



The Bahamas – the tax-free alternative to Florida

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In earlier centuries, the islands that make up the Bahamas were the favored haunt of pirates and buccaneers. Today, the Bahamas is one of the world's preferred tax-free jurisdictions for the wealthy and famous and one of the 10 leading international financial centers. Its nearest island to the mainland, Bimini, is located just 60 miles from Miami, Florida and good air connections link the country to the United States and Europe.

This favorable geographical location, in combination with the fact there are no personal or corporate income taxes, no capital gains tax, no sales tax, no withholding tax, no employment tax, no gift tax, no inheritance tax and no probate fees, make the Bahamas a very attractive place of residence.

Political stability, good climate and solid infrastructure

Almost 270 years of uninterrupted parliamentary democracy has made the Bahamas one of the most stable countries in the world. The Commonwealth of the Bahamas was a British colony prior to independence in 1973. The Bahamas remains a member of the Commonwealth as well as of the United Nations and many other international organizations. Its political system is based on the British parliamentary model and English common law underlies the judiciary system, although many Bahamian statutory elements have been added over the years. The Bahamas recognizes the Queen as its head of state, represented by a governor general appointed by the Government of the Bahamas. The

country's political stability and sovereign status are among its strengths as an international financial center.

Although situated almost entirely within the tropics, the Bahamas has a very pleasant, distinctly oceanic tropical climate, moderated by the Gulf Stream. There are no great extremes of temperature; the winter months are the driest and sunniest, with slightly lower temperatures, lower humidity and frequent sea breezes. Most of the islands are low-lying and their annual rainfall is lower than other islands in the West Indies. The local climate has only one drawback: tropical storms do occur. The archipelago covers an area of about 161,557 square miles with thousands of islands and islets, although only a few of them are inhabited. About two-thirds of the population live on the island of New Providence, where the country's capital, Nassau, is located.

For many years now, the government has spent considerable sums of money on improving the infrastructure, and the Bahamas now has modern transportation and telecommunications networks and good medical facilities.

The country's six airports are served by various international airlines, allowing direct flights to and from many destinations in Europe, North and South America and the Caribbean, with onward connections worldwide. Scheduled domestic flights by the national airline, Bahamasair, link all the key islands. Charter services are available to all parts of the archipelago.

The Princess Margaret hospital on New Providence, the main island, provides a good range of specialist facilities. There are also two smaller private hospitals, Doctors Hospital and Lyford Cay Hospital, which also offer specialized medical treatment. Hospital facilities also exist in Freeport, and numerous clinics are located throughout the Bahamas. Resident medical practitioners provide health care on the Family Islands.

An (almost) tax-free environment

One of the most interesting attractions of the Bahamas is an almost complete absence of direct taxation. No taxes are levied on capital gains, corporate earnings, personal income, sales, inheritance or dividends. This tax freedom is available to all resident corporations, partnerships, individuals and trusts. There are, however, rather high import duties and almost everything purchased in the Bahamas is considerably more expensive than, for example, in nearby Florida, as most goods have to be imported. Thus, a car can easily cost 50% more in the Bahamas than elsewhere, as customs duties are between 55% and 82% of book values, and dining in one of the better places in town costs as much as in exclusive restaurants in the world's large cities.

Stable economy

The economy of the Bahamas depends heavily on tourism and financial services. Tourism accounts for almost two-thirds of the country's gross domestic product and directly employs more than 40% of the labor force. The financial sector, which accounts for about 15% of GDP, is the second pillar of the economy. About 400 banks and trust companies are licensed in the Bahamas, with total assets under management of around US\$ 200 billion.

Ship registration also represents a considerable business here, as the Bahamas Shipping Registry lists about 1,600 merchant ships, making the country the third-largest maritime registry in the world.

The local economy is fairly stable and enjoys reasonable growth with low inflation, largely due to the strength of the tourism industry. The Bahamas naturally depends significantly on the economic situation in the US, and a recession there always has an impact on this nation of islands.

Acquiring real estate

In a recent shift of government policy, the Bahamas now encourages foreigners to acquire residential real estate on the islands. A new attitude towards foreign investment led to the revoking of the *Immovable Property Act, 1981*, which required prior approval for the purchase, transfer or inheritance of real estate by foreigners. This restrictive legislation has been replaced by the *International Persons Landholding Act, 1993*, which came into force on January 1, 1994.

The new legislation makes foreign ownership of Bahamian real estate considerably easier. Prior government approval is not required for non-Bahamian citizens to purchase residential real estate of less than five acres. Such acquisitions, however, must be registered with the Investments Board. A foreigner who purchases a home in the Bahamas can now simply apply to the Secretary of the Investment Board, which will register the purchase and issue a *Certificate of Registration*. The same applies to heirs who receive such real estate *via* an inheritance; they merely have to register, nothing more.

A permit is only required if the real estate comprises undeveloped land larger than five acres, if it is not a private residence nor is intended for development. In these cases, a foreigner must apply for a permit. Failure to obtain one will render the acquisition invalid. But any money already paid in consideration of the acquisition can be recovered in such cases. If a foreigner wishes to lease or let his or her Bahamas real estate, he or she does not need to obtain a permit unless the leasing or letting

arrangement is for a trade or business purpose.

Real estate is relatively expensive in the Bahamas, depending on the location, although prices vary considerably throughout the islands. In good locations and on the main islands, such as New Providence and Grand Bahama, house prices are more than double those in Florida. Nevertheless, residents will find the high prices are compensated by the lack of income taxes, wealth taxes and gift or inheritance taxes. One of the more important recent trends has been the development of luxury real estate to attract a wealthy international clientele.

But while the Bahamas has almost no direct taxation and finances itself primarily through high import duties, there is a considerable government stamp tax on real estate transactions. Stamp duty starts at 2% for real estate valued less than US\$20,000, rises to 4% for the US\$20,000 to US\$50,000 bracket, 6% for the US\$50,000 to US\$100,000 segment and 8% for real estate over US\$100,000. Payment of this tax is usually shared equally between the seller and the buyer.

Residence in the Bahamas

If you establish a substantial business in the Bahamas, the work permits required for the owner/manager and the key personnel in the business are readily granted. If you are financially independent and do not intend to work in the Bahamas, you may acquire a residence permit on that basis, provided you can show proof of sufficient funds, have no criminal record and comply with the usual documentary requirements to satisfy the immigration authorities.

The Bahamas now actively welcomes foreigners who wish to make the country paradise their home. Preferential consideration of applications for permanent residence is given to major investors and to qualified owners of residential property valued in excess of US\$500,000. As house

prices are rather high in the Bahamas and this would be the minimum sum required for a well-built, spacious and comfortable home in a good location, at least on the main islands of New Providence and Grand Bahama, most financially independent foreigners who wish to reside in the Bahamas can obtain a residence permit quickly and easily.

As an alternative to a full residence permit, foreign citizens owning residences in The Bahamas may apply to the immigration authorities for a "Home Owners Card." This card does not provide residence status for tax purposes but it allows cardholders and their immediate family to enter and remain in the Bahamas for as long as the card is valid.

Many investment and tax incentives

The Bahamas has enjoyed increased direct foreign investment during the last 10 years. The government has established generous incentives to attract foreign investors and has streamlined administrative procedures. The Bahamas possesses a reasonably well-developed infrastructure and a skilled workforce. A high quality of professional services is readily available, including those offered by accountants, lawyers, banks, investment and fiduciary services. The government encourages foreign investment particularly in the finance industry, in manufacturing, shipping and tourism development.

The Bahamas government recently established the Bahamas Investment Authority to "cut red tape and lay out the red carpet" for investors. Operating from the office of the prime minister, the authority has been designated a "one-stop shop" for foreign investors. The authority's mandate covers the development of investment policies, investment promotion, project evaluation as well as project monitoring and the provision of support services.

The country's tax-free environment and stable currency are enhanced by a series of investment incentives that provide relief

from customs duties on approved raw materials, equipment and building supplies, as well as allowing exemptions from business licenses and real property taxes for up to 20 years. Thus, the *Hotels Encouragement Act* provides many attractive incentives for investors who wish to develop new hotels and expand or refurbish existing ones in the Bahamas. The incentives available to new hotels include exemption from customs duties on raw materials and equipment as well as a refund of all custom duties paid on materials purchased in the Bahamas. Exemptions from real property tax and licensing fees, admission of key personnel and specialist workers to the Bahamas during the period of construction and operation of the new hotel, as well as a 20-year exemption from direct taxation upon the earnings of the hotel and its amenities are also available.

In addition, the *Industries Encouragement Act* exempts exporters from import duties on raw materials as well as equipment and business license fees. This legislation is of particular benefit to manufacturers. Freeport on Grand Bahama grants businesses in the free trade zone exemption from taxes on profits, capital gains, inheritance, income, earnings, distributions, gifts or on imported and exported goods. And import duties and taxes on real estate will be waived until August 3, 2015. The Bahamas has no restriction on the free repatriation of profits.