

# Tax Alert



## Barbados enacts corporate tax reforms in response to Pillar Two

Barbados has implemented significant reforms to its corporate tax regime through the enactment of the Income Tax (Amendment and Validation) Act, 2024-15 and a new stand-alone Corporation Top-Up Tax Act, 2024-16. Key features of these legislative reforms include new corporation tax rates and the imposition of a Qualified Domestic Top-Up Tax (QDTT) on qualifying resident companies that are members of a Multinational Enterprise (MNE) group with annual consolidated revenue of EUR750m or more, to achieve the global minimum effective tax rate of 15%.



## Barbados corporation tax rates

Category	Income year 2024	Income year 2025
All companies except those that meet the below criteria:	9%*	9%
Companies that are members of a MNE group, with an annual consolidated revenue of EUR750m or more, whose ultimate parent entity or intermediary parent entities are located in a jurisdiction which <b>has not</b> enacted top-up tax legislation	5.5% - 1%	9%
Companies registered as approved small businesses	5.5%*	5.5%
Companies engaged in international shipping business	5.5% - 1%	5.5% - 1%
Class 1, Class 2 and Class 3 insurance companies	0% - 2%	0% - 2%
Income derived from qualifying intellectual property	4.5%	4.5%

\* Effective 1 January 2024.



## Reliefs from domestic top-up tax

A top-up tax of 15% has been introduced effective 1 January 2024. The aim of the top-tax is to establish a minimum tax rate of 15% for certain qualifying MNE groups. There are transitional reliefs available to MNE groups where:

- the MNE group is deemed to be in an initial phase of international activity; or
- for the first fiscal year commencing on or after 1 January 2024, the income of a MNE group is not subject to an IIR or UTPR in another jurisdiction.

A de minimis exclusion election is also available and would operate to reduce the top-up tax to zero where:

- the average qualifying revenue of the MNE group is less than EUR10m; and
- the average qualifying income of the MNE group is a loss or less than EUR10m.



## Transitional CbCR safe harbour

The filing entity of a Domestic Minimum Top-Up Tax (DMTT) group may make a transitional safe harbour election for a fiscal year. Where such an election is made, all qualifying entities of a DMTT group will be deemed as not having top-up tax liability if a qualifying Country-by-Country Report has been prepared in relation to Barbados for the fiscal year, and at least one of the three tests on revenue threshold, simplified effective tax rate or routine profits levels are met.



## Qualified refundable tax credits

The following qualified refundable tax credits have been introduced:

- **Jobs credit:** A jobs credit may be claimed by a company or permanent establishment carrying on business in specified sectors and incurring eligible payroll expenditure after 1 January 2024. The jobs credit will be determined on the basis of a sliding scale of 25%-100% of eligible payroll expenditure, according to the number of employees.
- **Research & Development (R&D) credit:** An R&D credit of 50% of eligible expenditure will be made available to any entity in Barbados which carries on qualifying R&D activities.

These credits may be set-off against any other tax liability for a period of four (4) years.



## Patent box regime

Barbados has introduced a new patent box regime whereby, on election, income derived from qualifying intellectual property (IP) may be subject to tax at a rate of 4.5%. The categories of IP which qualify under the regime include rights to software copyright, rights to patents and other similar legally protected rights.



## Group relief and change to tax loss carry forward period

The provisions for group relief will enable the current trading losses of a surrendering resident company to be set-off, by way of relief from corporation tax, against the profits of a claimant company, whether in whole or in part. Group relief is available where:

- a surrendering company and a claimant company are members of the same group;
- the resident companies are subject to tax at 9%;
- the resident companies meet the 75% percent subsidiary test;
- every company seeking group relief is resident in Barbados; and
- the relief sought must not exceed 50% of the amount of tax which would have been payable had the relief not been granted.

Group relief will apply from income year 2024 with respect to all entities that have trading losses from income years prior to income year 2024 in excess of US\$50m. For all other companies group relief will apply from income year 2025.

With effect from income year 2025, tax losses will only be available to be carried forward for five (5) income years following the income year in which the loss was incurred.



## Corporation tax prepayments

Resident companies are now required to prepay corporation tax monthly in an amount equal to one-twelfth of the tax payable on the taxable income for the income year before the preceding income year. Prepayments must be paid no later than the 15th day of each calendar month. Exemptions from monthly prepayments may apply for income year 2024 only, if any one of the following criteria is satisfied:

- resident companies that are not members of a large MNE group; or
- resident companies that are members of a MNE group, with an annual consolidated revenue of EUR750m or more, whose ultimate parent company or intermediary parent companies are located in a jurisdiction which **has not** enacted top-up tax legislation.





## Let's talk

For an in-depth discussion of how these corporate tax reforms might affect your business, please contact:



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