

**ESTIMATING THE CONTRIBUTION OF IBC ACTIVITY TO THE
ECONOMY OF THE BAHAMAS**

RESEARCH DEPARTMENT

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Introduction

This report summarizes an assessment of the value of the contribution of International Business Companies (IBC) formation and management activities to the economy of The Bahamas. IBCs are fully integrated into the financial services landscape, having an impact on employment in banking and trust operations, the securities industries and among the legal and accounting professions. The Government also benefits from direct revenues generated during the incorporation process and from annual registration fees levied. The findings from the study below indicate that the direct benefits from active fee paying IBCs were at least \$51 million in 2005. On the conservative end, the incorporation process generated an average value of nearly \$2,100 for each IBC, while annual maintenance added just in excess of \$1,100 per company. In both cases, the bulk of the flows, accrue to the private sector and the remainder, to the Government. However, aggregate benefits remain below peak amounts realized prior to the 2000 enactment of more stringent legislation affecting IBCs. The current private sector business, which is nearly evenly shared between financial institutions (banks and investment fund administrators) and financial and corporate services providers (FCSPs), is expected to experience future growth, closely linked to overall trends in the provision of international financial services from The Bahamas.

During June and July of 2005, the Central Bank surveyed a sample of FCSPs, banks and investment fund managers to obtain estimates of the direct private sector benefits generated from IBC activities, based on the fee structure for services provided and the frequency at which these were charged. The survey also sought to ascertain the origin of business as divided between new incorporation, continuation of companies from other jurisdictions and the re-instatement of licensees to the Bahamian Register. Data was also collected on the rate at which companies were

dissolved. This information, along with data from the Registrar of Companies, the statutory fee structure for IBCs and recent Government revenue trends was used to approximate trends in the value of the total direct contribution of IBCs to the economy.

The remainder of this paper is organized as follows. The report first provides a brief description of the common features of Bahamas IBCs and the operating legal framework. Next, the results of the private sector survey are presented, followed by an analysis of company formation and management trends and economic contribution, based on inferences from Government revenue data. The report concludes with a brief assessment of the outlook for IBC activities.

Features of IBCs

International Business Companies (IBCs) are non-financial entities legally established within or transferred to The Bahamas, and permitted to carry out business outside The Bahamas. These corporate vehicles can be used for a variety of purposes including as the means of holding real estate and financial assets, structuring the ownership of active businesses carried out globally, and as platforms for the physical operation of global businesses conducted from within The Bahamas.

In 1989, The Bahamas introduced a legal framework, targeting IBC formation and management activities as a complement to the marketing of international financial services. Towards the end of 2000 the enabling legislation was revamped, with the enactment of the new International Business Companies Act, 2000. This Act addressed concerns raised by the OECD and various multilateral agencies, which related among others to the ease at which these vehicles could be used to facilitate criminal transactions including money laundering. While stripping IBCs of the anonymous ownership feature of bearer shares, the 2000 Act and subsequent amendments still retained attractive features, which continue to make these vehicles an important part of the financial services landscape. These conveniences include:

- The ability of IBCs to have a single shareholder
- No limitations on authorised capital
- Share capital that can be denominated in any currency

- No restriction on the residency of directors
- Exemption from Exchange Control Regulations
- Exemption from stamp and other taxes that may arise otherwise on company transactions

Meanwhile, the Financial and Corporate Services Providers Act (2000) created a framework under which IBC services provided by non-financial institutions could be monitored and regulated. The Act requires that firms wishing to provide these services be licensed by the Inspector of Financial and Corporate Services. Those taking advantage of the legislation have originated for the most part from among the accounting and legal professions. Similar to facilities offered by financial institutions, FCSPs provide a range of support related to company formation and annual maintenance. These include the filing of statutory documents with the Registrar of Companies, payment of annual statutory fees on behalf of companies managed, and provision of personnel who serve as directors and nominee shareholders of the IBCs.

**Table 1: Purposes for which IBCs are Formed
As a % of Total Companies Under Management (2004)**

	Service Providers			Industry Weighted Avg.
	Banks & Trust Companies	Investment Funds Admin	CFSPs	
Vesting of Personal & Corporate Assets				
<i>Financial</i>	88.0	89.6	64.8	75.1
<i>Real Estate</i>	3.5	0.0	31.0	18.6
Operating Companies	8.0	0.0	2.5	4.3
Pooled Investment Vehicles	0.5	10.4	1.8	2.0
Total	100.0	100.0	100.0	100.0

Source: Central Bank of The Bahamas (CBOB), Survey on IBC Activities (2004)

Selected Features of IBC Management Relationships

Respondents to the Central Bank's 2005 Survey were asked to identify the maximum and minimum fees applicable for the services provided, and the relevant (most common) range within which most clients paid. In characterizing other aspects of the business, respondents were also asked to give a percentage range for the number

of clients which fell into each relevant category. The analysis in this report is based on the weighted averages of the responses (based on number of companies managed) for each sector represented in the sample, using the mid-point of the “most common” range reported. To obtain industry averages, the surveyed sector averages were re-weighted by the percentage of the total business carried out by banks (36.7%), investment fund administrators supervised by the Securities Commission (7.6%) and FCSPs (55.8%). Survey respondents collectively managed 4,676 IBCs in 2004, equivalent to 11.1% of the business.

**Table 2: Selected Indicators of Bahamas IBC Activities (2004)
Percentage Distribution of Companies**

	Service Providers			Survey Weighted Avg.	Industry Weighted Avg.
	Banks & Trust Companies	Investment Funds Admin	CFSPs		
i. Method of Incorporation / Formation					
a) Use Customized Articles & Memos..	19.1	98.4	23.0	34.0	27.3
b) Shelf Companies	8.7	0.0	14.2	10.1	11.1
c) Transferred from Other Jurisdictions	0.7	0.4	5.2	2.9	3.2
d) Other (Standardized Articles)	71.5	1.2	57.5	53.0	58.4
Total IBCs	100.0	100.0	100.0	100.0	100.0
ii. Value of Paid up Capital (% of IBCs)					
a) Up to \$ 50,000	96.4	97.4	95.9	96.3	96.2
b) \$50,001 - \$1 Million	0.8	2.2	3.2	2.2	2.2
c) Over \$1million	2.8	0.4	1.0	1.5	1.6
Total	100.0	100.0	100.0	100.0	100.0
iii. Discontinued Relationships, 2004 (Reasons Stated)					
a) Insolvency	6.6	19.8	49.1	37.0	31.5
c) Transferred to Other Jurisdictions	0.0	0.0	2.1	1.5	1.2
d) Other	93.4	80.2	48.7	61.5	67.3
Total (Discontinued)	100.0	100.0	100.0	100.0	100.0
iv. Average Lifespan of IBC Before Dissolution					
Years	7.0	4.8	6.9	6.9	6.8

Source: CBOB, Survey on IBC Activities (2004)

Survey respondents identified four main reasons for which IBCs were formed (Table 1). In the majority of cases IBCs housed the ownership of financial assets (75.1%), followed by the vesting of real estate assets (18.6%). Otherwise they were used as pooled investment vehicles (4.3%) or as operating companies (2.0%). The purpose

to which IBCs were put also depended on whether the support services originated within financial institutions or FCSPs. Companies formed and maintained by FCSPs had an above average incidence of use as structured vehicles to hold assets (especially real estate), while those maintained by financial institutions (banks and mutual funds administrators) had an above average representation of IBCs serving as operating entities and as vehicles for capital market investments.

As to the manner in which companies were established, indications are that most (58.4%) were formed by subscription to the standard articles of incorporation and the memorandum of association, both drafted and provided for under the IBC Act (Table 2). The next popular means was through the use of customized articles of incorporation and memoranda of association (27.3%), followed by the use of pre-packaged (shelf) companies (11.1%), while the other were companies that had transferred from jurisdictions outside The Bahamas (3.2%). Again, the preference for the manner of incorporation depended on whether the corporate services in The Bahamas were provided by financial versus non-financial institutions and firms.

Variations also existed in the amount of start up capital used. Indications are that the majority of vehicles (96.2%) were incorporated with no more than \$50,000 of authorised capital. The next largest concentration (2.2%) employed authorised capital of between \$50,000 and \$1 million and the remainder (1.6 %) had authorised capital of over \$1 million.

Analysis of discontinued relationships in 2004, which sheds some light on the total number of companies taken off the Bahamian Register, revealed that approximately 31.5% of such companies ceased due to insolvency, 1.2% represented transfers to jurisdictions outside The Bahamas and the remainder (67.3%) included IBCs which ceased paying fees but did not necessarily unwind themselves from The Bahamas register.

Table 3: Selected Corporate Service Fees Paid by Bahamas IBCs (2004)

	Service Providers			Survey Weighted Avg.	Industry Weighted Avg.
	Banks & Trust Companies	Investment Funds Admin	CFSPs		
<i>i. Nominee Incorporation Fee (Paid at Startup)</i>					
a) Minimum	390	200	330	200	342
b) Maximum	6,000	2,500	5,000	6,000	5,176
c) Most Common Range (mid-Point)	2,500	1,471	1,180	1,489	1,685
Minimum	390	200	330	200	342
Maximum	3,500	2,500	5,000	5,000	4,261
IBCs Affected (%)	31.4	92.0	66.1	58.8	55.4
<i>ii. Registered Office (Paid Annually)</i>					
a) Minimum	350	300	250	250	290
b) Maximum	6,000	1,000	1,250	6,000	2,968
c) Most Common Range (mid-Point)	1,250	479	601	664	829
Minimum	350	300	250	250	290
Maximum	1,500	600	1,000	1,500	1,152
IBCs Affected (%)	23.6	94.7	54.3	50.7	46.1
<i>iii. Filing Fees (Start up and as needed)</i>					
a) Minimum	n/a	50	100	50	60
b) Maximum	n/a	100	1,060	1,060	599
c) Most Common Range (mid-Point)	n/a	60	386	306	220
Minimum	n/a	50	100	50	60
Maximum	n/a	70	390	390	223
IBCs Affected (%)	n/a	31.9	32.1	21.4	20.3
<i>iv. Company Seal (Start up and as needed)</i>					
a) Minimum	15	25	35	15	27
b) Maximum	60	50	35	60	45
c) Most Common Range (mid-Point)	55	41	35	44	43
Minimum	15	30	35	15	27
Maximum	60	50	35	60	45
IBCs Affected (%)	58.9	94.7	32.1	51.2	46.6

Source: CBOB, Survey on IBC Activities (2004)

Corporate Service Fees

A summary listing the most common corporate services fees are shown in Table 3. The regularity at which these fees are encountered, varies. Indications are that most of those listed are paid at incorporation, while outlays for registered office, directors and nominee-shareholders are among those paid on a recurring basis. On the upper end, registered agents most commonly charge above \$3,000 to incorporate new IBCs and the common mid-range was just over \$1,600. Miscellaneous fees for the filing of documents with the Registrar of Companies and the obtaining of company seals

increased this mid-range estimate to approximately \$1,800. Annual maintenance fees average much less than incorporation costs, with a mid-range average of approximately \$830. As can be observed, average fees charged by banks are highest followed by FCSPs and investment fund administrators. Once allowance is made for the Government's \$350 registration fee for most entities, total annual fees for maintaining a Bahamas IBC approximates just over \$1,100. Comparatively, incorporation costs inclusive of Government fees are commonly in the neighborhood of \$2,100.

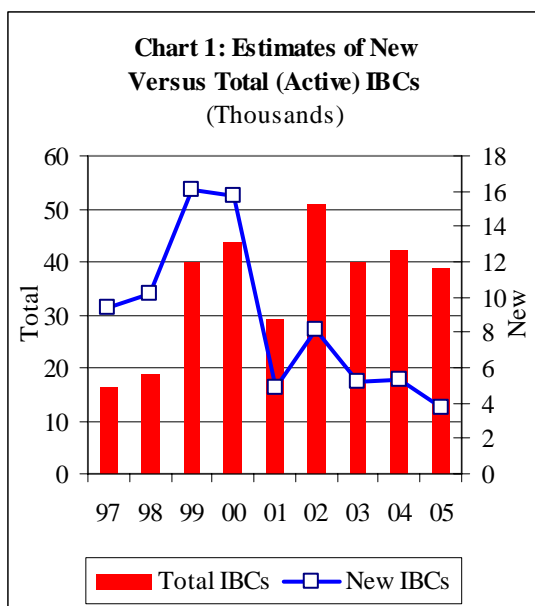
Table 4: Selected Government Fees Payable by Bahamas IBCs

Description	Amount Based on Authorised Capital ¹	
	up to \$50K	Over \$50
i. Upon filing Memorandum of Association	\$300.00	Same
ii. Upon filing Articles of Association	\$30.00	Same
iii. Annual fee in respect of a company registered under this Act on 1st January in each year where authorized capital is \$50,000 and under	\$350.00	\$1,000.00
iv. Upon filing Articles of Dissolution and Resolution rescinding Articles of Dissolution	\$100.00	Same
v. Certificate of good standing, incorporation, continuation, arrangement, dissolution, merger or consolidation (certified or not)	\$25.00	Same
vi. Continuing from under the Companies Act, 1992 to the International Business Companies Act, 2000	\$350.00	\$1000.00
vii. Continuing from another jurisdiction	\$100.00	\$400.00
viii. Continuation from under the International Business Companies Act, 2000 to another jurisdiction	\$200.00	Same
ix. Restoration of Company to Register	\$600.00	Same
x. Amendment to Memorandum of Association	\$50.00	Same
xi. Amendment to Articles of Association	\$50.00	Same
xii. Amended and restated Memorandum or Articles of Association	\$50.00	Same
xiii. Amended and restated Memorandum and Articles of Association	\$100.00	Same
xiv. Articles of Merger and Arrangements:	\$500.00	\$700.00

Source: International Business Companies (Amendment to Fee Schedule) Order, 2004.
 Note: ¹Prior to 2005 the fee structure was uniform for IBCs

Government Fee Structure

The current statutory fee structure applicable to IBCs within The Bahamas as of 2005 is shown in Table 4. IBCs are required to pay \$300 upon filing of their memorandum of association and \$30 upon filing the articles of incorporation, which occur simultaneously with the Registrar of Companies. Thereafter, an annual registration fee of \$350 must be paid on January 1st of each year, for companies which have authorised capital of up to \$50,000 and \$1,000 for those with capital above this level.¹ Prior to 2003, all registrants paid the same annual fee of \$350. IBCs also pay various fees upon continuation on to and out of The Bahamas Register vis-à-vis other jurisdictions, and continuation from under the Companies Act, 1992.



Estimates of Total Activity and Direct Benefits

A summary of Government fees collected from IBCs for 1997-2005, is shown in Table 5. Annual collections rose steadily from \$7.3 million in 1997 to \$18.1 million in 2000. Corresponding to the enactment of the new legislation, a pronounced falloff ensued to \$11.1 million in 2001, albeit smoothed by rebounded receipts of \$19.2 million in 2002, which largely reflected a re-instatement of registrants which had not paid fees for 2001.

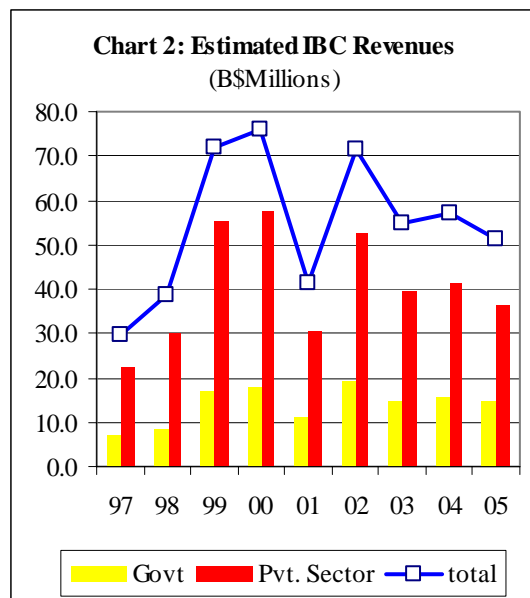
Average annual fees fluctuated in the \$15 million range during 2003-2005.

Applying the Government fee scale to the revenue estimates, indications are that the total number of active IBCs peaked just below 44,000 in 2000. Since 2003 the annual estimates have been closer to 40,000, with some reduction in fee paying companies occurring during 2005. The totals for fee paying companies differ significantly from the cumulative data on the total number of IBCs that entered the

¹ A company also pays the annual fee in the first year, if it is incorporated during the first half of that year.

Bahamian Register since 1989, which according to the Registrar of General's estimate reached 134,595 in 2005. The difference is attributed to the limited number of years that most IBCs stay on the Register, owing the various reasons identified below.

The inferences drawn from Government revenue trends are that during both 1997-2000 and 2003-2005, nearly one-fifth (18.8% and 19.7% respectively) of the companies on the Register did not pay fees during the following year. Growth in active companies on the Register therefore corresponded to a sizeable number of new incorporations taking place each year. The level of inactivity and new business inferred from this data is highly consistent with the feedback from the 2005 survey, that the average life of a Bahamas IBC was approximately 7 years (Table 2). Based on data from the Registrar of Companies only 1.5% of the IBCs taken of the Register during 2000-2003 were explicitly continuing to other jurisdictions and only 7.5% voluntarily liquidated. Instead the majority (91.0%) were struck off the Register for "other" reasons, mainly lapse in payment of fees.



Using the incorporation and active trends inferred from Government revenues, Table 5 also provides recent estimates of IBCs' direct contribution to the economy, incorporating the most common mid-range for private sector fees. These suggest that IBCs contributed at least \$51 million to the economy in 2004, compared to a peak near \$75 million in 2000. Most of the annual benefits from IBCs accrue to the private sector which, until recently, was more

lucrative for the incorporation process. In particular incorporation activities generated 56.0% of the private sector's average yearly receipts during 1997-2000, as compared to 21.9% during 2003-2005, when activities subsided. The rest of the private sector's annual earnings from IBCs were earned from the annual maintenance services.

Table 5: Estimates of IBC Activity and Contribution

	1997	1998	1999	2000	2001	2002	2003	2004	2005
A. Revenue Estimates (B\$ '000)									
i. Government Revenues¹									
a) Continuation Fees	50	74	34	64	1	4	5	13	3
b) Incorporation fees	3,108	3,368	5,290	5,179	1,621	2,684	1,728	1,772	1,219
c) Annual Registration	4,167	5,081	11,538	12,871	9,467	16,527	13,234	13,897	13,459
Total Govt. Revenues	7,325	8,524	16,862	18,114	11,089	19,215	14,968	15,682	14,682
ii. Private Sector Revenues²									
a) Incorporation	16,953	18,372	28,855	28,250	8,843	14,642	9,427	9,668	6,649
b) Annual Fees	5,333	11,614	26,372	29,419	21,639	37,776	30,249	31,764	29,880
Total Pvt. Sector	22,286	29,986	55,227	57,669	30,483	52,418	39,677	41,432	36,529
ii. Bahamas Total Revenues	29,611	38,510	72,089	75,782	41,572	71,633	54,644	57,114	51,211
B. Active (Fee Paying) Companies³									
Active IBCs	16,085	19,046	40,079	43,738	29,229	50,830	40,136	42,088	38,923
of which									
a) Existing (before July 1st)	11,905	14,517	32,965	36,774	27,049	47,220	37,812	39,705	37,350
b) New Companies	9,418	10,207	16,030	15,694	4,913	8,134	5,237	5,371	3,694
C. Deregistered/Inactive IBCs⁴									
(Negative implies Re-instatements)	n/a	7,245	-5,002	12,035	19,422	-13,466	15,932	3,418	6,859
D. Active (Fee Paying) Companies (Distribution of Business)									
i. Financial Institutions ⁵	n/a	n/a	n/a	17,912	19,457	19,045	17,041	18,590	17,977
ii. CFSPs ⁶	n/a	n/a	n/a	25,826	9,772	31,785	23,094	23,498	20,946

Sources:¹Ministry of Finance, Treasury Accounts and Treasury Statistical Summary.^{2, 3, 4, 6} Study Estimates.⁵CBOB Annual Survey, Gross Economic Contribution of the Financial Sector to the Economy of The Bahamas .**Notes:**²Assumes average incorporation fee of \$1,800 per IBC and average annual maintenance fee of \$800 per IBC.³Prior to 2005 all companies pay annual fee of \$250. Only 96.2% of active companies pay this rate for 2005; the rest pay \$1,000.⁴The difference between total active companies in the past year,+ new incorporation, less total active companies in the present year.⁶Estimated as a residual.

Distribution of the Business

Estimates from the Central Bank's annual survey on the contribution of the financial services sector to the economy of The Bahamas, indicate that financial institutions (banking, investment fund managers) collectively provided registered offices and corporate services for almost 18,000 IBCs in 2005, compared to peak support for just over 19,000 companies in 2001. Against the other estimates obtained, indications are therefore that FCSPs provided support services for and therefore benefited from just over 20,000 IBCs in 2005 (more than financial institutions on

average). FCSPs nevertheless experienced the brunt of the business fluctuations which occurred during 2001 and 2002 (Table 5). Excluding the period of fluctuation, FCSPs also experienced a larger decline in the total number of companies managed between 2000 and 2005, as compared to the reduction in business noted for financial institutions relative to a respective 2001 peak.

Conclusions

The findings above place a conservative estimate on the direct contribution of IBC activities to the economy of The Bahamas in the low \$50 million range during 2005. This was reduced from an estimated peak in the low to mid \$70 million range in 2000, the year before the full impact of the new legislation was felt. Revenue decline paralleled the sizeable falloff in annual company incorporations, while a lesser portion of the losses was due to the reduction in the number of companies on the Bahamian Register. Although a discernable recovery has not yet emerged, annual trends are more stabilized relative to the period 2001-2003, and are expected to improve in tandem with future expansion in the international financial services sector. Nevertheless medium term prospects are favoured by the new Investment Funds Management Act (2003), which provides greater flexibility and scope in the creation of collective investment schemes, and by the more robust second homes market in The Bahamas which should increase the number of IBCs used to hold real estate assets.