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Tax News

A balancing act
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A balancing act

Last night's Budgetary proposals saw the Minister of Finance the Hon. Chris Sinckler attempting to strike a delicate balance between the need to address the fiscal and debt challenges facing Barbados and implement measures to stimulate growth while seeking to maintain existing levels of social services.

In his opening remarks, the Minister noted that the principal concerns are the high and climbing debt levels and the fiscal deficit above desired targets and that these issues have restricted Government's capacity to stimulate growth and to maintain desired levels of social services.

The Minister also firmly addressed recent concerns about the current level of foreign reserves and reiterated Government's policy for actively managing and monitoring reserves to minimize the risk to the Barbadian economy if they fell below acceptable levels. He also announced measures to shore up the reserves and to boost foreign exchange earnings.

The following priorities were established for the period 2016-2018:

- improving the foreign reserves position;
- accelerating GDP growth to reach at least 2.5% by the end of 2017;
- further reducing the fiscal deficit by addressing both expenditures and revenues so that by 2018 the deficit will be no higher than the rate of growth of the economy;
- stabilizing the national debt by 2018 and thereafter reducing it; and
- preserving access to key social services provided at the highest quality and financed in a sustainable manner.

The Minister also announced that the Ministry of Finance will undertake a comprehensive mid-term review of all ministry and department performance against priorities to identify any implementation challenges and the need to reprioritize.

The major initiatives to improve the foreign reserve position include receipt of proceeds from the sale of the Barbados National Terminal Company and the Four Seasons project and Chinese financing for the Sam Lord's Redevelopment. In addition, US\$60m of loan disbursements are due from various multilateral agencies in the next quarter for several infrastructure and social projects.

The Government will also seek additional investment for tourism and other related development projects by amending the Special Development Areas Act to extend its geographic coverage and will establish a Special Committee to investigate and make recommendations for establishing new duty-free zones.

To stimulate new economic growth the Minister announced initiatives to:

- amend the Tourism Development Act to permit eligible property owners in the sector to access concessions for multi-year refurbishment and renovation projects;
- remove the duty requirement for yachts staying in Barbados waters longer than 6 months and replace with an annual license fee of \$2,000 per boat;
- establish a reimbursable grant of up to \$50,000 to help local companies improve product and service quality to international standards;
- implement new fiscal incentives for local producers which conform to WTO requirements; and
- establish a special fund, capitalized to the tune of \$50 million with resources from the Industrial Credit Fund for a blend of grants and soft loans to fund existing small and medium sized businesses and business start-ups.

Reducing the fiscal deficit

The Minister introduced a number of measures designed to reduce the fiscal deficit from 4.8% to 2.6% for 2016/17. The objective is to slow the growth in debt and set Barbados on a path to rebuilding its credit rating.

The main revenue raising measure in this year's budget was the new National Social Responsibility Levy which will be set at a rate of 2% on all imports into Barbados. The funds will be earmarked for offsetting the costs associated with financing public health care in Barbados and also for sanitation services. In total, it is estimated that the Levy will realise additional annual revenues of \$142.1 million, which when pro-rated from September 1, 2016, yields \$82.9 million.

Another revenue raising measure was an increase in the Banks Asset Tax from 0.2% to 0.35%. The tax becomes effective immediately with the assessment for the assets starting from April 1, 2016. The expected intake from the tax for a full financial year is estimated to be \$33.3 million using the 2015 asset base of the banking system.

On the expenditure side, the Minister indicated Government's intention to accelerate efficiencies in statutory corporations – while not compromising the extent and quality of social service delivery - in order to reduce transfers by at least \$50 million per annum in each of the next four years.

This is expected to be supported by an exercise to refinance appropriate parts of Government's contingent liability held by state owned entities. He also promised to institute an across-the-board cut in expenditure of \$25 million from all areas of discretionary expenditure and to target an additional \$25 million in spending adjustments following the proposed mid-term Estimates review with all ministries.

Finally, the Minister announced measures to address concerns of pensioners, students and public servants.

Budgetary proposals in summary



National social responsibility levy

The Minister announced that effective September 1, 2016, a National Social Responsibility Levy would be introduced to assist in offsetting the costs associated with financing public health care service provision in Barbados. He advised that it would be applied at 2% on the customs value of all imports and domestic output, with the exception of goods for use in the manufacturing, agriculture and tourism sectors. The Minister further indicated that the measure alone will raise additional annual revenues of \$60.8 million, while the additional revenue expected from VAT will be \$62.1 million and an additional \$19.2 million will be raised from the application of the levy on domestic output. The majority of the revenue raised by the levy will go towards public health care, but some will be allocated towards servicing the loan for the purchase of vehicles for the Sanitation Services Authority and to conduct a national clean-up and de-bushing programme.

Comments

The Minister also spoke about the creation of a national health insurance fund to which both employers and employees would contribute. The Minister stated that the projected time frame for

implementation of this insurance fund would be approximately two years. This would seem to be a reintroduction of a levy that up until 1993 was included as part of NIS contributions and had fluctuated between 1.0% and 2.5%.

Presumably, this levy will be in place temporarily until the national health insurance fund is established. The areas that have been earmarked for the levy require immediate attention and Government, with limited resources, would have had few options but to impose a levy or raise direct taxes. At the end of the day, however, it is expected that the cost will be passed on to the ultimate consumers of the goods to which the levy will be applied.

***National Social
Responsibility Levy
of 2% estimated
to raise
\$142.1 million***



Increase in the Banks Asset Tax

The Minister has proposed to continue the Banks Asset Tax and has raised the rate from 0.2% to 0.35%. The tax takes effect immediately, with the assessment for the assets starting from April 1, 2016.

Comments

The Minister has indicated that one of the main reasons for the increase is that although there had been a liberalization of the minimum saving rates (MSR) at commercial banking institutions, it did not appear that the benefit of a lesser cost burden had been passed on to consumers of banking services. The Minister has reintroduced the tax in an effort to encourage the banks to do so, but it could have the opposite effect. He did not, however, state whether the tax on assets that applied to deposit taking institutions, credit unions and insurance companies would be similarly reinstated and increased. Further clarification is required on this matter.



Special development areas

The Minister has proposed the extension of the geographic coverage of the Special Development Areas Act (“SDAA”) to include the following areas:

- Northern Barbados: from Speightstown, St. Peter to Harrison Point, St. Lucy;
- South-eastern Barbados: from St. Lawrence Gap, Christ Church to Ragged Point, St. Philip; and
- the City of Bridgetown as defined by the Chief Town Planner in the Physical Development Plan of Barbados.

The Minister indicated that with this change, the country should expect to see additional investments in respect of tourism and other related developments, particularly those with a foreign component.

Comments

The SDAA was enacted in 1996 and makes provision for various tax incentives to “approved developers” who undertake development in specific geographical areas in Barbados.

Under the SDAA, approved developers benefit from:

- a reduced corporation tax rate;
- exemption from income tax on interest received by an investor (other than a commercial bank), who loans money to an approved developer to finance the construction or improvement of a building in a special development area during the development period (for a period of not more than 15 years as prescribed by the Minister of Finance);
- initial and annual allowances on industrial buildings at 40% and 6% respectively;
- initial and annual allowances on commercial buildings at 20% and 4% respectively;
- exemption from import duties and value added tax on inputs for the construction of new buildings and renovation or refurbishment of existing buildings;
- exemption from charges on the repatriation of interest or capital for a period of 15 years;
- exemption from land tax on the improved value of the land; and
- exemption from property transfer tax payable by vendors on the initial purchase of property.

The extension of the geographical areas should result in more direct investments in these areas. The measure could also create more job opportunities for individuals, as well as increase the inflow of foreign currency to Barbados. This form of foreign investment would indeed be welcome. However, in granting approval for development in these areas, Government should be mindful to ensure that the beautiful “windows to the sea” and beach access for Barbadians are not sacrificed.



Tourism Development Act

The Minister has stated that this legislation will be amended to ensure that eligible property owners wishing to carry out multi-year renovations and refurbishments are able to access those concessions, which under normal circumstances were granted in intervals.

It was further stated that a “temporary administrative solution”, after consultation with the Ministry and a number of stakeholders, will be put in place while the necessary legislative amendment was being drafted.

Comments

This initiative should be well received by property owners, as well as the tourism industry as a whole. While the Minister has not provided a timeline for this proposed amendment or the commencement of the temporary solution, it confirms Government's commitment to the development and growth of this industry. It is, however, a sensible measure, as the current strict interpretation of the legislation penalized hoteliers who were unable to renovate the entire property within one year.



Yachting industry

The Minister has indicated that the levying of duty on yachts staying in our waters for over six months had dampened growth in this sector. It was therefore proposed that such duty be removed and instead a fee of \$2,000 per yacht be imposed annually.

Comments

The Minister's proposal is aimed at the re-development of the yachting sector, by encouraging such owners to remain in Barbados for extended periods in order to carry out repairs and maintenance to their yachts, thereby providing job opportunities and a foreign exchange injection into our economy. It should also encourage an enterprising entrepreneur to develop a marina, in which to moor such yachts.



Tax amnesty

The Minister has proposed another tax amnesty to be applied across the VAT, income tax and land tax for the period September 15, 2016 through to February 15, 2017. Penalties, interest and other charges incurred up to September 14, 2016 are proposed to be waived, provided that taxpayers pay all outstanding principal amounts on or before February 15, 2017.

Comments

The extension of a tax amnesty would be welcomed by taxpayers who have been experiencing difficulty in clearing their arrears of taxes. However, further guidance will need to be provided by the Barbados

Revenue Authority on how the tax amnesty will be applied in practice. For example, the Minister did not state specifically that the amnesty would apply to corporate taxes. Also, given that penalties and interest charges are currently calculated up to the end of each month, how will the application of such charges be accounted for up to September 14, 2016, as opposed to August 31, 2016 or September 30, 2016?



Registered retirement plans: annuity contracts

The Minister has proposed that individuals be allowed to withdraw from their Registered Retirement Plans: Annuity Contracts, an amount not exceeding 15% of the total value of the plan's savings.

Funds withdrawn will be subject to withholding tax at a rate of 16.5%.

Comments

The Income Tax Act currently only makes provision for individuals to withdraw funds from Registered Retirement Savings Plans, but not Registered Retirement Plans: Annuity Contracts. Given the discontinuance of the tax deduction afforded to taxpayers on the contributions made to such registered retirement plans, individuals who hold Registered Retirement Plans: Annuity Contracts may be willing to utilize this option. However, clarification is required as to whether the withholding tax of 16.5% will be the sole tax imposed on the withdrawal. If it is not, then this measure may not prove to be very useful to taxpayers.

***Tax amnesty from
September 15, 2016
to February 15, 2017***



Fiscal Incentives Act

The Minister has indicated that the long standing Fiscal Incentives Act became World Trade Organisation (WTO) incompatible on December 31, 2015 and that a new regime is before the Cabinet for approval. The Act permitted incentives and subsidies to be granted to approved manufacturers of export products from Barbados.

Comments

One of the main aims of the WTO is to remove distortions to trade, as these distortions can contribute to economic inefficiency and impede economic growth. Although protectionist policies are still widely used by many countries for various reasons, compelling or not, the Government must be commended for bringing closure to this long outstanding matter. Without some form of permissible subsidy or incentive many of our manufacturing firms would be unable to remain competitive. However, the Minister gave no details on the proposed legislation or how it would meet the WTO rules.



Duty free zone

The Minister advised that the Government had been researching the possibility of creating duty free zones in certain areas which would permit duty free shopping by Barbadians and tourists. The Minister noted that the main pre-requisite for this type of shopping is that it would be done with foreign exchange. A number of areas have already been identified and the Minister proposed to establish a Special Committee to review the initiative and to report its findings and recommendations to the Minister within three months. It was proposed that the Committee comprise persons from Barbados Tourism Investment Inc., the Barbados Chamber of Commerce and Industry, the Private Sector Association of Barbados, officials from the Ministry of Finance and Economic Affairs and Central Bank representatives. The Minister has given this Committee the right to include any persons or parties necessary to assist it in carrying out its duties if it so requires.

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Comments

A few years ago, the Government of Barbados launched a day for duty free shopping during which many Barbadians took advantage of the duty free allowance offered. It is believed that Barbadians and tourists alike would embrace the initiative of a duty free zone which would encourage spending in the country and the generation of foreign currency. This initiative would also be of benefit to some businesses, many of whom have been calling for this. Even though the Minister mentioned that the Committee was to report to him within three months, we are not sure that three months is a realistic expectation given the need to assess and then secure government approval. Further it is unclear as to when the Committee would be formulated and commence its mandate. Therefore, we wait in anticipation of duty free shopping before Christmas, even though the average Barbadian, with limited access to foreign currency, may be unable to take advantage of this opportunity.



Other measures

Small business funding

The Minister, in recognizing the importance of the micro, small and medium-sized enterprise (MSME) sector and with the aim of fostering its development, intends to create a fund to be aided by the Industrial Fund.

This fund will be valued at \$50 million to assist in this sector's continual growth and will be managed in consultation with the Small Business Association of Barbados.

Comments

While the injection of funds would be greatly appreciated by the MSME sector, further guidance should be provided on how these funds can be accessed.

Grants for ISO certification

The Minister has noted the costs of gaining International Standard Organisation (ISO) certification and has proposed a grant to assist organizations who are desirous of attaining this level of certification. The process for acquiring the reimbursable grant of \$50,000 is to be tailored by the Ministry with responsibility for Industry in partnership with the stakeholder agencies.

Comments

This initiative is commendable given the importance of local companies seeking avenues to launch their products internationally and to compete on the global market. However, the way forward on the criteria for obtaining a grant appears to still be in the planning phase, with no definitive implementation plan or date proposed.

Education

The Minister has proposed an injection of \$5 million into the Student Revolving Loan Fund by the NIS to facilitate the academic studies of students with financial constraints.

The investment will be done by way of a special Treasury Bill Issue to the Retraining Fund Account. This investment appears to be a temporary one whereby the Treasury Bills will be retired and the Fund Account refunded upon the injection of funds from the Caribbean Development Bank.

Comments

The temporary injection of funds to the Student Revolving Loan Fund will allow students to pursue their studies given the imminent commencement of the next academic school year.

Pensions

The Minister has proposed that old age non-contributory pensions be increased by \$10 a week or \$40 per month, effective October 1, 2016. He has also hinted at the future increase in contributory pensions to be made in line with inflation.

Comments

The increase in non-contributory pensions will be welcomed by our elderly citizens due to the increasing cost of living in Barbados.

Temporary workers in the Public service

The Minister has proposed to put in place a Working Committee led by the Ministry of the Civil Service and inclusive of other relevant Government departments and representatives from the workers' organization to advise Cabinet on the procedure, methodology and legal requirements for the execution of a program to appoint all temporary officers in the Public Service with more than three years continuous service.

Comments

Currently, in the public sector there are a number of persons still employed as temporary officers even though they have been in the Civil Service for over a number of years. The execution of a program to appoint all temporary officers would be lauded by those individuals who have been "in limbo" for a number of years. No specific timeline has been offered by the Minister on the implementation of the program, however the Minister has advised that more details will be available in the weeks to come.

Let's talk

If you have any further questions in connection with the above or would like to explore how these budget pronouncements may impact your business or personal arrangements, please feel free to contact any member of our specialist tax team listed below or your usual PwC contact.



Gloria Eduardo
Tax Leader
T: (246) 626 6753
gloria.eduardo@bb.pwc.com



Michael Bynoe
Territory Leader
T: (246) 626 6801
michael.bynoe@bb.pwc.com



Sophia Weekes
Senior Manager (Tax)
T: (246) 626 6758
sophia.weekes@bb.pwc.com



Stephen Jardine
Engagement Leader (Assurance)
T: (246) 626 6805
stephen.jardine@bb.pwc.com



Lorenzo Forde
Manager (Tax)
T: (246) 626 6762
lorenzo.forde@bb.pwc.com



Ronaele Dathorne-Bayrd
Engagement Leader (Corporate)
T: (246) 626 6652
ronaele.dathorne-bayrd@bb.pwc.com



Bibi Jaikaran
Manager (Tax)
T: (246) 626 6767
bibi.jaikaran@bb.pwc.com



Oliver Jordan
Engagement Leader (Advisory)
T: (246) 626 6704
oliver.jordan@bb.pwc.com



Laurel Odle
Manager (Tax)
T: (246) 626 6731
laurel.odle@bb.pwc.com



Claudia Clarke-Oderson
Senior Manager (Corporate)
T: (246) 626 6656
claudia.clarke-oderson@bb.pwc.com



Lisa Kadirullah
Manager (Corporate)
T: (246) 626 6650
lisa.kadirullah@bb.pwc.com

PricewaterhouseCoopers SRL
The Financial Services Centre
P.O. Box 111, Bishop's Court Hill
St. Michael, BB14004
Barbados, W.I.

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