



Ministry of Finance

FINANCIAL SERVICES ENTITIES

GUIDANCE DOCUMENT



DEPARTMENT OF
INLAND REVENUE
Central Revenue Administration

THE DEPARTMENT OF INLAND REVENUE



INTRODUCTION

This guide is intended to provide additional information and interpretative guidance on the application of the Business Licence Act, 2023 (the “BL Act” or “Act”) to Financial Services Entities (“FSEs”), International Business Companies (“IBCs”), Proprietary Traders and Family Offices. It should be read in conjunction with the Business Licence Act, 2023 (“BL Act or the Act”) and Business Licence Regulations, 2023 (“BL Regulations”), which can be found on the website of the Department of Inland Revenue (“DIR”). If there is a discrepancy between the guidance note, and the Act, the Act will prevail.

Business Licence Requirement

A business licence is only required for entities and persons carrying on business in or from within The Bahamas. The key parts of this requirement are that a) the entity or person must be carrying on an active business; and b) the business must be carried on in or from within The Bahamas. As to the first part of the test, persons or entities that are only holding assets (of any kind) and are not operating a business are not required to have a business licence or to pay business licence taxes.

What is a Business?

Activities falling within the ordinary understanding of the word “business” are inherently covered. The definition of business outlined in the Act also includes the following activities, in each case carried out for a revenue generating purpose:

- Trading, professional and vocational activities, venture or undertakings;
- Providing personal services, or technical and managerial skills, and transactions of a business nature that does not include employment;
- Utilizing tangible or intangible assets to generate income on a continuing basis.

In the context of an annual licence, the term 'business' implies regular and continuous activity carried on for the purpose of generating revenue.

A business licence is mandatory for all rentals of real property located in The Bahamas by foreign persons and entities. Furthermore, the definition of turnover explicitly includes rents and royalties.

What activities are deemed to be conducting business in or from within The Bahamas?

The following activities are considered to be conducting business in or from within The Bahamas:

- Business revenue recorded in the books and records of an IBC as having been earned from activity in or from within The Bahamas
- Included entities (other than those that are pure equity holding entities) involved in relevant activities under the Commercial Entities (Substance Requirements) Act (“CESRA”) which are required to have substantial economic presence in The Bahamas
- Operational mind and management of a business being conducted in The Bahamas*
- The existence of operations at a permanent establishment/fixed place of business
- Performance of personal services within The Bahamas
- A Financial Services Entity (i.e. a business that is subject to paying a licensing fee and regulated with the Central Bank of The Bahamas or the Securities Commission (“SCB”), an insurer, a co-operative credit union, a Carbon Credit Trading Act registrant)

* Note that the fact that decisions of the Board of Directors are being made in The Bahamas does not by itself constitute doing business in or from within The Bahamas. The entity must be conducting a business as defined in the Act. There must be significant business operating decisions on an ongoing basis being made from within The Bahamas.



Which entities are excepted?

Two specific types of operations are specifically excluded from the definition of a business:

- **Investment funds** regulated by the SCB in accordance with the Investment Funds Act. Fund Administrators and Managers, however, are involved in securities business and will be taxed.
- **Pure equity holding entities**, which are entities exclusively dedicated to holding participations in other entities, with their sole sources of income stemming from dividends and capital gains.

Investment funds and pure equity holding entities, therefore, do not need business licences and do not pay business licence taxes. Note that these entities are only specifically excluded for clarity. Other entities as described below which do not carry on a business or do not carry on a business in or from within The Bahamas are also not subject to licensing or taxes.

Activities that are not businesses

The following activities are also not considered businesses and, therefore, do not require business licences and are not subject to business licence taxes:

- A pure equity holding entity receiving dividends which are paid into an interest bearing account
- An IBC that is created to hold an investment account (whether actively managed or not), but has no other activity
- Sale of real property or other capital assets, where the sale is not in the ordinary course of business (VAT is, however, payable on the sale of real property located in The Bahamas)
- The ownership by an IBC of a property in The Bahamas that is used exclusively as a residence for the beneficial owner
- Holding company that holds tangible assets, for example real estate or art but does not generate income from those assets
- The ownership of tangible and intangible property outside of The Bahamas, where there is no activity being conducted in or from within The Bahamas to generate income from the property.



When is investment income or property ownership taxed?

If an IBC owns property registered or located in The Bahamas and obtains rental income from the property, this is a business and is subject to BL tax.

- **If an IBC owns property outside The Bahamas and is renting that property, is that considered a business?**

Having a property outside The Bahamas does not fall under BL Act unless there is some operational activity in relation to generating income from that property being conducted in The Bahamas. As such, if the IBC has business operations in or from within The Bahamas and the revenue is derived from and attributable to activities occurring in or from The Bahamas, then **yes**.

- **An IBC is used as a private holding company which owns a real estate property. Will it be taxed if the rental income is derived from a local property? What about if the income is derived from a foreign property?**

If income is derived from a local real estate property, yes. Foreign property income will only be subject to business licence tax if there is business activity in or from within The Bahamas that contributes to generating that income.

- **An IBC that is not a pure equity holding entity has holdings in an offshore bank in The Bahamas. Are these investments treated as in The Bahamas or outside of The Bahamas?**

The investments are treated as in The Bahamas. However, the income earned from the investments are not taxed unless the IBC is conducting business in or from within The Bahamas.

What is an FSE?

Businesses licenced and regulated under these Acts are classified as Financial Services Entities.

- Banks and Trust Companies Regulation Act, 2020 (BTCRA)
- Securities Industry Act, 2011 (SIA)
- Financial and Corporate Services Providers Act, 2020 (FCSPA)
- Investment Funds Act, 2019 (IFA)
- Digital Assets and Registered Exchanges Act, 2020 (DARE)
- Insurance Act
- External Insurance Act
- Bahamas Co-operative Credit Unions Act, 2015 (BCCUA)
- Carbon Credit Trading Act, 2022 (CCTA)

Individuals licenced under these Acts offering services outside of their employment are also considered to be businesses and require a business licence.

FSE Tax Rates

Type of Financial Services Entity	Annual tax
Authorised Dealers	2.25 % of total revenues net of interest expenses
Authorised Agents under the BTCRA	\$10K or 1.25 % of turnover (whichever is greater). Maximum tax \$100K
Other Public Banks and Public Trust Companies	\$25K or 1% of turnover (whichever is greater). Maximum tax \$100K
Non-bank Money Transmission Businesses (MTBs)	\$10K or 1.25 % of turnover (whichever is greater). Maximum tax \$100K
Insurers under the Insurance Act	2.25 % of gross premiums
	Regular rates on other revenues
CCTA, DARE, IFA, & SIA registrants or licensees	2.25 % of turnover from operations in the domestic market 0.25 % of turnover from operations outside of the domestic market. Maximum \$100K
Moneylenders	2.25% of turnover
Other financial services entities	\$2.5K or 1.25% of turnover (whichever is greater). Maximum tax \$100K

“Other Financial Services Entities” includes:

- Co-operative credit unions
- Nominee trustees
- Private Trust Companies
- Financial and Corporate Service Providers
- Insurers under the External Insurance Act

In the case where an FSE carries on activities across more than one category or conducts other activities that are not included in financial services, tax will be calculated at the highest of the applicable rates. However, if the entity has no operations in the domestic market the amount payable will not exceed \$100,000.

For Example:

Let's say StevCo Trust Company has a Trust licence under CBOB, and a FCSP licence under the Securities Commission (SCB). If StevCo's total turnover is \$1.5M, BL tax would be \$25K. This is because the Trust rate has a minimum tax of \$25K which is higher than applying the FCSP rate of 1.25% to the turnover.

Maximum tax amount

Regardless of their turnover amount, FSEs or IBCs that do not have operations in the domestic market will not have a tax liability exceeding \$100,000.

Are there exemptions for FSEs?

All FSEs are subject to taxation at the rates specified in the FSE schedule. It's worth noting, however, that FSEs in the category, “other financial services entity” (e.g. financial and corporate services providers and nominee trustees) that have turnover that does not exceed \$100,000, will only pay \$2,500.



Do IBCs require a business licence?

Only IBCs that are conducting business in or from within The Bahamas are required to have a business licences and pay BL taxes.

How does BL tax work for IBCs?

Where the revenue from an IBC's business activity being conducted in or from within The Bahamas is derived from both domestic and international clients, the IBC is required to allocate and apportion the turnover between the activities for calculating the tax payable.

For income generated from business operations outside The Bahamas but accruing to or derived from activities carried on in or from The Bahamas the following rates apply

- \$2,500 for amounts up to \$1M
- 0.25% up to \$100K if the amount exceeds \$1M

For income generated from business operations in The Bahamas, the following rates apply.

- Regular business rates, if not a FSE
- If a FSE, refer to FSE schedule

What activities are considered “operations in the domestic market”?

For FSEs, “operations in the domestic market” means:

- Dealing in Bahamian Dollar denominated financial instruments.
- Any products on the Bahamas International Securities Exchange
- The provision of services and products to Bahamian residents.

Additionally, IBC revenue derived from the following activities listed in Part IV (3) is deemed to be domestic operations:

- Sale* of or commercial benefit from property located or registered in The Bahamas
- Export of goods from The Bahamas
- Sale or provision of goods or services to persons within The Bahamas at the time the services are provided or to persons resident in The Bahamas
- Professional services

*A sale is only taxable where it is in the ordinary course of business. In other words, there is no tax if an IBC that is only holding property decides to sell that property

BL Tax for other businesses

Turnover	Tax rate
Greater than \$100K up to 500K per annum	0.5 % of turnover
Greater than \$500K up to \$5M per annum	0.75 % of turnover
Greater than \$5M per annum	1.25 % of turnover

These rates are only applicable to:

- IBCs that have domestic operations
- FSEs that have business activities other than financial services
- Proprietary trading businesses with revenues from activities other than proprietary trading
- Revenues, other than gross premiums from insurers under the Insurance Act

How are the regular business rates applied to non-premium revenues of insurers under the Insurance Act?

Total revenues will be considered in determining the applicable rate to be applied to an insurer's non-premium revenue. For example, if an insurer under the Insurance Act has total turnover of \$6M including non-premium revenues of \$500K. The non-premium revenues of \$500K will be taxed at 1.25% because total turnover exceeds \$5M.

Note as well that BL tax on non-premium revenues of insurers under the Insurance Act must be paid directly to the DIR. The tax on gross premiums will continue to be paid to the Insurance Commission and the Commission will remit the applicable portion to the Government.

On proprietary trading

Proprietary trading means trading in securities, commodities, digital assets and/ or carbon products by an entity using the entity's or an affiliate's own money. The entity, therefore, receives the total gains from the trade, rather than just commissions.

The Act does not intend to capture individuals holding an account over which they have trading authority. A person or entity will only be a proprietary trading business where the trading is conducted as a business activity regularly and continuously.

If a business' turnover includes revenues from proprietary trading, it will be taxed as follows:

- The greater of \$15K or 0.25% of income generated from proprietary trading up to a maximum of \$100K
- On all revenues derived from activities other than proprietary trading:
 - the rates in the FSE schedule will apply where appropriate; or
 - the rates for regular businesses will apply where appropriate.

What is turnover for proprietary traders?

Turnover for proprietary traders means the total investment earnings from proprietary trades. If the entity also engages in trading activity for private clients, the commissions earned from those trades are also taxed. Similarly, if the entity engages in other types of business activities, the revenue generated from those activities is also included in turnover.

Where an IBC is involved in a specified activity (i.e., Proprietary Trading) but also has revenue from an unspecified activity, how is the revenue taxed?

The revenue from proprietary trading is taxed at the rate of the greater of \$15,000 or 0.25% of up to a maximum of \$100,000.

Any revenues from activities other than proprietary trading is taxed as follows:

- If it is derived from activity in the domestic market, it is taxed at regular business rates.
- If it is derived from activity outside the domestic market, it is taxed at:
 - \$2,500 for revenues up to \$1M;
 - 0.25% up to a maximum of \$100K if the revenue exceeds \$1M

Note, however, that if the IBC has no operations in the domestic market, the total tax from all its activities is capped at \$100,000.

Family Offices:

A family office is one that:

- (a) is ultimately beneficially owned by one or more persons related by consanguinity or other family relationship, or if not so owned, is operated solely for the benefit of such persons; and
- (b) generates turnover only from managing assets for such persons mentioned above and their descendants whether directly or indirectly through intermediate legal entities and trusts

The Act does not intend to capture single family offices. Instead, the intent is to capture family offices which are operated with a genuine commercial purpose and not simply as an expense centre. Family offices are required to pay tax of the greater of \$10K or 0.25% of turnover up to a maximum of \$100K.