



## BERMUDA – February 2021

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#### **New taxes**

Additional government revenue is sorely needed. The reason for this letter is my concern about the impact of new taxes at a very delicate time. We've been reading about a potential new rental tax for 2022. This will increase the cost of doing business. As a finance professional and university economics graduate, I would like to share my thoughts on the way land tax may be amended for least disruption.

Landowners already pay rental tax in Bermuda; it is called land tax and is our third main tax behind payroll and customs duty. Land tax is predictable, easy to administer and hard to evade. This makes it well suited for raising revenue. For context, we collect about \$85 million a year (2020 Budget) of land tax. The proposed increase of \$40 million per the 2018 Tax Reform Commission Report represents a significant increase that will have consequences. It will not only impact landowners but also architects, construction firms, realtors and related trades as spending gets diverted. This in turn means that not only will economic activity be lower than it otherwise would be, negatively impacting gross domestic product, but the quality of housing available for tenants will also be lower as costs go up. In the long term, rents will increase.

Under the present system, land tax is applied progressively on an individual ARV basis. Most would agree with the principle, the larger the house the higher the tax — with the notable exception of our “house rich, cash poor” seniors. Land tax starts at \$300 per ARV. At the top end of the scale\* the highest tax rates are 30 per cent and 50 per cent respectively. To put this in context, the median house pays \$1,750, the top 20 per cent starts at \$7,000, the top 5 per cent incurs \$29,000, with the top 1 per cent paying more than \$70,000 of annual land tax. As these examples illustrate, the existing policy is very progressive.

For many units, it costs more to license a car than to pay the property tax itself. This doesn't make sense. Property ownership is a better indicator of ability to pay higher taxes than owning a vehicle. Setting the minimum land-tax amount to a number higher than TCD fees would be fairer. In addition, a higher minimum would have the added benefit of taxing landlords with multiple small properties, as the present land-tax policy in effect subsidises this scenario.

I believe the following proposals, if put in place as a package, would increase revenue, reduce administration and encourage investment in Bermuda:

1, Rather than introduce a new tax, simply amend the existing one. We're better off adding an across-the-board increase to existing ARV rates rather than increasing the administrative burden of collecting a new tax. The narrower the tax, the greater the distortion and unintended consequences. Let's not follow the US model of ever-increasing tax complexity

#### **International Property Tax Institute**

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2, Set the new land tax minimum to be at least in line with licensing a mid-sized private car for the reasons set out above

3, Assist property owners in the face of this material increase by reducing the ARV threshold for rent control. We need to reduce red tape to encourage investment in Bermuda rather than continue to increase the cost of doing business

We're in a difficult situation and need to be very careful to ensure we enact policy that will grow our economy rather than shrink it. I wish the Minister of Finance all the best with ever-increasing challenge.