

Tax News

May 18, 2009

Walking an uncharted path

Overview

On presenting his statement of financial and economic policies for 2009, The Prime Minister and Minister of Finance, the Hon. David Thompson, set the backdrop for his remarks by first painting a gritty and realistic picture of the global recession with which Barbados must contend.

Do not expect a lot of improvement until at least 2010, particularly in tourism and closely related industries, he stressed, because the very people we are wooing to this region are themselves victims of the downturn. Furthermore, competing destinations are discounting their offerings so significantly that we cannot match them.

As Mr. Thompson emphasised throughout his presentation, his Government is “walking an uncharted path”. As he put it: “No one knows what lies beyond the bend. We have not yet even seen the bend.”

With all of the country’s major trading partners experiencing shrinking economies of their own, the Barbados economy is projected to fall by between 2% to 2.5% in 2009. We can expect a fiscal deficit of about \$174.4 million, but the more sombre news is that total public debt is expected to be in the region of 102% of GDP by the end of the year.

While the global economic environment is a reality, Barbados can respond by what the Prime Minister describes as a “Team Barbados” strategy in which fertile brains rally in the country’s best interest, regardless of political affiliation.

Mr. Thompson also made a plea to all Barbadians for our understanding of the constraints facing the Government, expressing confidence that “our people will not expect more of us than we can reasonably give”.

The Prime Minister set out three fundamental strategies on which the Government will focus to meet the current challenges, namely:

- protection foreign exchange earnings and aiming for growth;
- achieving stability, productivity and efficiency; and
- expanding the social safety-net.

Within that framework, emphasis was placed on better marketing of Barbados as an “experience” rather than merely a destination; greater efficiency and elimination of waste in the public sector and the reduction of annual Government borrowing; and an emphasis on saving jobs.

Some innovations that are worthy of note include:

- allowing cash-strapped employers to defer their contributions to the National Insurance Scheme for one year;
- abolishing the burdensome and bureaucratic covenant rules governing charitable donations and allowing official donation receipts instead; and
- allowing small businesses doing business with Government to get up to 90% of the money they are owed in the form of advances from the Central Bank, so they don’t go out of business waiting to be paid.

As was expected, the Prime Minister’s statement reflected the Government’s commitment to providing affordable housing for more Barbadians.

Some other highlights include:

- significant capital spending aimed at upgrading the Barbados Water Authority’s ability to meet the country’s increasing demand for drinkable water, along with a proposed increase in rates;
- continued emphasis on the road repairs program;
- relief for automobile dealers by increasing the rebate payable to them on the import of new vehicles from 15% to 20%;
- raising the VAT refund on building materials from \$150,000 to \$200,000 to help first time home builders.

Employment Stabilisation Scheme

The Prime Minister proposed the implementation of a scheme to allow eligible employers experiencing cash flow difficulties to have access to loans from the National Insurance Scheme, equivalent to one year’s deferment of their contributions to the Scheme.

In order to qualify, employers must have been compliant as at June 30, 2009 and must give a commitment to maintain current employment levels for the period of the facility. This arrangement is effective July 1, 2009. The loan will be repayable over a five-year term with interest charged at a rate of 3%.

The relevant legislation will be amended to enable the Unemployment Fund to pay over to the National Insurance Fund the difference between what the NIS would otherwise have earned on these employer contributions and what the NIS actually earns under the terms of the scheme.

The Prime Minister’s view is that the scheme will provide vital support to a wide cross-section of employers and will reduce the number of employees who may otherwise have become unemployed and thereby entitled to draw on the Unemployment Fund.

Comments

The Prime Minister has labeled this scheme as innovative and indeed it is. He recognises that many businesses have made a concerted effort to maintain their levels of employment despite reduced profit levels at the expense of their cash flows. This scheme should result in an easing of the cash flow difficulties these businesses are experiencing, as well as supporting employers in their commitment to maintaining their current levels of employment.

Since the interest rate to be charged is only 3%, it will also be more cost effective for companies to use this mechanism as a means of financing their businesses rather than relying on overdraft facilities, which typically carry much higher rates of interest. It remains now for Government regulators to ensure that businesses benefiting from this scheme do not default on their commitment to the goal of employment stabilisation. This effort to assist businesses in maintaining their levels of employment highlights one of the Government's goals of enhancing the social partnership.

Waivers of penalties and interest

The Barbados Government has introduced a program of relief to employers and self-employed persons, whereby 50% of the total interest and penalty owed in respect of outstanding national insurance contributions or income tax, land tax and value added tax is waived.

In order to qualify, persons must enter into an agreement with the relevant Government authority and the arrears must be settled within the agreed period.

Comments

This initiative seeks to assist those tax payers who are currently unable to make the necessary payments to various Government agencies due to fallout from the current economic crisis. It should also reduce the arrears owed to the various Government agencies.

Training

The Prime Minister has stated that economic recovery rests on the adaptability of the country's work force. He has therefore indicated that the National Insurance Board has approved a fund in the amount of \$10 million for retraining and the payment of a stipend for various courses to be offered at the Barbados Vocational Training Board and the Samuel Jackman Prescod Polytechnic.

Comments

It is not clear whether these courses would be offered free or at a nominal cost to certain individuals by the Government. However, it is hoped that many individuals would take advantage of this opportunity for retraining.

Health

The Prime Minister in his presentation made reference to a "national strategy to get Barbadians exercising and moving coupled with strategies that include health promotion and education". To give effect to these strategies he has proposed the establishment of a voluntary National Task Force to facilitate a major national exercise initiative. As part of this initiative he will be reviewing a package of tax incentives for Gym memberships and equipment.

Comments

The package of tax incentives for Gym memberships and equipment would have to be significant to attract a wide cross-section of the society. Failing this it would not have the impact that would be expected.

Charities

Further to his announcement in the Financial Statement and Budgetary Proposal in July 2008 that Government would be embarking on innovative methods to capture international funds in support of social and economic development, the Prime Minister proposed that amendments would be made to the Income Tax Act to facilitate the following proposals:

- the removal of the existing covenant rules and allowance instead of official donation receipts;
- section 85(1) of the Income Tax Act which deals with interpretations to be expanded to include other organisations or entities which can be included in a Schedule to the Act;
- small organisations should not be required to prepare and file legal documents with CAIPO in order to be a benevolent organisation, a letter from the appropriate Ministry that the organisation is an approved organisation should be sufficient;
- the allowance for tax purposes of both cash donations and property; and
- large donations of over \$1 million should be carried forward for five years, with a restriction on the amount that can be claimed each year.

The Prime Minister has also voiced his intent to permit large one-off donations to “Specially Scheduled Charities” with a major public purpose to be written off in one year since such donations will reduce the charities’ dependence on Government.

Comments

These measures are designed to encourage more individuals and private sector corporations to make donations to charitable organisations and reduce the burden on Government to provide financial support.

The current system of registration of benevolent organisations is extremely cumbersome, as is the process of registering a deed of covenant to such an organisation. The initiatives would encourage more persons to make tax deductible donations, since in the case of individuals, donations to such organisations of up to 10% of assessable income are deductible for tax purposes.

Incentives for cultural industries

The Prime Minister proposed a new regime of incentives, concessions, credits and exemptions for cultural industries to facilitate the requisite investment and capitalization for cultural projects, including those designed for heritage development and preservation. He advised that the new regime would be put forward in a Bill.

Comments

There is great potential for the growth of the cultural industry. Given its international thrust, these measures have the potential to provide significant opportunities for the local businessman.

Amendment of the International Trust Act

The Prime Minister proposed that the International Trust Act would be amended to:

- allow for the creation and regulation of Private Trust Companies;
- clarify the definition of “trust business”;
- better define the spectrum of services offered by Service Providers under the banner of trust services;
- provide for the central registration of all International Trusts; and
- provide guidelines on the licensing of trust companies and identification of the principles involved in the transaction.

Comments

Such an expansion and revisiting of current international trust legislation will create another much sought after avenue for international business and, provided that clarifications are made, marketing efforts can be effectively conducted by service providers.

Holding companies

Amendments are proposed to the Property Transfer Tax Act and Stamp Duty Act to exempt from PPT and SD the transfer of shares of a company to a non-resident of Barbados, provided that the assets of said company consist wholly of foreign shares, foreign securities and other foreign assets and whose income is derived solely from sources outside of Barbados.

These exemptions are to apply to transfers by both Barbadian and non-Barbadian resident shareholders.

Comments

In 2007 changes were made to the Income Tax Act to exclude from assessable income foreign dividends earned on non-portfolio investments and exempt from withholding taxes payments of dividends to non-resident shareholders from foreign source income. It is not clear from the Prime Minister’s presentation whether the criteria for this exemption is now to be changed to a “substantial shareholding”, as the legislation currently refers to “non-portfolio investments”. These changes were designed to create opportunities for Barbados to be used as a jurisdiction for the creation of holding companies, but they did not go quite far enough.

We commented in 2008 that we believe that in order for Barbados to truly become a holding company jurisdiction of choice, the removal of PTT and SD on the transfer of shares of such entities would also be necessary. This has now been proposed and the overall result will be the creation of a legislative environment truly conducive to the location of holding companies for regional and international enterprises.

Individuals resident but not domiciled in Barbados

It is proposed that the Income Tax Act be amended to reduce the effective rate of income tax that individuals who are resident but not domiciled in Barbados would be required to pay on their foreign income. It is further proposed that an individual who becomes domiciled here be allowed to claim the foreign currency earnings credit in respect of his income derived from outside Barbados.

Comments

Currently, an individual, who is resident but not domiciled in Barbados, is taxable on income derived from local sources and on foreign income that is remitted or deemed remitted to Barbados.

The reduction in the rate of income tax on the remittance of foreign income to Barbados by individuals who are resident but not domiciled would allow such individuals to remit income to Barbados and pay tax at a lower rate than the present marginal rate of tax of 35%. This will be especially useful where higher tax rates exist in the source country, and double tax treaties are in force.

Shipping

It is proposed that the Shipping (Incentives) Act be amended to:

- include game/sports fishing;
- provide for an extension of customs duty-free concessions to fishing rods and reels, safety equipment such as life rafts, satellite tracking systems, flares, fire extinguishers, lifejackets; satellite navigational systems, depth sounders, VHS, SSB and AM Radios, to any company engaged in commercial shipping and boating in the tourist industry (including game/sports fishers) from ten to fifteen years;
- permit the incorporation of shipping corporations that are offshore (in terms of requisite authority) and that are domestic;
- remove the restriction that a Director may not be a resident of Barbados;
- permit the incorporation of a company to operate bareboat charters;
- allow for the registration of external companies under the Act as well as the registration of a company owning a ship registered in another jurisdiction; and

- enable a shipping corporation incorporated in another jurisdiction to be registered as an external corporation under the Act.

Comments

The Shipping Incentives Act will be widened to allow boats that operate game/sports fishing to specifically qualify as “approved shipping companies” and therefore qualify for certain beneficial taxation concessions, such as the ability to offset approved capital expenditure against future taxable profits for up to fifteen years.

To date the utilisation of the Act in Barbados has been limited, perhaps because, unlike the Tourism Development Act, which offers similar (although more extensive) concessions, many shipping companies are not currently contemplated within the parameters of the Act.

We welcome any attempt to expand the qualifying base for concessionary legislation, and expect that the attention generated by the Prime Minister’s interest in this topic will increase awareness and utilisation of benefits offered by the amended Act.

VAT and Import Duties

Despite “strong recommendations for a one-off increase in Value Added Tax”, the Prime Minister has not proposed any increase in the level of VAT.

Rather, he has proposed certain measures designed to assist in reducing the burden of indirect taxation as follows:

- the rebate payable to dealers on the importation of new vehicles under certain tariff headings, (as set out below) will be increased from 15% to 20%;

Tariff heading	Current excise tax	New rate
87.03	31.95	26.95
87.03	49.35	44.35
87.03	61.34	56.34
87.03	78.73	73.73
87.03	105.00	100.00
87.04	47.77	42.77
87.04	65.16	60.16

- VAT is to be removed from locally produced art and craft sold in certain locations, such as the airport and seaport;
- an expansion of the existing scheme sees the removal of VAT on building materials for low income houses increased from \$150,000 to \$200,000, on a house costing no more than \$400,000. In addition the family income limit will be abolished;
- from May 1, 2009, all companies registered on the in-bond scheme will have their bond liability coverage reduced from 30% to 5%.

Comments

The Prime Minister has resisted calls for an increase in VAT stating his belief that the citizens of Barbados cannot bear such a burden at this time. He has instead chosen to use VAT exemptions, to help boost local industries in specific sectors.

The expansion of the VAT refund on building costs goes further in keeping with the commitment, set out in the Democratic Labour Party's December 2007 manifesto, to remove VAT from building materials on houses valued up to \$400,000, whilst also benefiting the local building industry.

The increase in the rebate of excise taxes on importation of new vehicles by dealers will be welcomed by this sector which has seen a considerable decline in new vehicle sales.

Licenses

Changes were proposed to gun and driving license charges as follows:

- the cost of licensing a firearm will increase from \$75 to \$200 per annum with an initial charge of \$500, effective immediately; and
- the cost of the annual renewal of a license for those over 65 years old will reduce from \$50 to \$25 from January 1, 2010.

Comments

These measures rid the system of two anomalies, the income from gun licenses should now at least cover the cost of administering the system, and the cost of a driving license to those who are retired is now lower rather than higher than the licenses of those still earning.

Water rates

It is proposed that water rates be increased from July 1, 2009. The rate of increase has yet to be decided, and is likely to be significant although will not be the 100% suggested by some.

Comments

It is clear that the water system is under great strain and needs a complete overhaul, and that money must be found to fund this. However, the Prime Minister also made it clear that those most vulnerable would be assisted and would not be denied access to this essential commodity.

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

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