm's length, as long as the borrowed money is "used

for the purpose of the production of assessable income". Nor are there any debts to equity limitations imposed on companies under the Income Tax Act.

The Income Tax Act does not tax capital gains. An IBC would be liable to tax on profits from the sale of securities only if it trades in securities. The term "profits and gains" as used in the Act does not include capital gains and it is the practice of the Barbados Government not to tax the capital gains realised by an IBC.

Where the fiscal period of the IBC ends during the period 1st January to 30th September inclusive, income tax returns are required to be filed by the IBC and balance of tax paid by the 15th March each year and a prepayment of tax (based on 50% of previous year's tax) paid by the 15th September in each year.

Where the fiscal period of the IBC ends during 1st October to 31st December inclusive, the prepayment of tax is required to be made by 15th December in each year and income tax returns to be filed by 15th June in each year.

Any dividends, interest, royalties, fees or management fees paid or deemed to be paid by the IBC to another IBC or to a person not resident in Barbados are exempted from income tax.

A transfer of securities or assets of the IBC to a non-resident or to another IBC other than a transfer of taxable assets is likewise exempted from the payment of tax or duty.

The following assets are deemed to be taxable assets:-

- (a) real property situated in Barbados and held by or on behalf of the IBC; and
- (b) all office equipment, supplies, furnishings and fixtures, machinery, vehicles and equipment used in Barbados in carrying on the business and affairs of the IBC.

The IBC is not subject to the requirements of the Exchange Control Act in relation to its international trade and commerce or international manufacturing business.

Work permits would be required for non-Barbadian employees and such permits are readily granted.

Foreign employees working in Barbados are taxed at normal rates and are subject to Barbadian exchange controls, but if their employer is able to take advantage of the special schemes described above, up to one third of their remuneration is paid tax-free and is exempt from exchange controls.

In 2006 the government introduced enhanced tax concessions for specially qualified individuals employed in the International Financial Services Sector, as follows:

- Up to \$150,000 per annum 35%
- Over \$150,000 but less than \$500,000 50%
- Over \$500,000 60%

The IBC is permitted to import raw materials and components and plant, machinery, tools, equipment and appliance substantially free of all customs duties, consumption taxes or stamp duties provided that these items are necessary for the business of the IBC. There are, however, some restrictions on the disposal of articles acquired in this manner.

The IBC shall be required to file annually with the Department of Inland Revenue, the audited financial statements not less than 21 days before each annual meeting or immediately after a written resolution in lieu of such annual meeting, but in any event not later than 15 months after the last date when the last preceding annual meeting of the IBC should have been held.