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Recent changes in Belize economic substance requirements and taxation principles

Recently, the Belizean economic substance and tax legislation has been amended. The amendments concern the operations of Belizean-registered International Business Companies (IBCs).

Serious changes currently going on in the offshore industry are attributable to the pressure that the EU and OECD are applying to low-tax and zero-tax jurisdictions. Offshore states are urged to eliminate their harmful taxation practices and reform their corporate and tax legislations to bring them in keeping with the international standards.

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Key changes in the IBC-related Belizean legislation

IBCs registered in Belize are governed by the Belize Economic Substance Act (BESA) and the Belize International Business Company Act (BIBCA). Changes have been introduced to these Acts in 2018 and 2020.

Let us remind you that previously, Belizean-registered IBCs engaged in international business could not purchase property nor engage into economic activities in the country. Amendments to the BIBCA BESA have changed the Belizean corporate and tax legislation drastically.

Now IBCs can be registered in Belize both as resident companies and as non-resident companies. They can own land, real property, shares of local companies, and they can do business in Belize. If an IBC is unable to prove tax residence in another country, it has to pay all the Belizean taxes as a resident company.

These transformations in the legislation have allowed Belize to leave the European Council grey list on February 18, 2020. Now this country is not considered an offshore zone any longer as it does not apply harmful taxation practices.

Main requirements to the economic substance of Belizean companies

Companies registered in accordance with the BIBCA must comply with the Economic Substance

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requirements. These companies are considered economic entities in Belize and they are referred to as 'incorporated organizations'.

Incorporated organizations in Belize

The following two types of companies can be considered incorporated organizations in Belize:

1. **A commercial company** that is engaged in a legal business activity and that operates in accordance with the Belizean Act 'On Companies'.
2. **A regulated company** that is engaged in a legal business activity in the country on a license issued by the Belizean International Financial Service Commission (IFSC).

Please note: *Incorporated organizations cannot be placed under management of foreign companies. Only licensed agencies can acquire such rights.*

Types of legal business activities:

- Banking services.
- Insurance.
- Financial services and leasing.
- Fund management.
- Shipping.
- Distribution services.
- Holding parent companies controlling their affiliations (one or more).

Non-incorporated organizations in Belize

A Belizean-registered IBC that is controlled and/ or managed from another country and that is not a tax resident company in Belize is considered a 'non-incorporated organization' and it is not subject to the Economic Substance Act.

Economic Substance requirements that incorporated organizations have to meet in Belize

The key Economic Substance requirements include the following ones: the company shall be physically present in Belize and generate primary income in Belize as well.

The notion of primary income in Belize

Primary income made in Belize is defined by the legislative acts relevant for the business activities that the company is engaged in. The main defining criteria are the following ones:

- Annual operational costs of the company.
- Number of company personnel.
- Offices and other premises of the company.

The notion of company physical presence in Belize

The criteria that determine if the company is physically present in Belize are as follows:

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- The Shareholder Meetings are held in Belize and their number is sufficient for making strategic managerial decisions.
- The Board of Directors Meetings shall have a quorum in accordance to the company By-laws and the Belizean law 'On Companies'.
- All the strategic decisions made by the Board of Directors have to be entered into the minutes of the meeting.
- The minutes and other records following the Board of Directors meeting shall be kept in Belize.
- The members of the Board of Directors shall be well-qualified and experienced professionals capable of managing the company in an efficient way.

The terms of bringing the company into compliance with the Economic Substance requirement and the fines for non-compliant companies

The company shall acquire the required economic substance within 90 days. If it fails to do so, the company shall be audited while covering the costs of the audit procedures.

If the audit does not start within 60 days, the company will have to pay a fine of 75,000 USD. If it is a financial company working under an IFSC license, the fine for failing to meet the economic substance requirements is 150 000 USD.

In addition, companies that fail to meet these requirements may face license revocation and deletion from the state Company Register lists.

Relaxed requirements to Holdings in Belize

As far as the economic substance requirements to Pure Equity Holdings are concerned, they are more relaxed.

We are talking about holding companies that buy and own shares of foreign companies thus acquiring income from dividends or capital gains. Such holding companies shall not be engaged in any type of business in Belize other than acquiring passive income from its affiliations and subsidiaries.

The relaxed requirements to Holdings in Belize are as follows:

- The holding company shall operate in accordance with the laws of Belize.
- The holding company shall have a sufficient number of personnel and adequate office space to provide for the functionality of the company and the management of its affiliates and subsidiaries.

Reporting in accordance with the Economic Substance Act

All legal entities registered in Belize shall submit annual financial reports within nine months since the completion of the previous fiscal year. This requirement concerns both incorporated and non-incorporated organizations.

- Licensed agents in Belize shall submit the report form A.
- Incorporated organizations shall submit the report form B.

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- Holding companies shall submit the report form C.
- Non-incorporated organizations shall submit the report form D.

The reports shall be submitted to the IFSC in a timely manner.

Changes in the IBC-related tax legislation in Belize

Amendments have been made to the Belizean tax legislation that have rendered the country free from the 'tax haven' status.

That is to say, Belizean-registered IBCs are not exempted from taxes any longer. The 2018 amendments to the Belize Income and Business Tax Act (IBTA) regulate the business operations of the locally registered IBCs.

This means that both resident and non-resident Belizean IBCs shall pay income taxes, stamp duties, file financial reports, and income declarations if they conduct business activities in Belize.

In addition to that, companies shall pay taxes on gross global income. If the gross income exceeds 6 million USD per year, they shall carry out an audit.

Companies registered before 16/10/2017 enjoy preferential tax treatment. This tax regime will end on 30/06/2021.

All legal entities registered after October 16, 2017 shall comply with the legislative changes. This means that they have to be registered with the tax authorities, acquire a Tax Identification Number (TIN), and start paying taxes.

A non-resident Belizean company is a company that possesses the following characteristics:

- It is not physically present in Belize.
- It conducts business activities and obtains profits abroad.
- It pays the income tax in another jurisdiction.

Key changes to the corporate income tax requirements in Belize

- The income tax rate for Belizean resident companies is **25%**.
- The income tax rate for Belizean companies engaged in oil business is **40%**.
- IBCs registered in Special Economic Zones in Belize shall pay the income tax at the following rates:
 - If their income exceeds 3 million Belizean dollars (BZD) = (1.5 million USD), the tax rate is **1.75%**.
 - If their income is lower than 3 million BZD, the tax rate is **3%**.

Tax exemptions for non-resident Belizean companies

Belizean IBCs whose income is obtained abroad are not taxable in Belize. Income from capital gains, dividends, and interests can also be free of tax. The payments made by Belizean companies to non-Chat with us, we're online!

residents can also be tax-exempt.

However, if an IBC is to be free of tax in Belize, it has to submit documents to the Belizean IFSC that confirm its tax residence in another national state. In particular, the following documents need to be submitted:

- A document confirming that the company is not a tax resident in a blacklisted country that does not cooperate with the UE and OECD in tax matters.
- Tax residency certificate issued by the tax authorities of the company's country of residence.
- The certificate shall have a clear expiry date.
- A document confirming the payment of the income tax in the country of the company's tax residency.

In the future, the Belizean Tax Service is going to exchange fiscal information with other countries in accordance with the Agreement on Exchange of Fiscal Information. The foreign tax resident financial information will be linked to their Belizean TIN and submitted to the tax authorities of their country of residence.

If you would like to learn more about foreign company registration opportunities or opening a bank account abroad, please apply for our consultations. You are welcome to send your queries to the email address found above the article.

What has changed in Belize after the legislative reforms took place? +

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