

2022/23 Bermuda Budget Snapshot

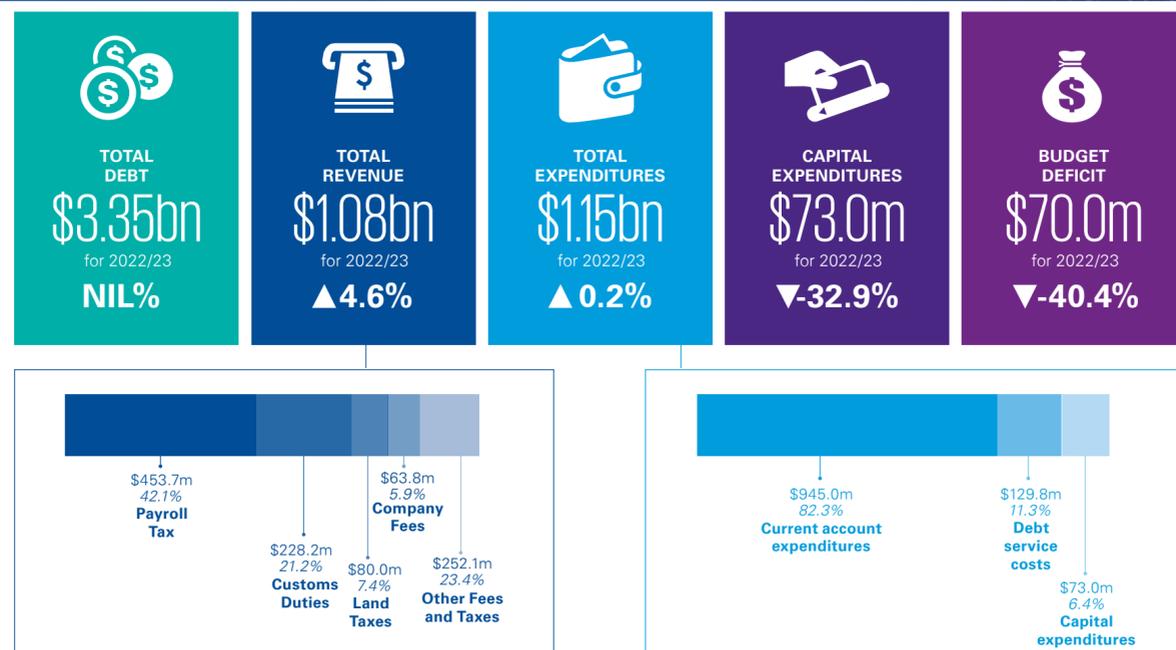
"Moving beyond the pandemic"

On Friday, February 25, 2022, Premier David Burt delivered the 2022/23 budget. Premier Burt presented a budget that he believes supports moving past the pandemic, gives an early sense of hope and optimism for the year to come and is projected to move Bermuda towards an overall surplus of \$50 million by 2026 – one year later than previously forecast – mainly due to the ongoing impact of the pandemic on Bermuda's economy. He outlined how Bermuda, although facing many challenges along the way, navigated through the year and, overall, fared better than originally forecast with GDP growth expected to be between 3 to 5% for 2021/22.

In 2021, certain sectors of the economy demonstrated strength and resilience with international business saw a 27% increase in company registrations and a 4% increase in jobs, the value of construction work increased by 22% in 2021, and tourism visitor spend grew by 77.8% due to the relaxation of COVID-19 restrictions. However tourism continues to be battered by the pandemic, and the Government's revenue targets are dependent on a continued recovery of tourism in 2022/23. The extension of payroll tax relief and the length of concessions for the hospitality industry have been warmly welcomed, along with payroll tax reductions for those earning less than \$96,000.

The island witnessed sustained progress in increasing jobs in international business, although overall employment levels fell due to a decline in banking and financial sector jobs as well as in hospitality, mainly as a result of the closure of the Fairmont Southampton hotel. The Premier has recognized the need to expand jobs in Bermuda to achieve economic recovery. This will be dependent on the success of tourism, increasing our population to create greater opportunities for all and by bringing start-ups and incubators to foster entrepreneurship. Key priorities are the continued implementation of the Government's Economic Recovery Plan, to reform Bermuda's healthcare, education, taxation, pension and immigration systems and to create the environment for greater domestic and foreign direct investment.

The Premier has recognized that Bermuda will face significant headwinds in the face of threats such as the global minimum tax rate and competition for tourism from other jurisdictions. The Government has reconfirmed its focus on implementing the Economic Recovery Plan and moving towards an overall budget surplus for the 2024/25 fiscal year and longer term reduction of the national debt.



Bermuda's 2021/22 results at a glance



Revenues

- Total revenues forecast for 2021/22 are \$1.03bn which is \$31.3m or 3.1% more than the original budget of \$998.9m, mainly due to Customs Duty, Passenger Tax, Civil Aviation Receipts and Travel Authorisation Fees performing better than expected.
- The revenues budgeted for 2022/23 is \$1.08bn which is \$79.1m or 7.9% higher than the original estimate for 2021/22.
- The increase in estimated revenues for 2022/23 is driven by the forecasted strength in tourism-related revenues, Customs Duty and Stamp Duty.

Payroll taxes

- Payroll tax concessions for hotels and the restaurant industry will continue for another six months to the end of September 2022.
- New Hire Relief for large international and local employers has been extended to March 31, 2024.
- Payroll tax rates will be decreased for workers earning less than \$96,000.
- Payroll taxes revenues are forecast to be \$453.7m, which accounts for 42.1% of total budgeted revenues.

Other taxes and reliefs

- Supplementary Unemployment Benefit has been extended until August 31, 2022 to provide support for unemployed persons who do not qualify for Financial Assistance.
- Voluntary one-time pension withdrawal of up to \$6,000 will be extended for one more year.
- Vehicle licensing fees for all private cars will be reduced by 10%.
- No tax increases were included in the Budget and there were no significant changes in duties or fees in other areas.
- If the projected deficit for 2021/22 is below the estimate, 50% of this saving will be used to reduce fuel import taxes.
- Amendments will be made to the Land Valuation and Tax Act to:
 - exempt registered charities who earn the majority of their funds from donations from land taxes; and
 - remove land taxes from registered care homes.

National debt

- Debt service and guarantee management costs for the fiscal year 2021/22 are estimated to be \$132.8m – \$5.1m (or 4.0%) above the original estimate of \$127.8m. The increase above budget is attributed to \$5m spent on costs related to the Morgan's Point / Caroline Bay project.
- The net debt as at March 31, 2022 is projected to stand at \$3.1bn, with the Sinking Fund balance to be approximately \$231m.
- The Government has forecast an overall budget deficit for fiscal year 2021/2022 of \$117.4m, or \$7.3m (6%) less than the \$124.7m deficit originally projected.
- For the 2022/23 fiscal year, the Government has forecast an overall deficit, inclusive of capital expenditure, of \$70m, which is a \$54.7m (43.9%) reduction from the 2021/22 original estimate of \$124.7m.
- Debt service costs for the 2022/23 budget are projected at \$129.8m, 1.6% higher than the 2021/22 initial allocation of \$127.8m; Interest payments are estimated at the same level of \$127.8m; and \$2m of guarantee management costs are projected relating to the Morgan's Point / Caroline Bay project and the Fairmont Southampton project.

COVID-19

- During 2021/22, the cost of COVID-19-related expenses are expected to be \$35.1m, which is \$20.1m (134%) more than the \$15m originally budgeted. Included within these expenses are unemployment benefits, coronavirus testing and lab operations, the vaccination programme, quarantine facilities and the \$16 million airport minimum revenue guarantee.
- In the 2022/2023 budget, there is no separate line item for COVID-19, all pandemic-related expenses, such as the operation of Molecular Diagnostic Laboratory, are captured within various Ministry budgets.

Expenditures

- Total expenditures forecast for 2021/22 are \$1.147bn which is \$24m (2%) more than the original budget of \$1.123bn.
- Current account expenditures for 2022/23 is estimated to be \$945.1m, which is \$57.1m (6.4%) higher than the original 2021/22 estimate.
- Total expenditures budget for 2022/23 is \$1.147bn which is in line with the revised estimate for 2021/22.
- Drivers for the increase in 2022/23 expenditures compared to the original estimate are the funding commitments to Bermuda's education system, discontinuation of austerity measures, and healthcare reform and creation of a regulated cannabis regime. Further details to be announced.
- Drivers are not budgeted to receive salary increases until 2024/25 but officers this year will be funded through efficiency savings. Details of service and grant reductions will be provided by the Committee of Supply.

KPMG's perspective

- The challenges of 2021 have demonstrated the robustness of Bermuda's international business sector and its importance to the strength of Bermuda's economy. The Bermuda Government should continue to support international businesses operating in Bermuda through incentives and immigration reform and process improvements to encourage the creation of additional jobs on the island.
- Bermuda's ability to achieve this Budget is highly dependent on the country returning to more normalcy as we emerge from COVID including managing Government services and re-energizing the tourism sector.
- KPMG applauds the Government for its recognition of the need to continue to extend into 2022 supportive relief measures to those businesses and individuals impacted by COVID-19. The extension of supplementary unemployment benefit, payroll tax relief for hotels and restaurants, land tax relief for charities and care homes, pension fund voluntary withdrawals, and payroll tax reductions for the lowest earners provides direct assistance to those who are most in need.
- The Digital Nomad and Economic Investment Certificates provided a much-needed boost to the economy and our population during a very difficult year. These schemes, which allow individuals to work or study remotely from the island, and require local investment should be further expanded with supporting on-island infrastructure to encourage additional take up.
- Bermuda's overall economic situation and the high level of National debt remain a major concern. Annual debt service costs of nearly \$130m are a significant burden on the economy and with the need to refinance over \$1bn of debt in the next two years, the prospect of rising global interest rates, and only a small budget surplus being forecast there is little prospect of a meaningful debt reduction in the foreseeable future. The high level of debt remains one of the most serious risks facing Bermuda.
- There are no payroll or other tax increases in the Budget, but 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. The challenges that Bermuda will face from the OECD's proposed minimum global tax rate may provide an opportunity for the island 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. We look forward to working with the Government to support the recommendations of the Tax Reform Commission and implement a more progressive system of taxation.
- The Government should be commended for continuing to transition towards a budget surplus despite the unrepresented level of support that the pandemic has necessitated over the last two years and which will continue into 2022. The Premier highlighted that the budgeted \$945m of current account expenditures for 2022/23 will still require a significant reduction in public services. We await further details of these reductions but strongly support the need to continue to modernize the public sector, fund healthcare reform and implement changes to the education system.

Future changes

Tax reform

- A new Tax Reform Commission will be created in April 2022 responsible for creating a more progressive tax system for Bermuda, and aligning Bermuda's local tax system with the OECD global requirements.

Pension reform

- A reform will be completed with changes in benefits, contributions and retirement age.

Future banking developments

- Courts will be given more power to postpone an Order of Possession.
- Courts will be able to provide relief to customers who can demonstrate that their loan agreement was unfair.
- A set of conduct rules will be created for local banks, including fee limits on banking service.
- Bermuda Monetary Authority will issue its first licence to a new bank in 21 years and create open banking standards for the creation of digital banking in Bermuda.

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