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The 2014 Canadian Federal Budget  
The impact for Barbados as an international  
business and financial services sector

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# Canadian Federal Budget International Tax Measures

## Background:

- \* Balance competitiveness, simplicity, fairness, efficiency and protection of the tax base
- \* Consistent with OECD project on BEPS and related G8 and G20 efforts
  - Combat “international tax evasion and aggressive tax avoidance”

Budget 2012 – “foreign affiliate dumping” and thin cap rules

Budget 2013 – increased reporting of foreign assets and transactions; treaty shopping consultations

Budget 2014 – additional measures

# Canadian Federal Budget International Tax Measures

Offshore captive insurance swap arrangements

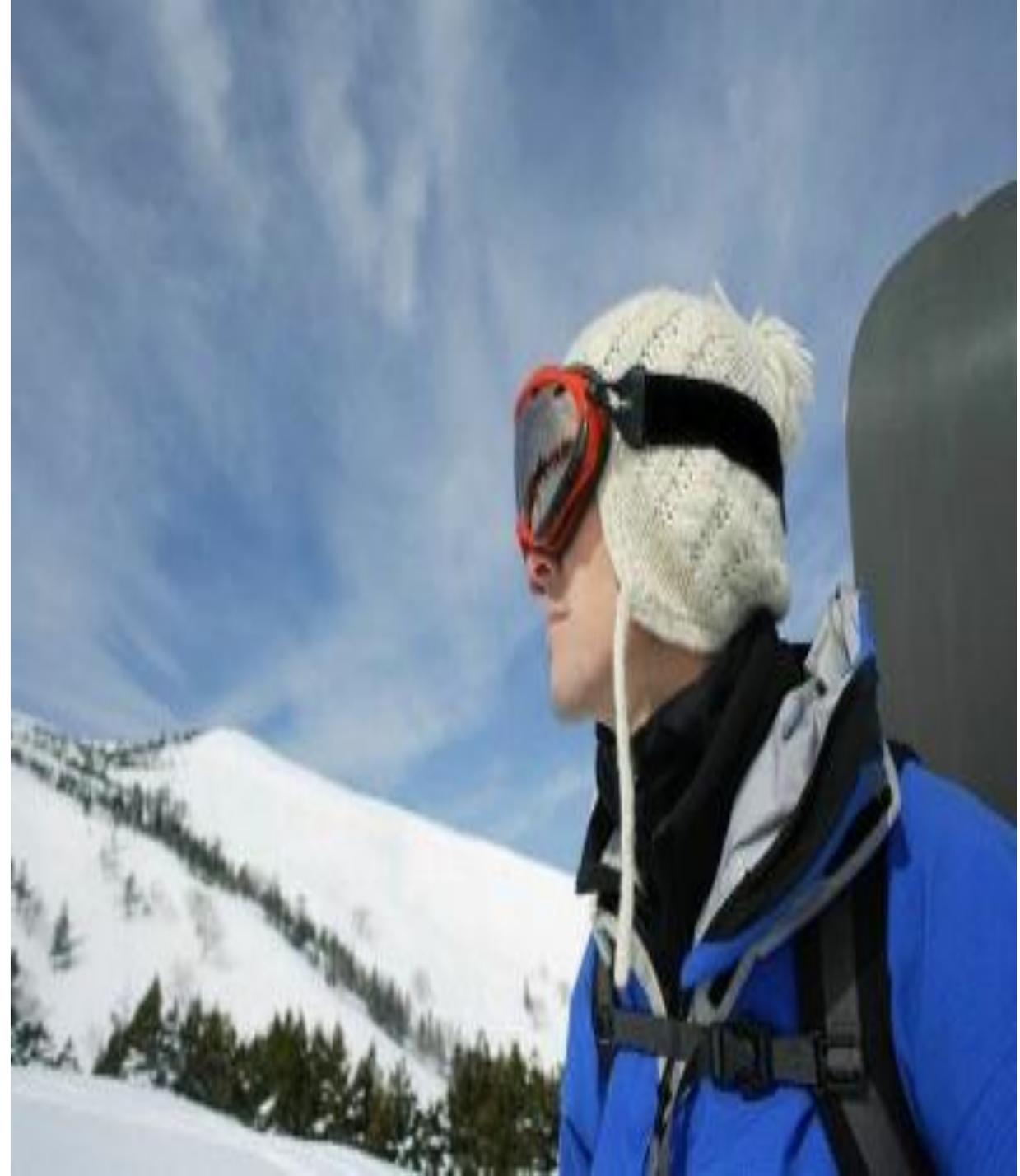
Offshore regulated banks

Anti-Treaty shopping rules

Non-Resident trusts

Tax planning by MNEs – consultation

Back-to-back loans – thin cap rules

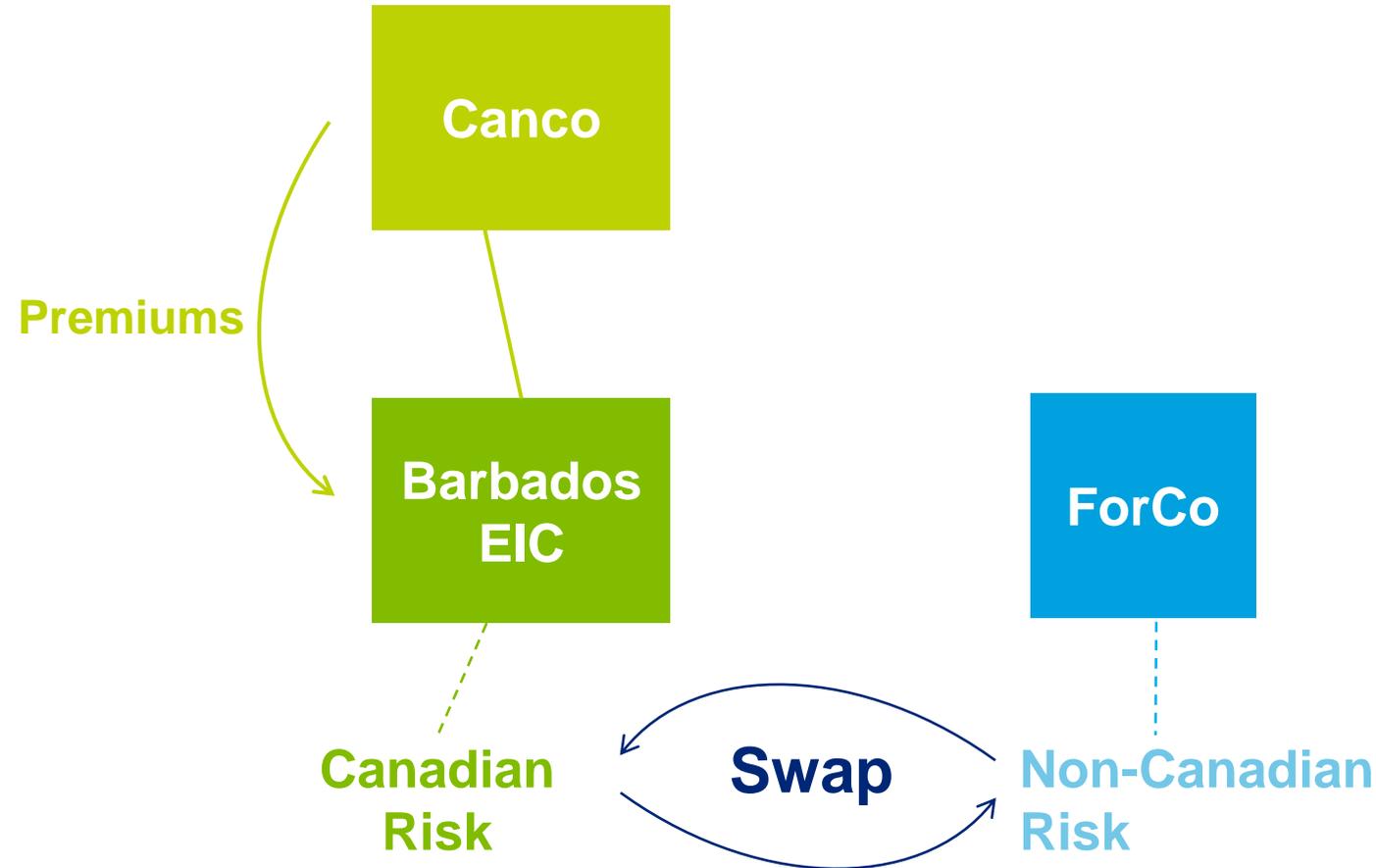


# Canadian Federal Budget International Tax Measures

## Estimated Revenue Impact (millions)

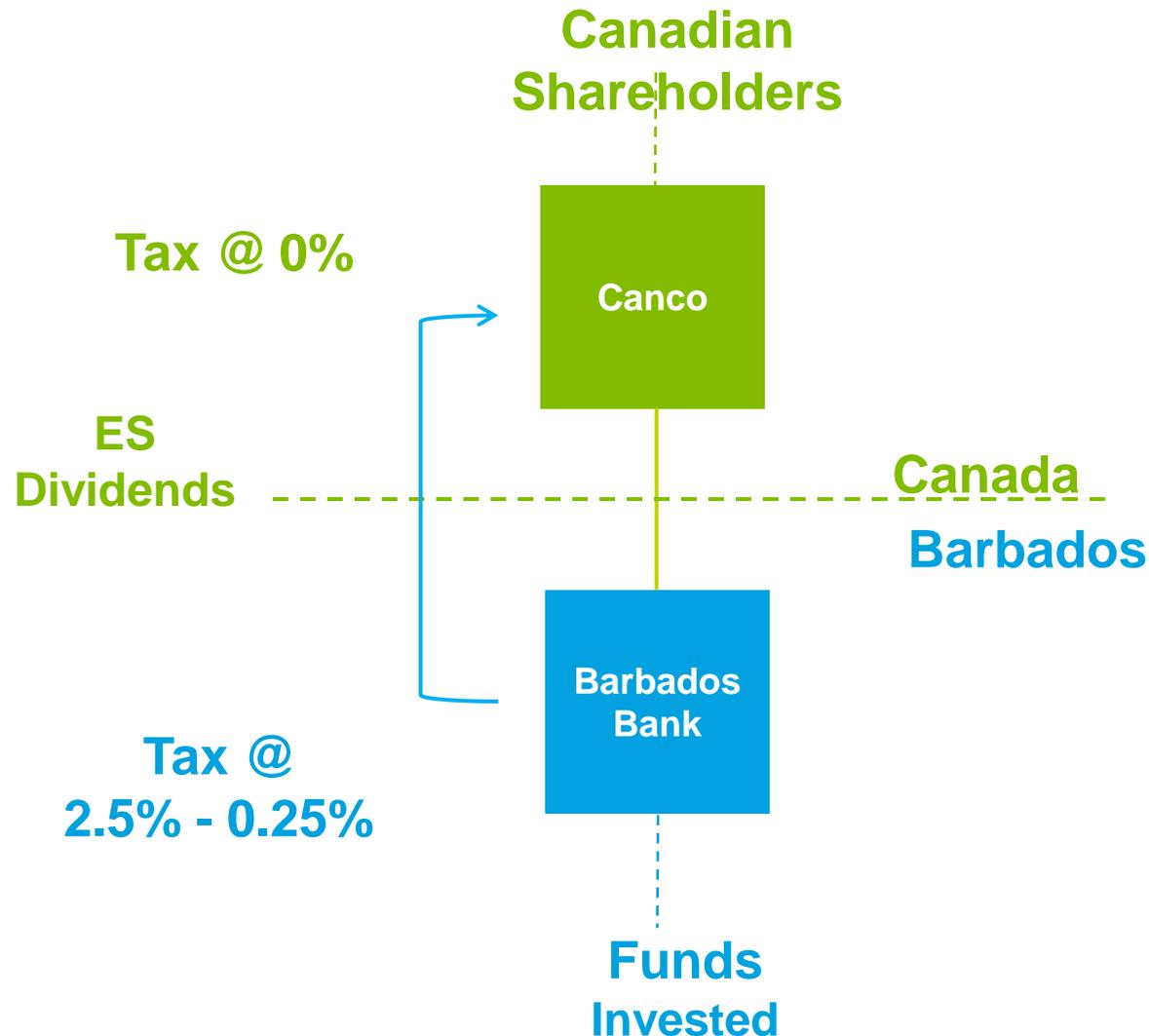
	2015	2016	2017	2018	2019
Insurance swaps	0	275	250	240	250
Offshore banks	0	30	55	50	55
Treaty shopping	-	-	-	-	-
N-R trusts	5	25	25	25	30
MNEs	-	-	-	-	-
Back-to-back loans	-	-	-	-	-

# Captive Insurance “Swaps”



- Income from insurance of Canadian risk is FAPI, taxable in Canada
- New rule: Income from insurance of risks “swapped” for Canadian risks will also be FAPI

# Offshore Private Banks



- FAPI = Foreign Accrual Property Income
- FAPI includes “investment business”
- “Investment business” excludes regulated foreign bank with > 5 full-time employees
- Not FAPI, therefore “exempt surplus”

# Offshore Private Banks

New Rules :

Exemption from “investment business” rules will be available only if Canadian parent company is a regulated financial institution

**Schedule 1 bank**

**Trust company**

**Credit union**

**Insurance corporation**

**Trader or dealer in securities or commodities**

Also requirements re. amount of taxable capital employed in Canada

Applicable to taxation years beginning after 2014

Stakeholders invited to submit comments concerning scope of new rule within 60 days after 11 February 2014

# Treaty Shopping

Consultations during 2013 – consistent with OECD

## Proposed rule

“Main purpose” provision – treaty benefits denied

Conduit presumption – if relevant income transferred

‘Safe harbour’ presumption

- Active business exception
- Derivative benefits exception
- Public company exception

## Relieving provision

- Benefits provided to extent reasonable in the circumstances

## Several examples provided



# Other Measures

## Non-Resident Trusts

### Tax benefit currently available to new immigrants to Canada

- \* Generally, a trust is deemed to be resident in Canada if property contributed by a Canadian resident
- \* Exemption for the first 60 months of residence in Canada

### Proposed rules will eliminate the 60-month exemption

- \* For taxation years that end after 2014
- \* No grandfathering for existing non-resident trusts

## Consultation on tax planning by multi-national enterprises

## Back-to-back loans for thin cap purposes

# Implications for Barbados' international business

# The implications for doing business here

## Captive insurance swaps

- Reduction in business managed in Barbados?

## Private banks

- Understand what current activities may still enjoy tax benefits
- Consider making representations
- Reconsider Barbados operations
- Conversion to IBC structure
- Adopt “private equity” model

Continued/ .....



# The implications of doing business here (continued)/.....

## Treaty shopping

- Minimal, because focus on inbound to Canada?

## Non-resident trusts

- Reduction in trust business?

## Consultation on MNEs

- Consider making representations

# Questions to consider ....

## To navigate the slippery slope :

What will be the impact of the budget measures on business in Barbados, both for specific industries/sectors and the broader economy?

How should affected businesses in Barbados (and their Canadian owners/investors) respond to the proposed changes?

How should the Barbados government respond to the proposed changes (in terms of government to government action and/or domestic measures)?

Comment on the Canadian measures in the broader context of the OECD BEPS project and related G20 efforts, and the impact on Barbados.

# Canadian Federal Budget 2014 Assistance

## Your key contacts at Deloitte Barbados



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