

# Winning internationally

The Barbados advantage for Canadian exporters. **A better bottom line.**



**Bayshore Bank & Trust**  
Integris Group of Companies

The reason to use an international business company (an "IBC") in Barbados for international active business is simple: boost profits by lowering taxes; profits that can be returned through dividends to increase research and development and corporate reinvestment to enhance international competitiveness. The source of these savings is due to the Barbadian tax regime – profits from international business activity through an IBC in Barbados is taxed at a maximum rate of 2.5 per cent per year sliding down to one per cent per year as profits grow. These profits can then be sent back to Canada as a dividend without further taxation.

## How it works

For example, Canco, a Canadian manufacturer, sets up an IBC in Barbados for international sales of its products. The financial comparison between Canada and Barbados is illustrated in Table 1. In the first year, the IBC's pre-tax profits are \$250,000. Of course, Canco will have some Barbados-based costs associated with the IBC but these are typically \$15,000 to \$30,000 per year (we have assumed \$25,000 in the example shown) depending on the scale and complexity of the business. In addition, for those businesses with more than \$500,000 US of revenue an audit is required which may add approximately \$10,000 to \$15,000 of additional cost (we have assumed \$10,000 for a total operating cost of \$35,000). The net profits are taxed at 2.5 per cent for a tax bill of \$5,375. This compares to a typical 36 per cent tax rate, or \$90,000 in taxes payable had that income been earned by the Canadian company directly.

Over five years, assuming no growth in the business, the IBC will earn \$248,125

in additional profit relative to Canada. Looked at another way, *the Barbados IBC earns an extra year's worth of pre-tax profit every five years.* Each year's net income of \$209,625 can be paid as exempt surplus back to Canco in Canada without any further tax cost. This treatment is possible because the Canadian Income Tax Act allows foreign affiliates active in jurisdictions that have entered into a double taxation treaty with Canada prior to 1995 to avoid double taxation on their profits. Barbados and Canada signed a tax treaty in 1980.

If Canco is eligible for the Small Business Deduction, the company's Canadian tax rate would be approximately 18 per cent. At this tax rate the Barbados IBC remains more profitable (\$209,625 versus \$205,000 of net income) and the use of a Barbados IBC positions Canco for enhanced profits as the business grows into the future. Obviously, as Canco grows its income into a higher tax bracket the

IBC allows for immediate tax savings that further enhance profits.

Importantly, the costs of an IBC do not vary considerably with increased business activity. Thus, in addition to the annual tax benefits described earlier, margin improvements will increase proportionally to increasing international business profits over time.

There are further benefits for an IBC operating in Barbados. IBC's are not subject to exchange control, withholding tax, stamp duty or property transfer tax. Additionally, should an investment or capital holding be sold for a profit there is no tax liability since Barbados does not tax capital gains. Thus an IBC is a simple business vehicle to run without excessive regulation or taxation.

## Why Barbados

Barbados is an English speaking, stable, democratic nation with long-standing ties to Canada. In fact, Barbados and

Canada recently celebrated the 100th anniversary of the Canadian Trade Commission in Barbados. The country also has a highly educated workforce, excellent telecommunications, good rule of law and shares the same time zone with eastern Canada. Year round warmth and sunshine, friendly people, scenic beauty and pristine beaches also have their appeal.

These advantages coupled with the tax benefits mentioned earlier have made Barbados a very popular location in which to establish an international business. At latest count, there are almost 3,000 IBC's registered in Barbados. Barbados is Canada's third largest destination for foreign direct investment – over \$40 billion. Clearly Barbados is a very important element in Canadian corporate strategy for companies of all sizes.

## Tax treaties

Barbados-based businesses can also take advantage of Barbados' extensive tax treaty network. Most recently Netherlands, Mauritius and Mexico were added to the list of countries that already includes Canada, the United States, the United Kingdom and China among others. Barbados is also a leading member of the Caribbean Community (CARICOM) and the Caribbean Single Market and Economy (CSME) which allows Barbados-based companies to enjoy market access to the Caribbean market and also access to other Caribbean jurisdictions for financial structuring. The Barbados-China tax treaty is a good example of the benefits that Barbados companies can enjoy. Under the treaty, an IBC that acquires or forms a company in China is not subject to capital gains tax in either China or Barbados when the shares are sold.

## Who can help my company?

The use of an IBC or any international structure should always be evaluated in consultation with a qualified tax advisor. There are many practitioners who are very familiar with Barbados and all major firms have the expertise and experience to help companies create a workable international plan.

In Barbados, there are many firms capable of providing corporate services, banking and accounting services for international business either on an individual basis or with integrated capabilities such as the services offered by Bayshore Bank & Trust. Bayshore's objective is to make the establishment and operation of an IBC as cost effective and efficient as possible for the Canadian parent. Services will include incorporations and licence applications, provision of directors and officers, registered business offices, management of corporate meetings and contracts and liaison with local auditors. Integrated firms such as Bayshore will also have bank and settlement capabilities and multi-jurisdictional structuring capability. A good service provider will also have operational experience and strong relationships with the Canadian accounting and tax communities to ensure that the tax plan becomes a business reality.

## Next steps

All good planning begins with good advice and a consultation with a tax advisor is key to developing a workable plan. Once the plan is created, the low cost, highly professional and scalable nature of the services available in Barbados make an IBC the ideal strategy to enhance profit and thus competitiveness for Canadian business internationally. A well-structured plan can be implemented within a month.



Philip Kingston LL.B, MBA, heads Bayshore Bank & Trust's Corporate Services team which has a dedicated group of seven staff providing industry leading corporate services to our international client base. Philip, a lawyer and seasoned corporate services practitioner, has worked in the field for 19 years including 13 years at global accounting firms before joining Bayshore in 2002. The Corporate Services team, which includes two dedicated professional accountants and experienced corporate secretaries and administrators, offers a full suite of services in several Caribbean jurisdictions including incorporations, licence applications, provision of directorship services, financial accounting and administrative services, local tax compliance services, management of corporate meetings and liaison with local auditors. The team also leverages its position within a full service bank by providing trust, banking and cash management services.

## To contact the group:

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**Table 1**

|   | Barbados         | Canada            |
|---|------------------|-------------------|
| <b>Pre-tax profit</b>                     | \$250,000        | \$250,000         |
| <b>IBC operating cost<sup>1</sup></b>     | \$35,000         | nil               |
| <b>Taxable profit</b>                     | \$215,000        | \$250,000         |
| <b>Tax rate</b>                           | 2.5%             | 36%               |
| <b>Tax Payable</b>                        | <b>(\$5,375)</b> | <b>(\$90,000)</b> |
| <b>Net Income</b>                         | <b>\$209,625</b> | <b>\$160,000</b>  |
| <b>Total Five Year additional profit:</b> | <b>\$248,125</b> |                   |

*Assumes \$25,000 of IBC operating costs plus audit costs of \$10,000.*