



Chapter 1 Montserrat A Profile

Investor considerations

- *English speaking.
- *Stable government.
- *Good communications.
- *Development potential.
- *Currency tied to U.S. dollar.

Geography and climate

The British Dependent Territory of Montserrat is situated at latitude 16°45'N and Longitude 62°10'W, 25 miles southwest of Antigua. The Island is in the Easter Caribbean, approximately 1,200 miles southeast of Miami. Montserrat measures 39.5 sq. miles (102.3 sq. kilometers, of which 13 sq. miles (33.7 sq. kilometers) is now habitable.

Montserrat is volcanic in origin and is dominated by three mountain ranges- Silver Hills, Centre Hills and Soufriere Hills. Montserrat is unique in that it is one of the few islands in the World where man co-exists with an active volcano.

The climate is mildly tropical, with temperatures ranging between 24°C and 30°C (76°F and 86°F). The higher temperatures are experienced during the months of August and September, with January and February being the cooler months. Average annual rainfall is 1,143 millimeters (45 inches). Heaviest rainfall is experienced September to January. Low humidity and constant cooling breezes maintain a pleasant climate year round.

History

The Carib people who were believed to be the first settlers provided the first recorded name for Montserrat, and named the island "Alliouagana", which is believed to mean "the land of the prickly bush".

Christopher Columbus, during his second voyage to the New World came across the islands on 11 November, 1493. He named it Santa Maria de Montserrate for the jagged peaks resembling the Monastery of Montserrate near Barcelona Spain.

The Island was first colonized by Irish and English settlers led by Sir Thomas Warner in 1632. Following this Irish immigrants came from Virginia and plantations were set up to grow tobacco and indigo, later followed by the cultivation of cotton and sugar. Slave labor being imported to provide the workforce needed for the cultivation of these crops.

In 1783, Montserrat was restored to England, by the Treaty of Versailles. Slavery was abolished in 1834, the falling price of sugar, a series of earthquakes and hurricanes between 1890 and 1936, brought the collapse of the economy. In the 1850's Joseph Sturge, an Englishman formed a company (Montserrat Company) which bought abandoned sugar estates and encouraged the cultivation of limes.

In 1871 Montserrat became part of the Leewards island chain. In 1958 a member of the West Indies Federation. Presently Montserrat as a British Dependent territory is a member of the CARICOM (Caribbean Common Market) and the OECS (Organization of the Eastern Caribbean States).

Volcanic in origin, Montserrat has seen the resurgence of a dormant volcano. Increased seismic activity was recorded in mid-1992 and this lead to eruptions on June 25, 1995. The capital Plymouth was fully evacuated in April

of 1996. With subsequent eruptions, two thirds of the island was deemed unsafe for habitation. The remaining third of the Island is presently being developed comprising the safe area of the Island.

With the lull in the volcanic activity, the initial emigration has now been arrested, and the emphasis is on the rebuilding of the economy and the development of the Island. [home](#)

Political system

A British Dependent territory Montserrat is governed by a Crown – appointed Governor. The Governor, Chief Minister and three other ministers plus the Attorney General and Financial Secretary constitute the Executive Council. Election is held every five years.

Legal system

The legal system is based on the British legal system, (English common law) with criminal cases being heard by the Assizes and civil cases being heard by the High Court. (The system is administered by the Eastern Caribbean Supreme Court, the Court of Summary Jurisdiction and the Magistrates Court). In both criminal and civil cases, there is the right of appeal to the Court of Appeal with the ultimate right of appeal to the Privy Council in England.[home](#)

Population

Montserrat has a population of approximately 5,000, all of which reside in the Northern section of the Island. Presently there is no Capital city, but there is a developing commercial sector stretching from Cudjoe head to St. John's. The majority of the populations are of African descent, with remainder British, American, African, Indian and German. The African descended population being mostly comprised of Caribbean nationals. Approximately 3% of the population are retirees from Europe and North America, Montserrat pre-volcanic activity known for its residential tourism.

Language

The language of the country is English. A local dialect is spoken (English derivative).

Religion

There is freedom of Religion. The main religion is Christianity comprising of various denomination Roman Catholic, Anglicans, Seventh Day Adventist, Methodist, Pentecostal, Jehovahs Witness and Rastafarism.

Education

In Montserrat, a child's education begins formally at the age of five. The student enters the Primary school system at this age, thence to the Secondary stage, through an exam which is sat at the age of eleven.

Facilities, both public and private, cater to the educational needs of children from Daycare through to Primary and Secondary school. The Montserrat Secondary school offers vocational skills training and the University of the West Indies School of Continuing Studies offers first and second year university level courses.

There is a full five-year secondary education provided by the state, and the Roman Catholic denomination (private). The students are prepared for the C.X.C (Caribbean Examinations Council) examinations. Computer training is compulsory at the Secondary and Primary level.

Every level education in Montserrat is funded by the state is offered to all without discrimination.

The University of the West Indies campuses are located in Trinidad, Barbados, and Jamaica, and consist of faculties of natural sciences, arts and general studies, social sciences, engineering, tropical agriculture, law, and medicine.

Living standards

Montserrat has a high literacy rate. Though devastated by the volcano Montserrations have always enjoyed a high standard of living. The redevelopment of the Island has not phased the expected high standard of living, given the circumstances attendant to the process. Given the readjustments there is a significant immigrant labor force.

Cultural and social life

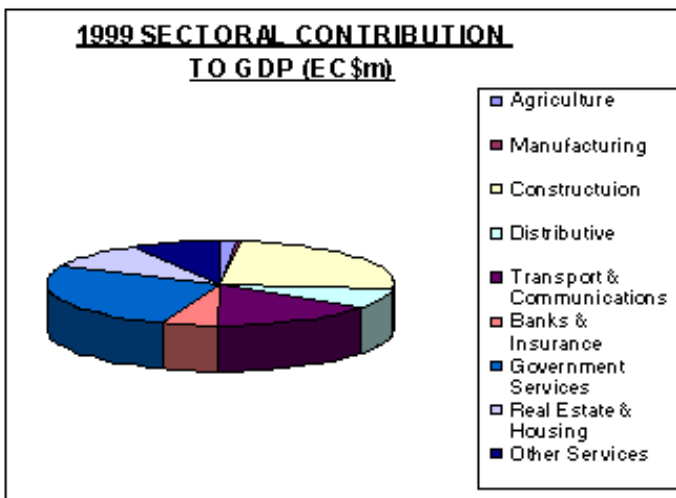
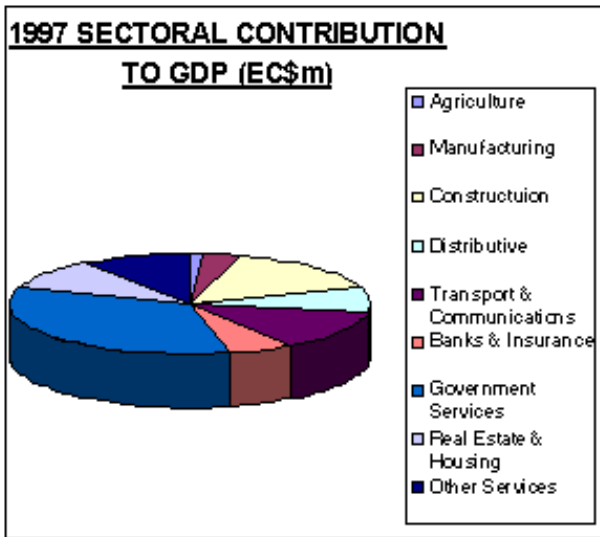
There are currently various groups promoting the arts, drama and music. There are clubs for basketball, cricket and football. The end of the year culminates in Festival, a celebration of the arts and culture indigenous to the region and Montserrat. This Festival spanning two weeks highlights the culture of Montserrat.

Montserrat celebrates St. Patrick's day, March 17, remembering its Irish ancestry. This celebration encompasses a week of activities highlighting the fusion of the Irish and African cultures, unique to Montserrat. [home](#)

The Economy

General description

The economy of Montserrat is small, very open and is very heavily dependent on imports of merchandise goods. The population currently stands at just over 5000 declining from approximately 10,500 in 1995. Prior to 1995 tourism (and in particular residential tourism) and its related services was the mainstay of the economy, contributing on average about 40% of GDP. Presently Tourism only contributes 15% to GDP. Over the past three years, however, economic activity has been dominated by Government Services and the Construction Sector. The combined contribution of these two sectors has averaged some 55% of GDP between 1997 and 1999.



SECTORAL CONTRIBUTION OF GDP IN CURRENT PRICES 1997-98 (% of GDP)

SECTOR	1997	1998	1999
Agriculture	1.04	1.05	1.22
Manufacturing	3.29	0.55	0.62
Construction	15.81	21.67	22.47
Distributive	7.27	4.76	7.29
Transport & Communications	13.24	11.36	13.64
Banks & Insurance	5.83	4.54	4.43
Government Services	33.66	29.03	23.43
Real Estate & Housing	9.83	8.44	9.4
Other Services	10.04	7.06	7.57
GDP (in EC\$ million)	95.87	84.85	85.52

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Tourism

Montserrat had a thriving tourism industry prior to 1995, earnings from tourism represented approximately 25% of the Island's gross domestic product. The volcanic emergency decimated the industry with 1996 seeing a dramatic decline in tourist arrivals by 46%.

The stabilization of the volcano in 1998 exhibited a 52% increase in tourist arrivals when compared with 1997. Confidence has been restored in this sector in 1999 when tourist arrival figures were 12,909 when compared to 9,427 persons in 1998. The main objective of the Montserrat Tourist Board is the diversification of the tourism product in order to appeal to a wider market and seek to revitalize tourism as a significant contributor to the economy. The redevelopment of this industry in Montserrat is a major priority of the Government of Montserrat. The Montserrat strategic plan will focus on the development of a total package offering various experiences. Investment in this area is a major priority.

(for more information

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Agriculture and fisheries

Agricultural production was greatly affected by the onset of volcanic activity in 1995. Between 1995 and 1997 all the major agricultural producing areas were either destroyed or deemed unsafe

for habitation and by extension for crop farming and livestock rearing. One major result of volcanic activity therefore, has been a decrease in agriculture's contribution to GDP from 5.4% in 1994 to approximately 1.1% in 1998, 0.7% was contributed by agricultural sector and 0.4% was contributed by the fisheries sector. The number of persons employed in agriculture also decreased from approximately 300 crop and livestock farmers and 160 full and part time fishers before 1995 to 150 and 60 farmers and fishers respectively in 2000.

The Government of Montserrat has directed its policy towards achieving self sufficiency in certain foods and meat products in an effort to reduce the island's dependency on imports and the outflow of foreign currency. Emphasis is being placed on intensifying the rearing of small ruminants and pigs and facilitating poultry production for meat and eggs. Emphasis has also been placed on encouraging agro-processing ventures utilizing local raw materials.

Fishing is another area of possible growth. The species groups traditionally exploited are the Shall Shelf and Reef Fish and the Coastal Pelagics. Both species are moderately too heavily exploited and are unlikely to support increased exploitation. The Deep Slope and Bank Fish are under exploited and the status of the Large Pelagics is mostly unknown but thought to be adequate to support further exploitation; these groups therefore offer great potential for increased exploitation.

Manufacturing

The construction of an Industrial Park is on the way. To date there is 15000sq. ft. of factory shell subdivided, with another 22000 sq. ft. planned for construction. Given the highly literate population manufacturing concerns have available an easily trainable workforce.

In addition to local tax and duty concessions, manufacturers have access to the U.S., Canadian, European, and Caribbean markets through the Caribbean Basin Initiative (CBI) and CARICOM. As a British dependent Territory and a member of the overseas Countries and Territories (OCT), Montserrat enjoys privileged access to the European Union (EU) countries.

Free Trade Zones

There are no free trade zones in Montserrat.

Transport and communications

Montserrat is accessible to the rest of the world via Antigua and Barbuda. The ferry service which operates twice daily except Sundays, takes 1 hour to reach Antigua, from which connecting flights to all parts of the world can be accessed.

By air there is helicopter service which takes 15 minutes to Antigua's V.C.Bird International Airport. Providing connections to the world.

The Port is located 1 and one half miles from Brades, and the Gerald's heliport 2 miles from Brades. Brades part of the commercial district.

Montserrat is favorably located in proximity to the markets of North and South America.

The settlement of the North has resulted in construction of new roads in order to facilitate development of this area. There is currently a road expansion programme, the need for new roads in the North to meet increasing demand.

Communications

Telephone communications to and from all parts of the world are excellent. Cable and Wireless (W.I.) Ltd., provides telecommunications Services in Montserrat. The national Network with a wired capacity in excess of 2600 lines and in addition to the regular telephone services offers enhanced features such as Voice-Mail, Caller ID, Call-waiting and Pre-paid call services. Installation of lines for private or commercial use, is done within six working days or less.

The island's newspaper is the Montserrat Reporter. Presently there is only one radio station (FM Frequency), Radio Montserrat, Government owned and operating broadcasting on the Island. Licenses have been issued for at least two other radio Stations (private) which will come into operations in the coming months. There is one television station, Cable TV of Montserrat (private) operating locally.

Utilities and Services

Electricity

A highly reliable supply of electricity is available: 110/220 volts, AC 60 cycles single phase for domestic use and 400/440 volts, Ac60 cycles for commercial usage. The rates are as follows:

Domestic	-	44c to 50c per unit
Commercial	-	54c per unit
Industrial	-	41c per unit

A fuel surcharge is added.

Water

Water is available for both domestic and commercial use. The rates are as follows:

Domestic	-	\$12 for 2000 gallons
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(Increasing by \$1 for every other 2000 gallons)

Commercial - \$20 per 1000 gallons

Industrial - \$20 per 1000 gallons

A fixed surcharge is added based on the value of the property being serviced.

Foreign trade and balance of payments

External Balance of Payments Performance

The Current Account.

The external account has largely been characterised by a deficit over the period 1996-2000 due to Montserrat's increased dependence on imports and the fall in domestic production for export following the volcanic crisis. In 1999, the overall current account deficit was EC\$53 million, however balance of payments surpluses were experienced in the provision of travel and business service sectors.

Pre volcano, large private sector investments played an instrumental role in moving the current account into a significant surplus (EC\$37 million in 1996). Investments such as the rice processing mill and the electronics assembly plant both found lucrative markets in European Union markets, benefiting from Montserrat's special status as an Overseas Territory and an ACP state.

Projections suggest that, in the absence of export focused investments, the current account deficit will continue to grow. However, the successes of export focused investment ventures prior to the volcano disaster indicate that there is considerable potential for private sector entrepreneurship. As Montserrat moves away from the crisis situation, the challenge for the private sector is to take full advantage of Montserrat's membership of the Caribbean Community and the favourable trade relations it holds with the UK and the European Union.



The Capital Account.

The capital account has been influenced heavily by the influx of foreign aid in recent years. Overall, the period 1990-5 was characterised by a general surplus, although the surplus had followed a general decline since 1990. The onset of the volcanic crisis led to an outward flow of capital due to the high risk, high uncertainty environment

for capital investment. The majority of the insurance companies and banks, which were the mainstay of Montserrat's finance industry, closed and reinvested elsewhere. This resulted in a capital and financial account deficit of EC\$36.79 million in 1996. The capital account in 1997 onwards indicates a surplus which rose to EC\$65.7 million in 1998. However, this surplus was largely a result of the inflow of foreign aid during the crisis.

As Montserrat moves out of the volcanic crisis, there is significant potential for investment from abroad, other than emergency aid. This potential is indicated by the projected increase of the capital and financial account to a surplus of EC\$110 million in 2000.

Balance of Payments Performance 1998-2000 (EC\$m)

	1998			1999			2000 (projected)		
	Credit Net	Debit		Credit Net	Debit		Credit Debit	Net	
Current Account	111.31	156.67	-45.36	123.78	177.50	-53.72	110.46	193.46	-83.00
A. Goods and services	36.19	149.72	-113.53	47.68	159.58	-111.90	29.44	155.12	125.68
1. Goods	3.26	83.10	-79.84	10.00	87.26	-77.26	10.00	91.62	-81.62
2. Services	32.93	66.62	-33.69	37.68	72.32	-34.64	5.70	19.68	-13.98
a. Travel	12.96	3.56	9.40	13.00	3.56	9.44	13.26	3.63	9.63
b. Transportation	0.75	17.81	-17.06	5.70	18.73	-13.03	5.70	19.68	-13.98
c. Insurance services	0.23	2.67	-2.44	0.48	2.18	-1.70	0.48	2.30	-1.82
d. Other business services	18.99	9.94	9.05	18.50	9.96	8.54	18.50	9.96	8.54
e. Government services	-	32.64	-32.64	-	37.89	-37.89	-	37.89	-37.89
Capital and financial account	89.8	13.73	76.10	67.18	21.64	45.54	127.26	16.37	110.89
Capital account	75.50	9.80	65.70	57.25	9.80	47.45	117.33	9.80	107.53
Financial account	14.33	3.93	10.40	9.93	11.84	-1.91	9.93	6.57	3.36

International financial center operations

The International Business Companies Ordinance 1985 laid the groundwork for the incorporation of offshore companies. The International Business Companies Ordinance 1985 compares favourably with similar legislation in the region.

The Offshore Banking Ordinance 1991 establishes the conditions for the granting of an offshore banking license. This has been updated to reflect International conformity and the BASEL guidelines are followed.

Construction

Government investment expenditure has impacted significantly on construction activity. The public sector projects have been geared to the replacement of infrastructure, and the development of the North of the Island, previously few inhabitants. The projects undertaken include road works, housing, Government Headquarters, Port and Heliport. In the private sector construction activity is buoyant. Home construction is rising daily as individuals utilize the soft mortgage scheme.

Hints for the business visitor

Visitors Entry and Residency

Permit

A minimum of formality is required for persons wishing to make short visits as tourists or to investigate investment opportunities. All that is required is a valid passport, a return ticket and sufficient means at their disposal to support themselves. The length of stay is that period as granted by the Department of Immigration.

Permit of Economic Residence

An applicant is eligible for the grant of a permit of economic residence if he/she satisfies the Governor in Council of hi/her intention to make a commercial investment in Montserrat and maintains a property investment or a deposit at a commercial bank or holds Montserrat government Securities to the value of at least the equivalent of EC\$400,000.

Permanent Residency Permit

To become a permanent resident, an applicant must be in accordance with section 18(a) of the Immigration and Passport Act Chapter 137, and must satisfy the following conditions:

- Produce proof of financial status to show that they will not become a charge on the public funds of the colony.
- Produce a medical certificate issued by a medical practitioner verifying that the applicant has no contagious or infectious diseases which would make it unwise or dangerous for them to remain permanently in Montserrat.
- Has not been classified as an undesirable person due to their business or other activities; is not a prohibited immigrant; is of good character.
- Provide at least three references of which not more than one can be from a local resident and A bank, while one should come from a Police department in the form of a certificate of behavior over the past five years.

The Governor in Council has the right to issue a permit for permanent residency on such conditions as he may see fit.

Usually a person is required to reside on the Island of at least five years.

Currency

The official currency is the Eastern Caribbean dollar (EC\$), divisible into 100 cents. The rate of exchange is fixed at US\$1 = EC\$2.7.

International time

Montserrat is four hours behind Greenwich Mean Time (GMT). Daylight saving time is not observed.

Business hours

Government offices	Monday-Friday	8:00 a.m. – 4:00 p.m.
Business hours	Monday-Friday	8:00 a.m. – 4:00 p.m.
	Saturday	8:00 a.m. - 1:00 p.m.
Banks-	Monday-Thursday	8:00 a.m. - 2:00 p.m.
	Friday	8:00 a.m. – 3:00 p.m.
	Saturday	closed

Statutory holidays

The statutory holidays for 2000 are as follows:

New Year's Day	January 1
St. Patrick's Day	March 17
Good Friday	April 21

Easter Monday	April	24
Labor Day	May	1

Hints for the business visitor *(continued)*

Whit Monday	June	12
August Monday	August	7
Christmas Day	December	25
Boxing Day	December	26
Festival day	December	31*

* To be proclaimed annually

Weights and measures

The metric system is gradually replacing the British imperial system.

Dates and numbers

Dates are usually written in the order day/month/year, e.g., 10th March 2000 or 10/3/2000.

Commas denote thousands and periods denote fractions in the monetary unit, e.g., EC\$1,000.00.

Business information services

A number of business information services exist, as noted in Appendix 1.

Chapter 2

Business environment

Investor considerations

- * Generous incentives for economic development
- * Good labor relations
- * Membership in trade blocs

Industrial Climate

The economy of Montserrat is dominated by Public Sector led investments and projects. This is attributed to the need to rebuild. The Government takes a positive attitude towards diversification of the economy. The present thrust is towards the development of tourism, manufacturing, agricultural diversification, informatics and e-commerce. The passing of legislation to accommodate offshore companies, including banks, trusts, provides for the incorporation of such companies, but this has not been a major contributor to the economy.

Framework of industry

The public utilities and the airport and seaport are owned and run by the government.

Montserrat's business is run by entrepreneurs who are largely local persons, the hotel and guest houses are locally owned. Villa tourism which comprises a significant portion of the rooms available for the tourist sector is owned mainly by ex-patriots of American, Canadian and British origin. Investment is actively encouraged in this area the purchase of property requiring an Alien Land Holding License.

Aims of government policy

The main thrust of government industrial policy is to encourage all sensible development by offering a package of incentives to locals and foreigners whose investment and expertise are recognized as essential.

Economic development plans

Economic and fiscal policy is geared toward achieving overall growth of the economy. The package of incentives offered by the Ministry of Finance and Economic Development, subject to the approval of the Executive Council, covers duty-free imports and tax holidays and exemptions from other local taxes and levies.

Trends toward nationalization/privatization

The trend is towards the reduction of the level of government intervention and ownership.

Financial Services

Government policy is to encourage the development of Montserrat as a financial center. Legislation being put in place to ensure international conformity.

Labor-management relations

There is a shortage of skilled labor and this problem has been overcome by the granting of work permits to non-nationals. The Government facilitates the active recruiting of skilled labor both professional and otherwise to meet the demands.

Overseas trade relations-Membership in trade blocs

United States

Products exported to the United States from Montserrat enjoy preferential treatment under the Generalized System of Preferences (GSP), the U.S. Tariff Provisions 806 and 807 and the Caribbean Basin Initiative (CBI).

Canada

Under Caribbean, duty-free access to the Canadian market is provided for goods imported from Montserrat. Duty-free access, however, does not apply to methanol, lubricating oils, textiles, clothing, footwear, luggage, handbags, and leather garments. Nevertheless, these items are subject to most-favored-nation status in cases where there are preferential rates.

Europe

As a British dependent Territory and a member of the Overseas Countries and territories (OCT). Montserrat has privileged access to the European Union.

Caribbean

Montserrat based manufacturers have preferential access to the regional markets of over 5 million people in the Caribbean Common Market (Caricom). Locally produced or manufactured goods may be imported duty-free into any of the 12 Caricom member states, subject to certain value-added criteria.

Exports

Export-oriented industries qualify for 5 to 10 year tax holiday and duty-free imports in accordance with the Fiscal Incentives Act, 1975. Tax holidays may be granted for longer periods depending on the circumstances.

Chapter 3

Foreign investment and trade opportunities

Investor considerations

- * **Tax holidays and ready repatriation of capital and profits.**
 - * **Positive attitude of local persons and businesses.**
 - * **Preferential trade agreements.**
 - * **Good international communications.**
-

Government attitude toward foreign investment

The Government of Montserrat welcomes new private foreign investment.

Foreign investors are permitted to acquire real estate property, subject to the acquisition of a license, Alien Land Holding license.

Trade policy

The policy is towards free trade, although import licenses are required for some products.

Taxation policy

Foreign investment is treated in the same way as local investment, and tax holidays and other incentives are available to any qualifying operation.

Foreign investment is welcomed by the government and the local business community. Joint ventures between foreigners and local persons are not uncommon.

Foreign investors are generally regarded as being desirable employers.

Special investment opportunities

The preferential trade agreements with the United States, Canada, Europe, and other parts of the Caribbean open up an enormous potential markets.

The government's positive attitude, willingness to grant incentives and general support all help create the right climate for investment in Montserrat

Planning guide for the foreign investor

National and local government policy considerations

Foreign investment is welcome. The incentives provided include tax holidays, duty-free imports, and the right to repatriate investment and profits. The main restrictions relate to land ownership, where a license has to be obtained the Alien Land Holding License.

Investment possibilities/restrictions

Investment possibilities exist in the various aspects of Montserrat's economy. It is not a requirement to have a local partner in a business venture.

Prior approval or registration

All foreign-owned enterprises require the government's approval to trade in Montserrat, and the Executive Council will have to approve any fiscal incentives.

Possible business structure

Usually a local company is incorporated, but business may be conducted as a branch, joint venture or partnership, or as an individual.

Setting up or acquiring

The recommended route for a foreign investor is to make a proposal directly to the Minister of Finance and Economic Development.

Investment incentives

Investment incentives cover income tax, import duties and exchange controls. These are available to all foreign investors.

Location/industries

Export-oriented manufacturing, agricultural projects, Tourism and e-commerce are of particular interest to the government.

Repatriation of capital and profits

The incentive packages provided generally allow ready repatriation of capital and profits.

Labor

Although unemployment is low, labor is available either locally or from neighboring islands.

Information and assistance

Full information on foreign investment in Montserrat can be obtained from Appendix 1

Chapter 4

Investment incentives

Investor considerations

- * **A tax holiday of 5 to 10 years is available, periods of up to 15 years maximum under certain circumstances.**
 - * **Export-oriented businesses are eligible for tax rebates.**
 - * **Relief is given from customs duties and other indirect taxes.**
 - * **Work permits are provided for foreign nationals.**
 - * **Trade bloc memberships include: Caricom, CBI, European Union and Caribcan.**
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Investment policy

The main thrust of the government's incentives policy is to stimulate growth and expansion in the economy.

All types of investment are encouraged, with the ultimate goal of achieving economic growth and full employment in the economy.

Tax Concessions

Tax holidays are offered to qualifying ventures in Montserrat, subject to approval by Executive Council.

A company exporting to countries other than the East Caribbean Common Market (Antigua & Barbuda, Dominica, Grenada, St. Kitts & Nevis, St. Lucia, St. Vincent, and the Grenadines) Is entitled to a tax rebate depending on the percentage of profits attributable to exports. Businesses which are granted tax holidays may take advantage of this provision.

Industries affected

Manufacturing enterprises are offered incentives under the Fiscal Incentives Ordinance 1975.

Hotel construction and extensions are given incentives under the Hotels Aid Ordinance and the Income Tax Act.

All other enterprises that the government wishes to encourage are considered on their merits and granted such concessions, as the Executive Council deems appropriate.

Fiscal Incentives Ordinance 1975

This ordinance classifies five types of enterprises which qualify for tax holidays. The length of the first three depends on the amount of value added in Montserrat. The fourth type an enclave industry, produces exclusively for export outside the CARICOM region. Capital intensive industry where capital investment is not less than US\$9.25million is the fifth classification.

Generally tax holidays are granted for periods of five to ten years, although longer periods of up to fifteen year maximum may be negotiated depending on the nature of the investment. The performance of the investor is reviewed after the incentives have been granted. The first review

Is conducted three years after the commencement date and the subsequent reviews take place at two year intervals until the expiration of the tax holiday.

Hotels Aid Ordinance

The Hotels Aid Ordinance grants exemption from customs duties on all imports of building materials, machinery, equipment, and furniture for the construction or extension of hotels.

Under this legislation, the investor may also benefit from a tax holiday of up to five years. For five of the following eight years, the investor may offset up to one-fifth of the incurred capital expenditure against future income. Losses incurred during the tax holidays may not be carried forward against future profits.

Additional incentives

Apart from incentives covered under the above statutes, the government will grant additional incentives in certain circumstances. Subject to the approval of Executive Council.

Chapter 4-Investment incentives

Government's Fiscal Policy is integrated into the broader economic policy of recreating an environment to enable and encourage new private sector investment in the North of the island.

Chapter 5

Restrictions on foreign investment and investors

Investor considerations

. Capital and earnings can be repatriated.

- . Hundred percent foreign ownership is permitted.
 - . A wide range of enterprises is available for investment.
 - . Joint ventures with local persons are encouraged but are not essential.
 - . An exchange levy of 1.75 percent is charged on outward movements of currency unless exemption has been given
 - . Land purchases require an alien landholders license.
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Regulatory climate

Regulatory authorities

Exchange controls are administered by the Ministry of Finance. Applications for foreign currency are dealt with by the Financial Secretary.

Exchange controls

Inward investment

Approval must be granted for the operation of a foreign currency account to avoid inward movements of foreign currencies being converted into Eastern Caribbean dollars.

Registration of foreign capital

For Exchange Control purposes, inward movements of currency may be registered with the Ministry of Finance as being approved for subsequent repatriation. Local commercial banks will assist the foreign investor in arranging registration.

Currency accounts

Subject to Exchange Control approval, a local or foreign company or individual may open an account in a foreign currency (generally U.S. dollars) if he can demonstrate a particular need for so doing. Tourist-oriented industries are generally treated favorably, but the accounts must be serviced with funds from abroad.

Repatriation of capital and earnings

Repatriation of capital is normally approved at the time a foreign investor makes his investment in Montserrat. In the absence of such approval, it may be obtained on exit and this does not generally present a problem.

Payments of interest, dividends, royalties, service fees, etc., require Exchange Control approval, which will be granted provided the Financial Secretary is satisfied that any relevant income taxes or withholding taxes have been properly accounted for.

A 1.75 percent foreign exchange levy is payable on purchase of foreign currency unless specific exemption has been granted. Exemptions are usually granted to an approved enterprise under the Fiscal Incentives Act 1975.

Limitations on imports

There are no Exchange Control limitations on the kinds of goods that may be imported.

Surrender of proceeds of exports

Export proceeds must be converted into local currency unless a foreign currency account has been approved.

Limitation on exports

There are no limitations on the kinds of goods that may be exported . Export credit terms are not prescribed by regulation.

Restrictions on foreign investment

Industries closed to private enterprise

The only enterprises that are wholly in the public sector are the administration of the public utilities, i.e., electricity, water, the airport and seaport. Fuel is presently being administered by the Government, but privatization is being considered.

Restrictions on foreign ownership

Joint ventures are encouraged and local partners can be extremely useful with their knowledge of local conditions.

Restricted direct investments

Approval must first be obtained, but up to 100 percent foreign ownership of enterprises is permitted.

Investment in land

There are normally no restrictions on the purchase of property in designated areas. However, before land is purchased an Alien Land Holding License must be obtained from the Ministry of Agriculture, Trade & the Environment. This can be done with the assistance of a local attorney. Arrangements for the purchase of land can be made through one of the local Real Estate Agencies.

Policy trends

Effect on foreign investment

The government is very conscious of investors fears of exchange controls and the damaging effect of these to their investment plans. To overcome these fears, exchange control concessions are usually, granted to potential investors and should not be seen as a serious barrier to doing business in Montserrat. It is only in exceptional circumstances that any kind of restriction is placed on the movement of funds. The safest approach is to get the position clarified from the outset and to ensure that permission is granted to repatriate the original investment plus any profits arising therefrom. All funds transfer to Montserrat should be handled by a local bank.

Funds of over EC\$250,000.00 permission is sought from The Ministry of Finance for purchase.

Chapter 6

Regulatory environment

Investor considerations

- . Price controls are imposed on staple goods.**
- . Licences are required for certain operations.**
- . Most goods may be freely imported under an open free trade policy**

The Accountant General issues trade licenses for wholesaling and retailing. Doctors and Lawyers are registered but they do not pay an annual fee..

Most goods may be freely imported under an open general license granted by the Ministry of Finance. Certain commodities require individual licenses unless imported from Caricom countries. Montserrat follows Caricom rules of origin.

The Companies Act and other statutes dealing with company affairs are administered by the Registrar of Companies in the Supreme Court Registry.

All businesses are required to register in accordance with the Registration of Business Names Ordinance, which requires details of the business name and persons carrying on the business and the general nature of the business.

Chapter 6 - Regulatory environment

Price controls

The Ministry of Finance, thru the Price Control Division of the Development Unit exercises control over the retail prices of certain commodities, mainly foodstuffs, the permitted markups are as shown in the table:

VI-Permitted Markups of Certain Commodities

	Wholesale	Retail
Frozen or chilled goods:	%	%
Meat.....	10	26
Other goods	11	33

Special industries

Banking

The banking Ordinance 1991 governs licensing and regulates the business of commercial banks and is policed by the Ministry of Finance.

Insurance

Insurance companies, whether or not established in Montserrat, that carry on business in Montserrat are subject to the provisions of the Insurance Ordinance 1977. The act creates the office of Registrar of Insurance, who is charged with general administration of the provisions of the Ordinance. The Ordinance provides, inter alia, for the registration of insurance and intermediaries, establishment of a statutory fund and related limitations on statutory fund investments, annual returns and accounts.

Patents, trademarks and copyrights

Trademarks are protected for 10years and patents for 14 years. Renewal of trademarks is a formality but it is necessary to petition to the Administrator in Council for the renewal of a patent. Montserrat law does not deal with the registration of copyrights, merely the infringement thereof in respect of copyrights registered elsewhere.

Chapter 7 Banking and finance

Banking system

Two commercial banks are presently operating in Montserrat, providing domestic and International Banking services. These banks are The Royal Bank of Canada and an indigenous bank, The Bank of Montserrat.

Central bank

The Eastern Caribbean Central Bank, based in the neighboring island of St. Kitts, acts as central bank for its members listed in Table VII.

VII-Members of Eastern Caribbean Central Bank

Antigua and Barbuda	Montserrat
Anguilla	St. Kitts and Nevis
Dominica	St. Lucia
Grenada	St. Vincent

The Eastern Caribbean Central Bank manages the fiduciary issue and monitors the commercial banks' reserves. The territories share a single

currency, the Eastern Caribbean dollar (EC\$). Exchange controls are enforced by the individual islands' ministries of finance..

Specialized financial institutions

There are no leasing or factoring institutions.

Securities market

There is no stock exchange.

Specialized financial markets

The commercial banks can arrange forward purchases and sales of foreign currency, but there is only a small amount of activity, since the Eastern Caribbean dollar is pegged to the U.S. dollar at US\$1 = EC\$2.70 and the United States is the principal foreign trading partner. There is no financial futures market and no commodities market.

Offshore financial services

There are offshore banking facilities, but there has been no activity for the past few years in regard to the incorporation of new banks. Montserrat an overseas territory is in the process of updating its legislation to meet international conformity.

Chapter 8 - Exporting to Montserrat

Tips for exporters

- o Few restrictions are imposed on imports.
- o Customs duty exemption is available for new hotels and approved industries.
- o The services of a local agent are desirable to obtain speedy customs clearance.

Import restrictions

As noted, most goods may be freely imported under an open general license granted by the Ministry of Finance. Certain commodities require individual licenses unless they are imported from Caricom countries.

Import duties - Customs duties

The Customs Tariff classification is based on the Brussels nomenclature, and the Brussels definition of value is used for Customs valuation purposes. Rates of customs duty range from 5 percent to 70 percent. Montserrat is a member of Caricom and a beneficiary of Lome IV, Caribcan, and the Caribbean Basin Initiative (CBI) trading agreements.

Other taxes

Apart from customs duties, there are consumption taxes, customs service taxes, and excise taxes.

Documentation procedures

The documents required for importation are an invoice, a certificate of origin, a bill of lading, shipping documents, a declaration of value, and for certain items, an import license. Demurrage is payable if a consignee delays clearance of goods.

Customs and storage

Imported goods arrive by sea at the Little Bay Port. The Heliport at Gerald's is presently being upgraded to facilitate the handling of cargo. This with the expansion of the Little Bay Port will increase the storage and processing of cargo. Speedy customs clearance is desirable.

Port of entry and inland transport

The only ports of entry are The Little Bay Port and the Gerald's Heliport.

Local representation:

Local agent

There are a local customs agents who obtain rapid clearance of incoming goods. Their services are relatively inexpensive.

Employee/salesman

There are no problems connected with retaining the services of a local employee/salesman. A noncitizen employed for the purpose would require a work permit.

Sales agent or subsidiary

There are several local sales agents who would be willing to represent new principals. Alternatively, a sales subsidiary may be established. However, employment of a noncitizen would require a work permit.

Chapter 9 Business entitie

Guide to "doing business" entities

Choice of entity

A locally incorporated company in Montserrat is the most common vehicle for foreign investment, and often this is the most tax-efficient method.

Capital requirements

The minimum share capital is EC\$1. There is no maximum.

Founders' requirements

Two subscribers are required to form a private company; a public company requires five. Company formation is a simple matter, requiring the drafting of a memorandum and articles of association and filing these with the Registrar of Companies. The cost is approximately EC\$1,500 (US\$552.)

Foreign ownership participation in management

Once approval for the project has been obtained, a foreigner may be a director. Employees may serve as directors at the discretion of the shareholders.

Repatriation of funds

Normally consent would be obtained from the outset. Provided any relevant taxes have been paid, Exchange Control approval will be given to remit profits in normal circumstances.

Liquidating an investment

This involves the appointment of a liquidator, who would normally be an accountant or lawyer, to wind up the company's affairs. If a company owned land and a noncitizen wished to buy, an alien landholder's license would be needed. [home](#)

Tax considerations

Companies pay tax at 30 percent of profits. Companies and businesses can deduct justifiable directors fees and reasonable expenses incurred e.g. toward advertising.

A tax holiday is usually granted to a new business. The tax advantage of the local company is that if a tax holiday is given, profits may be accumulated and not necessarily taxed in the country in which the foreign shareholders reside until distributed as dividends. This is not always the case, of course, and depends on the tax laws of the country concerned.

Professional advice

It is prudent to obtain proper legal advice before doing business in Montserrat.

Forms of business enterprise

Corporation

Private and public companies are governed by the Companies Act 1999. The distinctions between a private and public company are as follows.

1. The minimum number of shareholders required for a private company is two and the maximum (excluding employees and ex-employees) is 50. In the case of a public company, the minimum is five and there is no maximum.
2. The articles of association (bylaws) of a private company must limit the number of shareholders to 50 and prohibit any invitation to the public to subscribe for shares or debentures.

Business

Every industry, manufacture, trade, business, and engagement in commercial activity of any kind, whether conducted by an individual or a partnership, is classified as a business and must register under the Registration of Business Names Ordinance. There are forms available at the Registrars Office, and it is also necessary to obtain a Trade license from the Treasury. Not included in this definition are corporations, the business of farming and fishing, the provision of services in the course of employment, and the practice of a profession.

Partnership

A partnership must register under the Registration of Business Names Ordinance.

A foreign partner would need the approval of the Ministry of Finance.

Joint venture

Approval would be required for the foreign venturer to operate in Montserrat. A work permit would also be required if a noncitizen needs to work in Montserrat.

Branch of a foreign corporation

A branch needs to be registered with the Registrar of Companies, and permission to operate in Montserrat is required from the Ministry of Finance.

Sole proprietorship

Registration is required under the Registration of Business Names Ordinance and a work permit is necessary for a foreign national wishing to operate as a sole proprietor in a local business venture.

Foreign enterprise entities

Generally, foreign investors choose to operate through a company incorporated in Montserrat. Tax holidays are usually granted for the businesses that foreigners normally wish to operate, e.g., hotels and manufacturing, overriding this consideration. Taxing considerations outside Montserrat may be paramount in deciding on the most tax-efficient structure to use, since earnings of subsidiaries in Montserrat may not be taxed in the home territory until distributions of profits are made, while a branch of a foreign corporation, on the other hand, is more likely to be taxed on Montserrat profits in its home territory as they arise, regardless of whether distributions are made or not.

Apart from enjoying limited liability, the use of an Montserrat company provides a convenient vehicle and facilitates joint ventures with local persons. Additionally, there is no capital gains tax in Montserrat, so a disposal of shares at a later stage will not be subject to Montserrat tax.

Corporation

Formation procedures

In accordance with the provisions of the Companies Act, any two or more persons (in the case of a private company, any two or more persons) may, by subscribing their names to a memorandum and articles of association, form a company with or without limited liability. The most common form of corporation is a company limited by shares.

The memorandum of association (articles of incorporation) must state the following.

1. Name of the company, with "limited" as the last word of the name.
2. Address of registered office.
3. Objectives of the company.
4. That the liability of the shareholders is limited.
5. Amount of the authorized share capital with which the company proposes to be registered and the division thereof into shares of a fixed amount.

The articles of incorporation are normally accompanied by articles of association (bylaws) which set out the regulations of the company. The articles of incorporation and bylaws must be signed by at least two subscribers in the presence of a witness, and each subscriber must take at least one share in the capital of the company. A statutory declaration of compliance with the requirements of registration must be completed by an attorney-at-law engaged in the formation of the company and presented to the Registrar of Companies with the articles of incorporation and bylaws for registration.

On registration, the Registrar of Companies will issue a certificate of incorporation. This document confirms that all registration requirements set out in the Companies Act have been met.

At this stage, a file is opened for the company at the Court House, and all subsequent annual returns showing details of share capital, shareholders, directors, and secured indebtedness will be placed in this file. The file is available for inspection by members of the public on paying a nominal fee.

The formation of a company can be accomplished in a matter of days, the limiting factors being the time involved in obtaining the approval of the Registrar of Companies for the use of the name and the time spent in preparing the articles of incorporation and bylaws.

Registration fees payable depend on the amount of the nominal share capital as stated in the articles of incorporation.

The largest item of expense in the formation of a company is usually the legal fee incurred in the preparation of the articles of incorporation and bylaws.

Capital structure

A company's nominal or authorized share capital and the division of that capital into shares is set out in the company's articles of incorporation. There are no statutory limits on the amount of the initial authorized share capital of a company. If the company's bylaws permit, the authorized share capital may be increased by a resolution of the company in general meeting. The issued share capital cannot exceed the authorized share capital.

Shares must have a stated nominal value which may be any amount, but "no-par value" shares are not permitted. Both registered and bearer shares are permitted. Bearer shares must be fully paid up and their issue must be specifically authorized by the company's bylaws. Generally, shares may be of different classes having different voting rights. Common stock (ordinary shares) usually have voting rights and have no restriction of dividend rights.

A company may issue preference shares (preferred stock) that are redeemable out of profits otherwise available for

dividends or out of the proceeds of a fresh issue of shares made for the purpose of the redemption. A company may not purchase its own shares or provide financial assistance for their purchase. Preferred stock cannot be redeemed unless fully paid. Legal requirements include provisions designed to ensure that the capital of a company remains intact. A company may not, therefore, pay a dividend out of capital; and a reduction of capital, whether by a refund to shareholders or otherwise, can only be made if sanctioned by the Court, and if certain other provisions of the Companies Act are satisfied. These provisions are designed to protect the interests of creditors.

Capital or revenue reserves may be applied in paying up unissued shares for issue to shareholders. Such an issue is referred to as a "bonus," "scrip" or "capitalization" issue of shares. Shares may be issued at a premium (i.e., for a consideration that exceeds their nominal amount), in which case the amount of the premium is treated as a special form of capital reserve that can only be used for certain specified purposes or in accordance with the sanction of the Court. Shares can be issued at discount only with the sanction of the Court and only if of a class already issued.

The liability of each shareholder of a company limited by shares is limited to the amount, if any, unpaid on the shares held by him. Partly paid shares are unusual, so that in practice shareholders of most limited companies, once having paid for their shares, have no further liability.

Relationship of shareholders, directors and officers

Conduct of the entity

The conduct of the business of the company is the responsibility of the directors. There is no statutory requirement that a director must be a shareholder of the company, but the bylaws frequently require a director to hold a specified number of shares, termed a share qualification. The directors are usually appointed by the shareholders to hold office for a period specified by the bylaws. The directors often appoint one or more of their number to hold executive positions in the company, such as managing director. They also appoint one of their number as a chairman; the director so appointed may or may not hold a full-time executive position.

The company's bylaws contain provisions dealing with the powers and duties of the directors. In carrying on the business of the company, the directors are subject to a large extent to the same laws as businessmen carrying on business on their own account, including any laws relating particularly to the trade in which they are engaged. The obligations imposed on directors by company law include those designed to ensure that proper information about the company is made available to persons who should be privy to such information.

Meetings

Every company must hold a general meeting within four months after its articles of incorporation are registered.

A company must also hold a general meeting every year. At least seven days' notice in writing must be given, unless all the shareholders entitled to attend and vote agree to shorter notice. The business transacted at the general meeting is regulated by the company's bylaws and usually includes consideration of the company's accounts and the report of the directors, confirmation and declaration of dividends, and election of directors in place of those retiring. The Companies Act does not contain any specific requirements for accounts to be audited.

However, many companies include provisions in their bylaws relating to the annual audit of their financial statements and consequently the independent audit of financial statements is commonplace.

Other meetings of shareholders may be called by the company as necessary for specific purposes. Directors' meetings are held as necessary, for specific purposes, and are held in accordance with the procedures set but in the company's bylaws.

Dividends are to be paid out of accumulated realized profits only. A company may pay a dividend in a year in which it has made losses, if there is an accumulated profit from previous years in excess of such losses.

Every stockholder holding common shares has one vote in respect of each share held. Preferred shareholders normally have no voting rights unless such rights are specifically conferred by the bylaws. Two shareholders in the case of a private company, or three shareholders in the case of a public company, who are personally present constitute a quorum for holding a meeting. Issues are decided by a simple majority except where a special or an extraordinary resolution is to be passed when a 75 percent majority of those present is required.

Liquidation and receivership

The Companies Act lays down regulations for the liquidation of companies either by the Court or by a shareholders winding-up if the company is solvent or, in the case of an insolvent company, by a creditors winding-up. Regulations are also laid down regarding the appointment of receivers where indebtedness is secured over the property of a company.

Books and records

No specific mention is made in the Companies Act of the nature of books of account to be maintained, but there are provisions for the examination of the company's books by inspectors appointed by the Comptroller of Inland Revenue upon application of the required number of shareholders. A Company is required to keep a register of directors, shareholders and mortgages.

Statutory audit

The requirement for an audit is generally included in the bylaws. The Inland Revenue generally requires audited accounts.

Business

Except as noted below, every industry, manufacture, trade, business, and engagement in commercial activity of any kind, whether conducted by an individual or a partnership, is classified as a business and must be registered under the Registration of Business Names Ordinance. Not included in this definition of business are corporations, the business of farming or fishing, the provision of services in the course of employment, and the practice of a profession.

Partnerships

A partnership needs to register under the Registration of Business Names Ordinance. A foreign partner would require approval to act in Montserrat

Joint venture

In the same manner as for a partnership, a foreigner would require approval to participate in a joint venture in Montserrat

Branch of foreign corporation

All companies incorporated outside Montserrat, but which establish a business in Montserrat, are required to register certain information with the Registrar of Companies in accordance with the Companies Act. The information to be registered includes the following.

1. A certified copy of the charter, statutes or articles and bylaws of the company defining the constitution of the company.
2. A list of the directors with particulars attached.
3. The names and addresses of one or more persons resident in Montserrat who are authorized to accept service of any legal processes or notices to be served on the company.
4. A copy of the annual balance sheet and profit and loss account (income statement) of the company.

Sole proprietorship

A foreign investor coming to Montserrat to set up a sole proprietorship would need a work permit. Once this permit has been obtained, the investor may set up in business. [home](#)

Chapter 10 Labor relations and social security

Labor relations

Availability of labor

The labor force numbers is small majority are employed by the government. There is no readily available pool of skilled and semi-skilled labour due to the small population and the previous emigration. The labor that is available is responsive to new opportunities and challenges.

Where it can be shown that the right caliber of staff is not available locally, the government will grant work permits to employ foreign staff.

Semi-skilled labor is available from other countries in the Leeward and Windward Islands, and technical and professional staff may be employed from any country. Obviously, the costs of retaining foreign staff are higher than those of employing comparable locals and thus it is in the interests of the government and employers to ensure that locals are trained to allow them to fill senior positions, where feasible.

Employer-employee relationships

Labor relations are governed by the Employment ordinance No. 19 of 1979. The Labor Department provides conciliation service. The Employment Ordinance provides for settlement of disputes by a Labor Tribunal.

Unions

The Montserrat Allied Workers Union is the Union which provides representation for workers outside of the Public Service.

Wage contract are signed for 1 – 3 years.

There has been no industrial unrest in recent times.

Employee training programs

Vocational and Technical training is available at the Montserrat secondary school, the school of continuing studies which offers adult classes, and the National Development Foundation provision of courses in hotel training.

Wages and Salaries

There is no minimum wage legislation. However it is recommended that prospective employers pay wages not less than those approved for Government non-established workers.

Hours worked

Office staff generally work 40 hours per week and manual workers the same.

Paid holidays and vacations

There are eleven statutory holidays each year, and certain other days may be declared Public Holidays. According to the employment Ordinance the minimum holiday entitlement after each calendar year of continuous employment is not less than two full weeks with pay.

Equal opportunities

Regulations concerning equal opportunities do not exist, but there is no statutory discrimination with regard to race, religion or sex.

Health and safety

There are regulations for protecting the health and safety of workers but they are not stringent and no instances have arisen of legal action or sanctions against employers for noncompliance.

Termination of employment

A few cases heard by the Labor Tribunal deal with wrongful dismissal and any employer is strongly advised to study and adhere to the correct procedures in order to avoid proceedings before the Tribunal.

Severance pay is applicable after one year of service and is calculated in accordance with the

Employment Act no.5 of 1996, as follows: weekly paid employees are entitled to one day's pay for every month of service; monthly paid employees are entitled to one month's pay for every year of service.

Social security

Social security system

The social security scheme, is based on modern principles and are designed to provide benefits in return for contributions. Social security benefits are related to earnings.

Coverage

All employed persons between the ages of 16 and 60 are covered.

Contributions

Employer contributions are at the rate of 4 and one-half percent on earnings up to EC\$2,600 per month for monthly paid employees and earnings up to EC\$600 per week for weekly paid employees. 1 and one-half percent of the contribution by employers is towards employment injury.

Employee contributions are 3 percent of monthly or weekly earnings up to the same limits.

Benefits

Social security benefits include pension, maternity, sickness, invalidity, survivors, funeral grant and employment injury.

Totalization agreements

Montserrat has reciprocal social security agreements with the OECS and member Caricom Countries.

Expatriate personnel working in Montserrat

Work permits

Every person who is not a national of Montserrat must have a work permit before taking up employment in the country. Normally, a work permit will be issued for a specific period to a nonnational to fill a particular post and only when qualified nationals are unavailable. New enterprises should include in their applications for concessions the rights to a certain number of work permits. In other cases posts must be advertised in the local newspaper and radio station prior to the submission of an application for a work permit. Advertisements should reflect faithfully the duties to be performed and the minimum qualifications and experience required. This requirement is to ensure that suitable nationals are given an opportunity to fill the vacancy.

A prospective employer is required to submit the application for a work permit to the Labor Department for processing. Before processing applications for work permits to non-nationals, the Labor Department takes into account the number of nationals and non-nationals employed in the Company at the time of application. The employers compliance with Income Tax and Social Security regulations are also taken into consideration.

Work permits are approved by Executive Council.

Special arrangements or concessions

There are no special arrangements or concessions for foreign personnel apart from the accepted privileges extended to members of the diplomatic corps and certain United Nations organization.

Restriction on employment

Before granting work permits to nonnationals the Immigration authorities consider the number of nonnational employees in the employ of the company at the time of application.

Living conditions

An expatriate employee's family may accompany the employee to Montserrat.

Nonnationals are not allowed to purchase property without obtaining a license under the Non-Citizens Land Holding Regulations Act. Consumer goods are available in adequate supply.

Chapter 11 - Audit requirements and practices

Investor considerations

- Audited financial statements are usually required by the Inland Revenue and banks but not by legislation.
- Statutory audit is not required for offshore operations incorporated under the International Business Companies Act 1985.

Statutory requirements

Books and records

The Income Tax Act requires any person carrying on a trade to keep proper books of account and requires that returns of income be made. The Comptroller of Inland Revenue has the power to examine the documents and records supporting the returns.

Audited financial statements.

There are statutory audit requirements for banks and insurance companies.

Audit and accounting

Failure to produce audited financial statements can cause concern to the Inland Revenue. Local banks and other lending institutions generally require that annual financial statements be audited where credit is to be extended.

Accounting profession

A local professional accounting body is in the process of being established. Members of overseas institutes and associations are guided by the rules of their own professional bodies. Practicing accountants have to be licensed by the government.

Auditing standards

Reference is generally made to the International Auditing Guidelines issued by the International Federation of Accountants. Audit reports issued by local affiliates of international firms use internationally recognized forms of audit reporting.

Chapter 12 Accounting principles and practices

Investor considerations

- There are minimal disclosure requirements.
- International Accounting Standards are generally applied, but there is no statutory requirement to do so.

Accounting principles

Accounting standards published by the International Accounting Standards Committee are generally accepted in Montserrat.

Form and content of financial statements

Basic financial statements

Financial statements usually include a balance sheet plus statements of income and retained earnings, statements of changes in financial position, significant accounting policies, and appropriate disclosures by way of notes. Comparative figures for the previous period are not required by law but are usually included.

Income statement

Revenue and cost of sales are usually shown in the income statement, as are depreciation, interest and other expenses.

Capital

When shares are issued at a price above par value, the excess is shown as a share premium which may be utilized to issue fully paid bonus

shares to shareholders. Details of bonus issues (stock dividends) are disclosed in the financial statements. A company is not permitted to purchase its own shares.

Valuation of assets

Inventories are valued at the lower of cost or net realizable value, cost being determined by any of the generally accepted methods. It should be noted that the LIFO method is not acceptable, particularly for tax purposes. Real property and other fixed assets are normally recorded at historic cost, but

inflationary trends have encouraged many enterprises to revalue fixed assets.

Depreciation is calculated on either the declining-balance or straight-line method. It is normal for freehold buildings to be depreciated.

Purchase of another business

Purchase of another business is invariably accounted for by the purchase method. The write-off of goodwill arising on the purchase is not deductible for tax purposes. The accepted rate of amortization is over the useful economic life.

Consolidation

Consolidations are carried out by many businesses and, in accordance with International Accounting Standards, associated companies are often accounted for by the equity method.

Provisions and reserves

As prescribed by International Accounting Standards, some companies have adopted deferred tax accounting. However, the majority do not recognize deferred tax.

Accounts (footnote) disclosure

A holding company usually includes a note to the financial statements stating how profits or losses of subsidiary companies have been dealt with in its financial statements. In addition, a company usually states whether any liability is secured on any assets of the company. Normal practice is to include notes regarding such matters as long-term debts, capital commitments, contingent liabilities, and guarantees. Disclosure is made of any underfunding of employees' pension plans, as well as lease commitments.

Taxation

Recording of income

Accounting periods run for 12 months (generally the calendar year). Income is recorded on the accrual basis.

Book and tax differences

There are no significant differences in book and tax treatment of items of income. Material timing differences that arise in the treatment of asset depreciation and the creation of provisions or reserves are discussed in the taxation section that follows in this Guide.

Foreign investors

There are no local disclosure requirements. [home](#)

Chapter 13 - Tax system

Investor considerations

- o The bulk of government revenue comes from direct taxation.
- o Resident individuals are assessable to a personal income tax.
- o Capital gains are not subject to taxation.
- o Tax incentives are available.
- * International Business Companies are not subject to income tax laws

Principal taxes

The bulk of Montserrat's revenue comes from direct taxation, comprises consumer tax, import duty, stamp tax, personal income tax and hotel and guest taxes. Direct taxes are levied on corporate income, business income resident and nonresident individuals' personal income.

Tax guarantees

Residents pay personal income tax. International Business Companies under the The International Business Companies Ordinance No. 19 of 1985 are exempt from Income Tax.

Individual companies falling under the Hotels Aid Ordinance, the Fiscal Incentives Act or specific concessions for other reasons would be granted tax concessions for a fixed period and these would be documented by the Executive Council.

Legislative framework

Statute law

Legislation governing taxation is passed by Executive Council in the same way as any other legislation.

Case law

There is very little case law relating to taxation in Montserrat. Reference is made to U.K. case law. More often, any anomalies or misunderstandings of the legislation are discussed between the taxpayer or his representative and the Comptroller of Inland Revenue, and an interpretation agreed upon; this forms a precedent. In some cases, the Commissioner may issue notes for the guidance of tax advisers and businesses.

Anti-avoidance

Transactions will be disallowed in respect of schemes that have no commercial justification other than tax avoidance. For example, if a nonresident carries on business with a resident and exercises substantial control over the resident and business is arranged so that the resident makes little or no profit, the nonresident may be taxed on the ordinary profits that might be expected to arise from that business.

Income tax

Concepts of income taxation

The system is basically a unitary one that provides for the aggregation of all income accruing in or derived from Montserrat or elsewhere.

Classes of taxpayers

Taxation laws cover corporations, nonresident individuals, branches of foreign corporations, and others. A partnership is not taxed as an entity, rather the income from the partnership is taxed in the hands of the individual partners.

Resident individuals are subject to income tax. Resident individuals are generally those physically present in Montserrat for at least 183 days continuous, in a year or those whose permanent place of abode is in Montserrat and who are physically present therein for some period during the year.

Taxable income

Taxable income comprises gain or profits from any trade or business.

Capital gains are not subject to a separate capital gains tax, nor are they liable to tax as ordinary income.

Tax year

A tax year is basically January to December and may be altered subject to the agreement of the Comptroller of Inland Revenue.

Tax-free zones

There are no tax-free zones in Montserrat.

Tax holidays

Qualifying investors are eligible for tax holidays of up to 15 years, which under certain circumstances may be extended.

Capital taxation

There is no capital taxation in Montserrat.

International aspects

Foreign operations

Unless exempted, branches or subsidiaries of foreign corporations are taxed in Montserrat on the total income of the branch or subsidiary. If this income includes income from overseas, a credit for overseas taxes may be applicable depending on the territory.

International financial center operations

Tax concessions encourage the establishment of offshore corporations, or international business corporations (IBCs), in Montserrat.

Chapter 14 - Tax administration

Investor considerations

- o **The Comptroller of Inland Revenue handles assessments and appeals.**
- o **Withholding taxes are payable on certain payments overseas.**

- o **The Inland Revenue may conduct a tax audit.**

Administration of the tax system

The Comptroller of Inland Revenue is responsible for the administration of taxes.

Corporate taxpayers

Tax returns

March 31, or prescribed date, every person (individual) must produce for the Inland Revenue its financial statements and a computation of taxable profit. All local companies registered in Montserrat or foreign companies registered to do business in Montserrat are required to file as requested by the Comptroller of Inland Revenue. International business corporations registered under the International Business Companies Act 1985 need not file accounts.

Assessments

Provisional assessments may be raised by the Inland Revenue in the absence of accounts. There is the right to appeal against these within 21 days. If the accounts are submitted on a timely basis, provisional assessments will not be raised, but assessments based on the accounts may be issued.

Appeals

Within 21 days of receiving an assessment a company may appeal, usually on the basis that the assessment is excessive. The appeal would be to the Comptroller of Inland Revenue and would be resolved between the Commissioner and the taxpayer or his representative.

Payment and collection

Advance tax is payable in three installments based on the tax chargeable in the previous fiscal year. The standard amount of each installment is determined as one-third of the tax chargeable in the previous fiscal year. The balance of tax due, as notified in the assessment, is payable on or before June 30 of the year of assessment.

Withholding taxes

Certain payments made to nonresidents attract withholding taxes in Montserrat. These taxes become due at the time that payment is made or, if earlier, at the time that the payee's account is credited with the amount due.

Tax audits

The Comptroller of Inland Revenue has the right to have officers of his department visit a company's premises and examine the books and documents relating to any particular year of assessment.

Penalties and interest

Late payments of tax accrue penalties of 5 percent plus 1 percent interest per month. Persons making false statements are subject to a fine of up to EC\$5,000, or imprisonment for a term not exceeding eight months.

Statute of limitations

Assessments are not final until seven years after the end of the income year, within which period revised assessments can be made at any time.

Individual taxpayers

Resident individuals, generally those physically present in Montserrat for at least 183 days in a year or those whose permanent place of abode is in Montserrat and who are physically present therein for some period during the year, are subject to income tax.

Temporary residents in Montserrat and nonresidents deriving income from Montserrat are subject to individual rates of tax. The procedures relating to tax administration are the same as for corporations.

Temporary residents are not subject to tax on income arising outside Montserrat.

Foreign personnel

There are no special rules for foreign personnel.

Exit permits

The formalities for tax clearance is that a certificate of clearance must be obtained from the Comptroller of Inland revenue.

Unincorporated businesses

The procedures for administering business tax on all businesses that are not corporations are the same as for corporations.

Trusts, partnerships, joint ventures

The income derived from a trust, partnership or joint venture is taxed in the hands of the recipients, the rate of tax depending on the status of the recipient

Chapter 15 -Taxation of corporations

Investor considerations

- **Dividends from resident companies are subject to withholding tax.**
- **Capital gains are not subject to taxation.**
- **Withholding taxes are levied on certain overseas payments, including management fees.**
- **Restriction is placed on losses available for carry forward.**
- **International business corporations (as defined) are exempt from local taxation**

Corporate tax system

Corporations and shareholders

Corporate income is assessable in the hands of the corporation.

Taxable entities

Corporation tax payable by resident corporations also applies to the branch operations in Montserrat of foreign corporations in respect of income arising in Montserrat. A company is deemed to be resident only in the country in which the central management and control of its business is situated.

Taxation

Gross income

Accounting period

A newly incorporated company will select a year-end for accounting purposes, usually a year after commencement of the business. The Comptroller of Inland Revenue has to approve any subsequent change of year-end. Such approval is usually given if good reasons for a change exist.

Accounting methods

Accounts are normally prepared on an accrual basis; any other basis would have to be agreed on with the Comptroller of Inland Revenue.

Intercompany transactions

There are no specific limitations on prices for goods bought from or sold to foreign affiliates, but the Inland Revenue will disregard or adjust transactions they consider to be artificial.

Inventory valuation

Inventories are generally stated at the lower of cost or net realizable value. FIFO and average-cost methods of valuation are generally used for book and tax purposes. However, the Comptroller of Inland Revenue will normally accept a method of valuation that conforms with standard account practice in that trade. LIFO is not permitted for tax purposes. General provisions for obsolescence are not deductible for tax purposes.

Capital gains

Capital gains are not subject to a separate tax or taxed as ordinary income.

Interest

Interest is taxable and forms part of the taxable income assessable to tax in the same way as any other taxable income.

Dividends and intercompany dividends

Dividends received by a company resident in Montserrat from another company resident in Montserrat are taxed at the rate of 40 percent. However, the recipient company is allowed a tax credit equal to the tax on the profits out of which the dividends were paid.

An Montserrat corporation is taxed on foreign branch income as earned, and on foreign dividends as received. Double taxation is avoided by means of foreign tax credits where active tax treaties exist.

Stock dividends

A Montserrat corporation can distribute a tax-free stock dividend proportionately to all shareholders.

Royalties

Royalties are assessed for corporation tax in the same way as interest.

Service fees

Service fees are also assessed for corporation tax in the same way as interest.

Exchange gains and losses

Foreign exchange gains and losses would be taken into account in computing taxable income generally when resulting from trading and when realized.

Nontaxable income

Income arising from the business of fishing, farming, market gardening and livestock raising carried on by a resident is exempt from taxation..

Deductions

Business expenses

For the purpose of ascertaining the taxable income of a corporation, all outgoings and expenses are to be deducted that are wholly and exclusively incurred in the production of the income. There are no territorial limits and no

prohibitions against payments to affiliates, provided they conform to the principle of being incurred for the production of the income. Certain payments to overseas companies are subject to withholding taxes.

Depreciation

Depreciation allowed for tax purposes is computed on the diminishing-balance method at prescribed rates. Initial allowances are granted on industrial and commercial buildings, built between April 1998 and March 31,2003, and in respect of capital expenditure incurred on plant and machinery by a person carrying on a trade or undertaking as defined. Conformity between book and tax depreciation is not required. Gain on sale of depreciated assets is taxable as ordinary income up to the amount of tax depreciation recaptured.

Taxation

No allowance is given for amortization of goodwill or other intangible assets, such as patents, trademarks and copyrights.

Interest

Interest is an allowable deduction provided the interest is paid on capital employed in acquiring assessable income.

Interest payments to nonresident persons are subject to withholding tax.

Royalties and service fees

Royalties and service fees are tax deductible if incurred to produce assessable income. Payments to nonresidents are subject to withholding tax.

Employee remuneration

Deductions may be claimed on payments to employees provided they are properly employed within the business. The fact that they are foreigners or shareholders has no relevance except that the salaries must be reasonable having regard to the services performed. Where a principal shareholder receives a salary from the company, there is a restriction for tax-deductibility purposes on the amount of that salary to a reasonable commercial level of remuneration.

Insurance premiums

Insurance premiums are allowable but, in the case of captives, must be at a level that bears a reasonable resemblance to the arm's-length cost of insuring the risk.

Bad debts

Specific provisions for bad debts are allowed.

Foreign taxes

Relief is given for tax paid on Commonwealth income and taxes paid in territories with which a double taxation agreement exists.

Pension funds

Contributions to pension funds approved by the Governor in Council are allowed and is 3 per cent of the individuals salary.

Nondeductible items

No deduction is allowed in respect of domestic or private expenses; expenses not wholly and exclusively incurred in the production of income capital withdrawn; any sum recoverable under an insurance policy or contract of indemnity; legal fees for purchase of an asset or lease; or amortization of goodwill, patents, trademarks, and copyrights.

Tax computation

Net income

Net taxable income is determined by taking the reported profit from the profit and loss account (income statement) and adding back book depreciation and nonallowable expenditure and then deducting tax depreciation allowances and nontaxable income, such as gains on sales of fixed assets, in the amount of accumulated allowances granted earlier.

The adjusted profit may then be reduced by up to 50 percent if there are sufficient agreed tax losses brought forward from previous years (see Losses above)

Tax rates

Corporate tax is imposed at the following rates.

1. Nonresident companies lending money for "approved development" in

Montserrat-20 percent.

2. Resident companies-20 percent.

Tax credits

There are provisions in the tax laws for a foreign tax credit by way of unilateral relief where no double taxation treaty exists. Credit is given under the double tax treaties and there are also bilateral arrangements with certain Commonwealth countries.

Consolidation

There are no provisions for group tax relief where losses of one company may be offset against profits of another.

Other taxes

There are no other taxes on the income of a corporation resident in Montserrat.

Branch versus subsidiary

Generally, it is preferable to incorporate a local company in Montserrat rather than operate as a branch of a foreign company. The advantages derived are as follows.

1. Identity and image:

It is better to present a local image.

2. Possible future admission of local shareholders.

3. Possible tax advantages in foreign parent's country of residence:

For example, if the subsidiary had a tax holiday, the parent could be free of tax on Antiguan earnings until distributions were made.

4. Saving of substantial stamp taxes if the Antigua operation, including fixed assets, were subsequently sold, e.g., stamp tax on share transfers is 2.5 percent, whereas stamp tax on property transfers is a total of 7.5 percent.

Branch losses cannot be carried forward on incorporation.

Special industries

Insurance

In the case of an insurance company (other than a life insurance company) where the gains or profits accrue in part outside Montserrat, the gains or profits on which tax is payable shall be ascertained by taking the gross premiums

and interest and other income received or receivable in Montserrat less reinsurances, claims expenses and a reserve for unexpired risks.

Life insurance companies are taxable on investment income and commission, less management expenses.

All insurance companies are subject to a premium tax of 3 percent on the premium income, excluding motor business, net of agents' commissions, whether resident or not.

Shipping

Income arising from the business of shipping carried on by a nonresident is exempt from tax provided an equivalent exemption is granted by the country in which such person is resident to persons resident in Montserrat. The expression "business of shipping" means the business carried on by an owner of ships, and the expression "owner" includes charterer.

Subject to the above provisions, an owner or charterer of ships whose principal place of business is outside Montserrat, but in a part of the Commonwealth, is taxable on the proportion of profits applicable to shipping in Montserrat.

HOTELS

Under the Hotel Aid ordinance, investors in the hotel industry may benefit from a tax holiday of up to five years. For five of the following eight years, the investor may offset up to one-fifth of the incurred capital expenditure against future income. Losses incurred during the tax holidays may not be carried forward against future profit.

Manufacturers

The Fiscal Incentives Act 1975 provides that manufacturers of an "approved product" are exempt from local taxation for varying periods, five to ten years, although longer periods of up to fifteen years maximum may be negotiated depending on the nature of the investment.

Companies qualifying for fiscal incentives are entitled to Capital Expenditure Allowances after the expiration of the tax holiday. This allowance may not exceed 20% of the total expenditure on plant, machinery and equipment made during the holiday. There are no restrictions on the Repatriation of Profits, dividends or registered capital.

International business corporations

The International Business Companies Ordinance 1985 provides that an international business corporation is exempt from local taxation.

Holding companies

There is no special tax legislation relating to holding companies, nor is there any provision in the tax legislation to permit the assessment to tax on a group basis. Each company within the group is assessed separately and there is no setoff of losses between related companies.

Corporate tax planning strategies

Type of entity

Tax rates for companies are the same as for other entities 30 percent.

Subsidiary versus branch

A subsidiary Montserrat company is preferable to a branch of a foreign corporation

Special industry companies

Incentives are available for a wide range of companies, including in tourism, manufacturing and agriculture.

Acquisitions

In considering asset or share acquisition, the tax consequences depend on the circumstances. Stamp taxes on the sale of real estate are high. However, capital allowances can be claimed on the full cost of buildings, as well as plant and machinery. The special concessions relating to hotels may apply, in which case an asset acquisition would be preferable.

International tax center

The International Business Companies Ordinance 1985 gives tax exemption to international companies.

Tax treaties

Active tax treaties are presently in existence with the United Kingdom, and the Organisation of Eastern Caribbean States (O.E.C.S).

Chapter 16 -Taxation of foreign corporations

Investor considerations

- o **Foreign corporations exporting to Montserrat are not subject to tax in Montserrat unless there is a permanent business establishment in Montserrat.**
- o **Branch operations are taxable in Montserrat on Montserrat-source income.**
- o **Dividends paid out of taxed profits are not subject to further tax.**

Tax concepts

If the management and control of a foreign corporation is outside Montserrat, the corporation is nonresident for tax purposes. However, the corporation is subject to tax on income arising in Montserrat if the corporation earns income through a factor, agent, branch, or manager.

Income from rents, mortgage or debenture interest, annuities, or other annual payments that the payer is entitled to deduct for tax purposes from chargeable income are subject to withholding tax.

Imports

A foreign corporation engaged in exporting goods to Montserrat is not taxable in Montserrat on the profits arising from the transactions unless it maintains a business establishment in Montserrat. For this purpose, a business establishment includes such things as a branch office or an employed manager or agent who is resident in Montserrat, but does not include a wholesaler, distributor or commission agent.

Branch operations

Branch operations in Montserrat of a foreign corporation are taxable in the same way as resident corporations. In tax planning for branch operations, it is important to ensure that the Montserrat branch is fairly charged for its proper share of overseas expenses incurred in earning the income. For example, there may be group advertising costs and head office administration charges, a proportion of which would be allowable in computing taxable profits in Montserrat.

Transfer of branch profits

Once the profits of the branch have been taxed in the normal way, transfer taxes are applicable.

Tax rates

The tax rate for branches is the same as for corporations-30 percent.

Income from subsidiaries

Dividends

Dividends may be paid to parent corporations without deduction of any tax other than any tax on income of the subsidiary.

Interest

Unless exempted by special concession, interest is subject to withholding tax.

Royalties

Royalty income arising in Montserrat is regarded as taxable in the hands of the recipient and withholding taxes are deductible from payments.

Capital gains

There is no tax on capital gains.

Rentals

Withholding taxes are applicable.

Taxation

Portfolio investments

An investor in Montserrat corporations is not subject to any tax on dividends or capital gains tax or income tax on dividends over and above the tax payable by the corporation.

Chapter 17- Shareholders

Investor considerations

- 0 **Dividends are paid out of profits on which tax has already been accounted for; no further tax is payable.**
- 0 **There is no taxation of capital gains.**
- 0 **Branch losses cannot be carried forward on incorporation.**
- 0 **Goodwill on asset acquisitions is not tax deductible.**

Domestic shareholders

Dividends

Dividends are paid out of taxed profits, unless exemption from tax has been granted. In either event, there is no further taxation of the dividend in the hands of the recipient.

As far as foreign-source dividend income is concerned, when the foreign country is in the British Commonwealth, relief is allowed for either part or all of the foreign tax paid, depending on the rate, provided the country allows a similar relief for Montserrat tax. Also, where a double tax treaty exists with a foreign country in which the taxes are payable, there are usually provisions for partial or total relief against Montserrat tax for any foreign taxes paid.

Capital gains

There is no taxation of capital gains.

Foreign shareholders

Dividends

The same rules apply as for domestic shareholders. There are no further taxes or withholding taxes on dividends.

Capital gains

No taxation is applicable to capital gains.

Taxation

Reorganizations

Incorporation

A business can be acquired by a corporation, but any stamp taxes on real estate and assignments would be applicable. Any brought-forward tax losses would not be available to the company.

Merger, amalgamation or reorganization

There are no tax consequences to the shareholders or to the corporations concerned with respect to a merger, amalgamation or reorganization by way of share exchange.

In the case of a transfer of tax-depreciable assets, the Inland Revenue normally permits the transferee corporation to use the tax written-down values of the transferor corporation, but application should be made for approval if it is proposed to do this. Generally, any profit on transfer of tax-depreciable assets is taxable in the hands of the transferor, but the profit is restricted to a maximum of the tax allowances granted on these assets. There are provisions in the tax laws with regard to related transactions in the case of certain trades, where the Inland Revenue may use open-market value prices and may also apportion the proceeds of sale of assets in certain circumstances. The Inland Revenue may disregard transactions considered artificial or fictitious.

It should be noted that it is not possible to carry forward branch losses on incorporation.

Liquidation

Taxable income continues to be liable to corporate tax after a corporation begins liquidation proceedings. The shareholders are not taxable on any distribution of the assets of the company, whether in cash or otherwise, including the repayment of share capital.

Acquisitions

Asset acquisition

Gains on the sale of assets are taxable to the extent of tax depreciation previously claimed. Generally, the buyer may claim tax depreciation on the cost of the asset to him where the transaction is on an arm's-length basis. Interest on money borrowed to acquire the assets is allowed as a tax deduction, provided it can be shown that the assets are used in the

production of the taxable income. The purchase of goodwill is not tax deductible.

Share acquisition

When a corporation is acquired through the acquisition of its shares, there is no method whereby the tax basis of the assets may be increased to reflect the purchase price. When a domestic corporation borrows money to acquire the shares of another domestic corporation, the interest is disallowed for tax purposes, since the dividend income resulting from the purchase of the shares is not subject to corporate tax. Any unutilized tax losses in the acquired company are not affected.

Buyer and seller

The Inland Revenue does have the power to allocate reasonable values to various assets in certain cases; professional advice should be sought before negotiation for the purchase or sale of assets of any business.

Chapter 18 Taxation of foreign operations

Investor considerations

- **A resident taxpayer is subject to tax on worldwide income.**
- **Tax credits or deductions are available for foreign taxes paid.**
- **Capital gains are not taxed.**

Taxation of foreign income

Branch income

A corporation that is resident in Montserrat and that has branches in other territories is taxable on its total profit, regardless of whether the income is received in Montserrat. Losses of a branch may be set off against total income.

Allowance may be granted for foreign taxes paid.

Foreign subsidiary income

Income of a foreign subsidiary of a domestic corporation is subject to Montserrat tax only to the extent of dividends received by the parent company. Again, allowance may be granted for foreign taxes paid.

Liquidation proceeds

The liquidation proceeds of a foreign subsidiary are normally treated as capital and are therefore not subject to corporation tax.

Capital gains

Gains on the sale of shares in foreign subsidiaries are not subject to tax.

Taxation

Dividends

Dividends received from a foreign subsidiary are liable to corporation tax in the accounting period in which they are received, subject to any foreign tax credit that may be available.

Interest

Interest is subject to corporation tax in the hands of the parent company in the year in which it is earned.

Royalties

Royalty income is treated for tax purposes in the same way as interest.

Foreign exchange gains and losses

In general, foreign exchange gains and losses are included in determining taxable income if realized and if relating to items of income or expense.

Double tax relief

Relief from double taxation of income earned by foreign branches and subsidiaries is available through the following means.

1. Tax treaty provisions.
2. Credit for foreign taxes paid (Commonwealth double taxation relief).
3. Deduction for foreign taxes paid.

Tax treaties with Caricom will be in effect by 2001

Tax treaties

The provisions of the relevant tax treaty will specify the extent to which Montserrat will grant relief on income already taxed in a foreign jurisdiction which is also taxable in Montserrat. Treaty relief generally applies to income taxes on

foreign branch income and to withholding taxes on other types of income, e.g., dividends, interest, royalties.

Where the foreign taxes paid exceed the credit granted by Montserrat, the excess foreign taxes are deductible for Montserrat tax purposes.

Commonwealth relief

Where there is no tax treaty but the foreign income is subject to income tax in a British Commonwealth country that gives similar relief, a partial credit for such foreign country taxes paid can be claimed in Montserrat. Essentially, the Montserrat relief is restricted to 50 percent of the lower of the Montserrat or foreign country income tax paid on the same income.

Chapter 18 - Foreign operations

Deduction for foreign taxes

Where relief cannot be claimed under either a tax treaty or Commonwealth double taxation provisions, the taxpayer may claim a deduction for foreign taxes paid on the income subject to Montserrat tax.

Chapter 19 - Businesses, partnerships and joint ventures

Investor considerations

- Business tax is the same as corporation tax.**
- Reasonable proprietorship salaries are allowed as a tax deduction in computing business tax assessments.**

Businesses

Entity or conduit

Every industry, manufacture, trade, business, and engagement in commercial activity of any kind, whether conducted by an individual or a partnership, is classified as a business and is subject to business tax at 20 percent.

Not included in the above definition are corporations, which are taxed at 30 percent. Also not included in the above definition are the businesses of farming and fishing.

Taxable income

The taxable income of a business is computed in precisely the same manner as the taxable income of a corporation. Reasonable proprietorship salaries are allowed as a tax deduction.

Partnerships

Entity or conduit

A partnership is treated as a conduit for tax purposes. Individual partners are taxed on their share of profit.

Taxable income

The partnership income is adjusted for tax purposes by adding back depreciation and disallowed expenses and deducting capital allowances and reasonable partner salaries. The net taxable income is then apportioned between the partners in accordance with their profitsharing ratios and added to their other taxable income. The rates of tax applicable are the same as for an individual.

Taxation of foreign partners

Foreign nationals who are resident in Montserrat are subject to personal income tax.

Joint ventures

Entity or conduit

Whether a joint venture is treated as an entity or conduit depends on the circumstances and the duration of the venture. If the venture carried on business under a special name, it would be required to be registered under the Business Registration Act and would be taxed as a business. In other circumstances, particularly if a corporation were involved, the Joint venture would be regarded as a conduit and the joint venturer would add the joint venture profit to other taxable profits.

Taxable income

The taxable income is determined in the same way as for corporation tax. In no circumstances could a corporation enjoy the reduced rate of tax available to a business. An unincorporated body of persons or an individual would pay business tax on their share of profits.

Chapter 20 - Taxation of individuals

Tax planning for expatriates

Tax consequences of resident/nonresident status

○ Resident individuals are subject to tax in Montserrat on income from employment.

○ Basically, residents have their permanent place of abode in Montserrat or are present in Montserrat for 183 days in a year.

○ If expatriates arrive late in a tax year but are resident in the following year, they qualify as resident in the year in which they arrive. The same rule applies when they leave.

Territoriality and residence

An individual who is resident in Montserrat is subject to tax in Montserrat on income from employment.

"Resident in Montserrat" in relation to a year of assessment in the case of an individual means the following.

1. The permanent place of abode is in Montserrat, and the individual is physically present therein for some period of time in the year unless the Commissioner is satisfied that the individual's absence throughout the whole of the year was for the purposes of education, medical treatment or the performance of duties on behalf of the government.
2. The individual is physically present in Montserrat for not less than 183 days in the year.
3. The individual is physically present in Montserrat for some period of time in the year immediately preceding or succeeding a year when qualified as resident.

Taxation of residents

Residents of Montserrat are subject to tax on their employment income. Further, resident individuals, including trusts, pay tax on such items as net dividends, interest or rents. As noted resident individuals engaged in a business pay business tax on business profits.

Taxation of nonresidents

Gross income

In the case of persons who do not qualify as residents, inasmuch as they do not meet the requirements of the definition above, but who are temporarily present in Montserrat during the basis period of a year of assessment, tax is payable on income from employment in Montserrat. There is no tax on income arising outside Montserrat

Employee services

Included in taxable income are gains from employment and the estimated annual value of residence or other

allowance granted in respect of employment.

Business and partnership income

A foreign national who is a partner in an Montserat partnership and is resident in Montserrat is subject to personal income tax. If such a partner is nonresident, that partner would pay withholding tax on salary and on the business profits after deduction of salary.

Dividends

Tax paid on company profits, out of which dividends are paid to individuals, cannot be recovered.

Taxation

Capital gains

Capital gains are not taxable.

Other income

Foreign-source income is taxable.

Closely held companies

Rules exist for the taxation at personal rates of undistributed profits of a company controlled by not more than five persons. This would only affect nonresidents.

Deductions Personal allowances

No personal allowances are available for nonresidents.

Double tax relief

Double tax relief is not applicable to residents and generally would not be applicable to nonresidents unless the income is received in Montserrat.

Tax computation for nonresidents

Taxable income

Taxable income is gross income from employee services.

Tax rates

Tax rates are on a sliding scale up to a maximum of 30 percent on annual taxable income over EC\$15,000,.

Other taxes

There are no wealth, gift or inheritance taxes.

Chapter 21- Taxation of trusts and estates

Trusts and estates

Trusts are generally governed by United Kingdom common law principles.

Taxation of trusts and estates

A trust established in Montserrat qualifies as a resident of Montserrat and has the same tax status as an individual. Taxes would, therefore, be payable on such items as net dividends, interest and rents, and would be required to submit annual returns.

Taxation of beneficiaries

Resident and Nonresident beneficiaries are subject to tax. Nonresident beneficiaries are subject to personal tax on

income arising in Montserrat from a trust or estate, but are not taxable on distributions made by a trust corporation established under the International Business Companies Act 1985.

A trust is liable to tax in Montserrat. Rate two or more beneficiaries 20 percent.

Chapter 22- Indirect taxes

Investor considerations

- o **Indirect taxes can be a significant business cost.**
- o **There are exemptions from many of the import-based taxes for manufacturing, hotel and other qualifying enterprises.**

Customs and excise duties

Customs duties are charged on a wide range of imported goods. Exemptions can be granted for raw materials and plant and machinery used in manufacturing and for other approved enterprises as well as for certain items imported by hotels in construction, extension or refurbishing projects.

Consumption tax

Consumption tax is levied on goods manufactured and sold in Montserrat and also on a range of imported goods. Consumption tax ranges from 0-50 per cent, average rate is 15 per cent.

For manufactured goods, the tax is charged on their ex-factory value; for imported articles, it is charged as a percentage of the CIF value plus customs duty.

taxation

Imports of raw materials and plant and machinery for use in manufacturing and for refurbishing and upgrading hotels can be granted exemption from consumption tax.

Customs service tax

Customs service tax is applied at the rate of 8 percent of the CIF value of all goods imported.

Property tax

Property tax is levied on the annual market value and site value of the land (as determined by the Property Tax Ordinance No. 3 of the Valuation Officer) of the property, as defined, at the following rates.

1.Charged according to the classification:

	Land	Building
Agricultural	1.0%	
Residential	1.65%	.30%
Business	2.0%	.80%
Industrial	1.0%	.75%

Noncitizens undeveloped land tax

Noncitizens failing in their responsibility to appropriately develop land that they own are required to pay a surcharge of 1.65% on the value of the land.

Guest tax

A guest tax of 7 percent is charged in respect of every item on the hotel bill.

Travel tax

This is no tax on airline tickets purchased in Montserrat.

Vehicle licenses

These are payable annually at rates varying according to the size of the vehicle.

Telecommunications

All overseas telephone calls are subject to a levy of 5 percent.

Foreign currency levy

A tax of 1.75 percent is charged on the purchase of foreign exchange.

Appendix VI

Financial statements

B Company-A wholly owned subsidiary of A Company (a non-U.S.company).

Sample 1-Balance sheet

Consolidated balance sheet

(In EC\$ thousands)

	December 31	
Assets	19X1	19X0
Current assets:		~C
Cash and short-term deposits	XX	XX
Accounts receivable (Note)	XX	XX
Inventories (Note) _____	XX ~	
	XX	XX
Investments (Note) _____	XX	XX
Fixed assets (Note) _____	XX	XX
Goodwill _____	XX	XX
	XX	XX

Liabilities and shareholders' equity

Current liabilities

Bank overdraft (Note)	XX	XX
Accounts payable and accrued liabilities	XX	XX
Taxation payable	XX	XX

Proposed dividend	XX	XX
Current portion of long-term debt (Note)	XX	XX
	XX	XX
Long-term debt (Note)	XX	XX
Deferred taxation	XX	
Shareholders'equity:		
Share capital-Xshares	XX	XX
Appraisal excess (Note)	XX	XX
Retained earnings	XX	XX
	XX	XX
	XX	XX

Financial statements

Sample 3-Statement of changes in financial position

Consolidated statement of changes in financial position

(In EC\$ thousands)

Year ended

December 31

	19X1	19X0
Cash provided by (used in)		—
operating activities:		
Net income for the year	XX	XX
Depreciation	XX	XX
Deferred corporation tax	XX	XX
Gain (loss) on disposal of		
fixed assets	(XX)	XX
	XX	XX
Changes in noncash working		
capital balances:		
Accounts receivable	XX	XX
Inventories		
Accounts payable and accrued		
liabilities	XX	XX

Taxation payable	XX	XX
	XX	XX
<hr/>		
Cash provided by (used in)		
investment activities:		
Proceeds from sale of fixed		
assets	XX	XX
Purchase of fixed assets	(XX)	(XX)
Purchase of investments	(XX)	(XX)
	–	X
Cash provided by (used in)		
financing activities:		
Long-term debt	XX	XX
Repayment of long-term debt	(XX)	(XX)
Dividend paid	(XX)	(XX)
Issue of shares	XX	XX
	XX	XX
Cash increase(decrease)	XX	XX
For the year		()
Cash position, beginning of year	(XX)	XX
Cash position, end of year	XX	XX
Represented by:		
Cash and short-term deposits	XX	XX
Bank overdraft	(XX)	(XX)
	XX	XX

[home](#)

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