

Institute of Chartered Accountants of Barbados

Recommendations for Budget 2016

General Comments

The Institute of Chartered Accountants of Barbados (ICAB) is pleased to present for the consideration of the Ministry of Finance, the perspectives of its members in relation to the upcoming Government Financial Statement & Budgetary Proposals (the Budget).

The Central Bank of Barbados in the report on the Barbados economy for the first quarter of 2016 concluded as follows: *“The fiscal deficit for 2016/17 is projected to be 5 percent of GDP, on the basis of expenditures approved by Parliament in March 2016. This compares with projected nominal growth of GDP of 2.5 percent (real growth of 1.6 percent, plus a deflator of 0.9 percent), implying a further increase in the gross debt to GDP ratio. As has become the norm, a Budget and Financial Statement is expected shortly, in an effort to close this gap.”*

In addition closing the fiscal gap, the Institute of Chartered Accountants of Barbados (ICAB) is of the view that other priorities of the upcoming budget include; reduction of the high debt levels; stimulating growth; and enhancing competitiveness.

(For ease of reference the main recommendations have been summarized at the end of the document.)

Macroeconomic indicators

The levels of Barbados' fiscal deficit and national debt are too high and are unsustainable. The fiscal deficit which was 5.4% of GDP at the end of 2015/2016 even though lower than the peak of a few years ago is still too high despite the revenue enhancing measures which have been implemented over the last few years. The financing of the shortfall by debt and by the printing of money which were both used in 2015/2016 are not recommended as a preferred strategy for 2016/2017. Using debt to finance the deficit for the last several years has resulted in a growing debt burden which has to be serviced and which now constitutes one of the larger expenditure items of the Government. High fiscal deficits and high debt levels act as a drag on the economy and constrain economic growth.

It is ICAB's view that there is no scope for further increasing taxes and that the fiscal deficit needs to be reduced primarily by expenditure cuts, and the charging of user fees for some services. We hope that the Minister does not seek a replacement tax for the Consolidation Tax. If this is

contemplated, careful analysis should be undertaken taking into consideration all likely consequences. The size and structure of government and quasi-government bodies is beyond what can be afforded and needs to be addressed. In this regard we note that for 2015/2016 grants to public institutions was 21% of current expenditure. Addressing the purpose, structure, and cost of the statutory boards with a view to achieving lower costs must be concluded urgently.

At March 2015 the gross public sector debt was 107% of GDP and the Central Bank has predicted a further increase in the short term as it is expected that some debt will be used to finance the fiscal deficit. ICAB supports the use of targeted divestment of some state owned enterprises (SOEs) (BNTCL was previously identified by Government) with the proceeds from the divestment used to reduce some of the debt. The elimination of future operating costs will have a positive impact on the fiscal deficit and reduce the need for additional debt financing. There will be the need for Government to continue to own and manage SOEs. In order to improve their performance and conformance we recommend the development of a SOE Corporate Governance Guide. This would provide clear guidelines to the SOEs on the role and structure of the boards, performance expectations, and standards for probity, accountability and transparency.

The foreign exchange reserves for 2015/2016 were the equivalent of 14 weeks imports however when the dollar value is considered, the reserves are down compared to previous years. Of concern is the fact that fuel import prices fell by 37 percent and the volume of fuels imported was down by 16 percent yet the reserves fell. In recent weeks the price of oil has risen, therefore we must brace for the negative impact on the reserves.

The Central Bank report for the year 2015 highlighted a worsening productivity problem as indicated by gap between the unit cost of labour and output per worker. The gap has steadily widened over the last 20 years and can only have a negative impact on Barbados' competitiveness. ICAB recommends that this matter be urgently addressed by both the public and private sectors.

Taxation

One year ago there was a comprehensive reform of the Barbados taxation system. This was largely based on the recommendations of international tax consultants in the report "A Tax Reform Roadmap for Simplicity and Revenue Buoyancy". Additionally over the last two years there have been major changes in tax administration with establishment of the Barbados Revenue Authority (BRA) as the central revenue collection agency for the Government.

ICAB offers the following comments and recommendations:

1. Complete the legislative amendments needed to implement the announced tax reforms from 2015, for example, increasing the VAT registration threshold to \$200,000.

2. As indicated previously ICAB does not support any further increases in the level of taxation. The burden of fiscal consolidation has, for the last several years, been borne by taxpayers, especially salaried middle income taxpayers.
3. The removal of virtually all allowances and the reduction of the rates for personal income tax had the intended effect of simplifying the system and reducing the level of refund processing by the BRA. However the removal of the allowances for mortgage interest and pension funds should be reconsidered. The support for home ownership and the stimulation of the construction sector are both desirable economic goals. Pension funds are an important pool of savings in the economy and because of the long term nature of the pension contract the funds are an important source for financing of investments.
4. The creation of the BRA was fully supported by ICAB. We recognize that this major change in tax administration along with the major changes in tax policy created by the tax reform have made implementation quite challenging for the BRA. To its credit the BRA has been able to resolve many of the issues, however the following matters remain a source of concern for tax practitioners:
 - a. The ability for taxpayers to routinely offset tax liability (between taxes and tax periods) has not yet been achieved. This was one of the benefits advanced for the creation of the BRA.
 - b. Delays in paying refunds, especially for VAT, has weakened confidence in the system and created cash flow problems for several businesses.
 - c. Delays in obtaining tax clearance certificates.
 - d. Delays in resolving technical issues in non-routine tax matters, including:
 - i. Technical rulings and guidance
 - ii. Tribunal decisions
 - e. The inability for taxpayers to make online payments to BRA
 - f. The need to physically move between several BRA offices to complete transaction related to vehicle licensing.

Growth measures

ICAB welcomes the positive growth in the Barbados economy in the first quarter of 2016. This is a good sign and should provide much needed encouragement to all. However Barbados is not yet out of the woods. There is tremendous competition from other countries offering similar goods and services to what we produce as well as seeking to attract investment into their economies. There are several cross-cutting issues as well some sectoral initiatives which should be taken in order to spur continued growth in the economy.

Competitiveness

There is a need to make it easier to do business in Barbados. According to the Doing Business 2016 report of the World Bank Barbados ranked 119 out of 189 countries. This ranking is three places lower than the previous year and falls below the Latin American & Caribbean average of 104. Some of our higher ranked Caribbean neighbours and competitors were Jamaica (64), St.

Lucia (77) and Trinidad & Tobago (88). These rankings may not be perfect measurement instruments of any individual country but they are used by investors to compare countries. Additionally a disaggregation of the 12 measures which comprise the ranking can provide very useful insight into areas for policy intervention. For example in the case of Barbados one of weaker scores is in the area of the enforcement of contracts and this is based on the well-known major delays in the adjudication of commercial disputes through the Barbados court system. ICAB recommends that a high priority and adequate resources be given to the resolution of the challenges named in that report and those identified by businesses in Barbados from time to time.

The issue of declining productivity has been raised above. It is worth noting that even though output per worker is the most used measure of productivity, we cannot ignore the negative impact of poor management, outmoded technology, and dysfunctional business processes on output in the public and private sectors. Our human resource development strategy and our systems of production must ensure that we are actually improving our returns on the vast amounts invested in developing human capital in Barbados. We recommend that the National Productivity Council intensify efforts to promote productivity and provide assistance to labour and management in the implementation of payment schemes and incentive programmes linked to productivity increases.

Sectoral initiatives

International business

1. De-risking and the possible loss of correspondent banking relationships continue to pose a threat to the sector. Government should continue to work with other countries and international organizations to defend Barbados' strategic interests.
2. Improve business facilitation especially in relation to:
 - a. Work permits and other immigration matters
 - b. Provide greater certainty of process and clear outlines of procedures
 - c. The move towards a 24-hour business society The extension of opening hours for government institutions and the move to a more automated/computer-based system for applications, processing, approvals, payments, information requests, etc.
 - d. Response time to queries.
3. Faster drafting of legislation to seize new business opportunities.
4. Greater efficiency in the court system to reduce the time taken to adjudicate commercial matters. Investors cannot take comfort in the possibility that it take 10 years resolve a contract dispute through the Barbados courts. We recommend the establishment of a Commercial Court.

Tourism

1. Fast track investment applications (including Town Planning) related to hotels and other tourism investments.
2. Maintain a strong focus on product development. In this regard the creation of the Barbados Tourism Product Authority (BTPA) is a step in the right direction. There must be a “total-island” approach to product development. Under this approach the entire island and all of its systems are oriented towards a warm and welcoming environment for our residents and visitors. Areas in need of attention:
 - a. Green policies – from energy to the physical landscape
 - b. Public health and sanitation
 - c. The built heritage
 - d. Security
 - e. Transportation
3. Diversify the attractions and activities which are developed and promoted to visitors.
4. Build on the success of the Oistins experience to identify other Barbadian cultural experiences which would be attractive to visitors.

Renewable energy

The fall in oil prices and subsequent reduction in the cost of electricity together with some policy changes have resulted in a slow-down of the sector. Oil prices have started to rise again and Barbados must continue to reduce its dependency on oil.

1. Government should finalize, publish and operationalize its renewable energy policy.
2. Provide concessions related to green products, cars etc., this would develop the sector.
3. Increase the cap on solar production. Solar has a great potential in Barbados.
4. Clarity on government incentives issued to the Renewable Energy Sector and efficient processing of applications for registration made to the Ministry of Energy.

Summary of recommendations

1. Reduce the fiscal deficit and the level of debt.
2. No further increases in taxation, use expenditure cuts to reduce the fiscal deficit.
3. Reduce transfers to SOEs and
 - a. Restructure, refocus, amalgamate, and reduce as necessary to meet expenditure constraints.
 - b. Charge user fees where practicable to assist in meeting the cost operations.
4. Divest some commercial SOEs and use proceeds to reduce the debt.
5. Develop a SOE Corporate Governance Code to improve the performance and conformance of SOEs.
6. Complete the legislative amendments (where needed) to give effect to the tax reforms of 2015 (e.g. raising the VAT registration threshold).
7. Restore the tax allowances for mortgage interest and pension plans.
8. Permit the routine offsetting of taxpayer balances payable/receivable across different tax categories.
9. Reduce delays in payment of refunds to taxpayers.
10. Permit online credit card payments by taxpayers.
11. Improve business processes relating to licensing for drivers and vehicles.
12. Improve business facilitation and pursue the goal of closing the 53 point gap (for 2016) which our CARICOM peer, Jamaica has ahead of us in the World Bank Ease of Doing Business ranking.
13. Through the National Productivity Council promote a renewed focus on increasing productivity and linking it to incentive pay programmes.
14. Work with strategic partners to minimize the negative impact of de-risking by international banks.
15. Move towards a 24-hour business society - the extension of opening hours for government institutions and the move to a more automated/computer-based system for applications, processing, approvals, payments, information requests, etc.
16. Faster processing of work permits and other immigration matters for the international business sector.
17. Speedier drafting of legislation to take advantage of international business opportunities.
18. Creation of a Commercial Court.
19. Fast track investment applications (including Town Planning) related to hotels and other tourism investments.
20. Maintain a strong focus on product development
21. Diversify the attractions and activities which are developed and promoted to visitors.
22. Government should finalize, publish and operationalize its renewable energy policy.
23. Provide concessions related to green products, cars etc., this would develop the sector.
24. Increase the cap on solar production. Solar has a great potential in Barbados.
25. Clarity on government incentives issued to the Renewable Energy Sector and efficient processing of applications for registration made to the Ministry of Energy.