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Highlights of the 2009 Barbados Budget

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The Right Honourable David Thompson, the Prime Minister and Minister of Finance, delivered his second budget of the Government on Monday, May 18, 2009.

Against the background of the international economic and financial upheaval affecting policies that may be pursued, the budget does not propose any major changes to the tax system. However, Prime Minister David Thompson indicated that a complete review of the country's tax policy and incentives and competitive framework was underway. The budget contains some measures aimed at protecting jobs and meeting some basic social needs, such as housing.

Prime Minister David Thompson cited the escalation of the US financial crisis in September 2008, the severe downturn in the global economy, unprecedented contraction in global activity and trade, and persistent liquidity shortages in financial markets, as contributors to the severe economic, financial and investment ramifications facing the Barbados economy. The government expects that these factors will persist into 2010.

Economic Overview

The 2008-2009 estimates of Revenue and Expenditure were formulated to achieve a fiscal deficit of \$174.4 million or 2.2% of GDP. Preliminary information indicates current revenue of \$2,535.6 million and combined current and capital expenditures of \$2,914.6 million for a fiscal deficit of \$379.0 million or 5.1% of GDP.

Current Revenue has decreased mainly as a result of the decrease in taxes due to the global economic crisis. The Central Bank of Barbados has been trying to mitigate the negative spill off from the severe slowdown in global economic activity

by reducing the minimum deposit rate with a view to reducing the operational costs of businesses through reduction in the lending rates. The minimum deposit rate is now 3%.

Effective, June 1, 2009, the discount rate on borrowings will be reduced further to 7% from 8%.

Economic Outlook

The Prime Minister again reiterated the continued dependence of the Barbados economy on the global economy.

The Prime Minister noted that according to the IMF, the global economic outlook is for world output to decline by 1.3 percent in 2009, with some recovery in 2010, growing by 1.9 percent. Mirroring the global economic slowdown, the GDP of Barbados declined by 2.8 percent during the first quarter of 2009. Except for sugar, non-sugar agriculture and fishing, the other major sectors declined. The result is that

- Value-added in both the traded and non-traded sectors has fallen by 5.2% and 2.1% respectively
- Unemployment rates have started to rise (7.6% at the end of 2008)
- Net capital inflows have decreased
- Private sector credit growth has stagnated

The Prime Minister concluded that with the latest revision to the IMF's forecasts suggesting an even deeper recession in the USA, Barbados is facing the possibility of dampened economic activity well into 2010.

To cope with these challenges the Prime Minister noted that Barbados will start with its Social Partnership. In addition he proposed the creation of a "Team Barbados" strategy to rally the population towards a common sense of purpose.

Highlights of tax changes announced in the budget are summarized below:

Personal Tax Changes

- To amend the Income Tax Act to allow an individual, who is resident but not domiciled in Barbados, to pay a reduced effective rate of income tax on foreign income.
- No further details were provided with respect to what the reduced rate would be.
- To amend the Income Tax Act to allow an individual who becomes domiciled in

Barbados to claim the foreign currency earnings credit in respect of income derived from outside Barbados.

Business Tax Changes

Loan from the National Insurance Scheme (NIS) with effect from July 1, 2009

Eligible employers experiencing cash flow problems will be entitled to one year's deferment of employer contributions to NIS, as a loan repayable over a five year term at a 3% rate of interest subject to the employer being compliant as at June 30, 2009 and providing a commitment is made to maintain current employment levels for the period of the facility.

Waivers of Penalties and Interest

A program has already been introduced to allow the waiver of half of the total interest and penalty owed by employers and self-employed persons, in respect of National Insurance, Income Tax, Land Tax and Value Added Tax, subject to the persons entering into an agreement with the relevant Government entities and the arrears being settled within the agreed period.

Unemployment Benefits -Training

A fund of \$10 million has been established for retraining and for a stipend to be paid to beneficiaries of training when their benefits expire, for certain courses approved by the National Insurance Board.

Wellness Programmes

Proposal to create tax incentives for gym membership and equipment, for companies with worksite wellness programmes.

Charities

Amendments are proposed to Sections 24B and 85(1) of the Income Tax Act with respect to philanthropic giving by:

- Abolishing the present rules pertaining to covenants
- Allowing official donation receipts
- Expanding the definition of "charity" to include other organisations or entities
- Removing the requirement for small organisations to prepare and file documents with CAIPO in order to be benevolent organisations

- Allowing eligible organisations to be registered as approved organisations on presentation of letter from appropriate Ministry
- Allowing for tax purposes, donations to be by cash or property
- Allowing large donation over \$1 million to be carried forward for five years subject to a restriction on the amount that can be claimed each year
- To allow large one-off donations to specially scheduled charities with a major public purpose to be written off in one year

Creative Economy

A new regime of incentives, concessions, credits and exemptions for the benefit of cultural practitioners and approved corporate, government and other entities is proposed.

Details of the types of incentives, concessions, credits and exemptions have not yet been provided.

International Business

- Barbados will continue to focus on the expansion of the tax treaty network
- The International Trust Act will be amended to allow for the creation and regulation of Private Trust Companies. Amendments to the International Trust Act will include:
 - A clear definition of “trust business”
 - Central registration of all International Trusts
 - Guidelines on the licensing of trust companies
 - Identification of the principals involved in the transaction
- The Property Transfer Tax Act and the Stamp Duty Act will be amended to exempt from tax and duty, transfers, to a non- resident of Barbados, of shares of a company, whose assets consist wholly of foreign shares, foreign securities and other foreign assets and whose income is derived solely from sources outside of Barbados. The proposed exemption will apply to transfers by both Barbadian and non-Barbadian resident shareholders.
- Holding companies will benefit from similar exemptions regarding exchange

controls as International Business Companies and Regular Barbados Companies which conduct “international business” only.

- Dividends derived by Barbadian resident companies, including companies licensed to operate in the international business sector should be exempt from tax in Barbados on dividends derived from a “substantial shareholding” in an overseas company.

The ITA currently exempts dividends from an overseas company provided that the Barbados company owns at least ten percent of the capital of the non-resident company and such shareholding is not held solely for the purpose of portfolio investment. It is unclear whether this new term “substantial shareholding” is meant to replace the current test of at least ten percent of the capital and the purpose of portfolio investment.

- Dividends paid by a resident company to non-resident shareholders out of foreign source income earned by the company will be exempted from withholding tax.
- The Shipping (Incentives) Act will be amended to include game / sports, fishing and customs duty free concessions on certain equipment will be extended from ten to fifteen years.

The Shipping Corporation Act will be amended to:

- permit the incorporation of shipping corporations, offshore and domestic
- remove the restriction that a Director may not be resident of Barbados
- to include the registration of incorporated and unincorporated bodies for expanded shipping activities
- to enable a shipping incorporation, incorporated in another jurisdiction to be registered as an External Corporation under the Act.

General

- With effect from May 1, 2009 the in-bond scheme began being phased out, such that all registered companies will have their bond liability coverage reduced from 30% to 5%.

annual renewal licence fee is \$200 per licensed firearm.

- The annual cost of renewing a drivers licence for individuals 65 years and older; as of January 1, 2010 will be reduced from \$50 to \$25.
- Continuation of the task of providing affordable housing for the nation through the National Housing Corporation.
- Proposal to establish a Special Purpose Vehicle specifically for the purpose of the designing, financing and major renovation of the Queen Elizabeth Hospital and or construction of the extension to the existing hospital and or a new hospital.
- Proposal to be facilitated by the Central Bank of Barbados of up to \$15 million, whereby persons owed outstanding monies by government, can receive up to 90 percent “advances” from the Central Bank.
- Proposal to merge the operations of government’s Funding Agencies, such as Fund Access, the Enterprise Growth Fund Ltd, the Industrial Investment Employment Fund and the Innovation Fund.
- Establishment of Financial Services Commission (FSC) in 2010 to work with the Central Bank, to be responsible for all non-banking activities in Barbados and to exercise jurisdiction over domestic and international non-financial business activity
- Establishment of a government controlled oversight committee of six persons, four from Government and two from Clico to manage the sale of the financial subsidiaries of Clico Holdings.
- Water rates to be increased by July 1, 2009.

Value Added Tax (VAT)

Building Materials

The value of the qualifying amount for a refund of VAT on building materials is proposed to increase from \$150,000 to \$200,000 for first time home owners, residing in a home with a cost of not more than \$400,000. There will be no maximum family income limit below which the first time home owners will have to qualify.

Contact us

Glen Ladouceur

(246) 430-0631
gladouceur@kpmg.bb

Wayne Lovell

(246) 434-3928
wlovell@kpmg.bb

Michelle Thornton

(246) 434-3924
michellethornton@kpmg.bb

Marianne Greenidge

(246) 434-3918
mariannegreenidge@kpmg.bb

Juan Wright

(246) 434-3913
juanwright@kpmg.bb

Automobiles

Effective July 1, 2009, the rebate payable to automobile dealers on the importation of new vehicles will increase from 15% to 20%.

Arts and Crafts

The VAT on arts and crafts produced locally and sold in locations such as the Grantley Adams International Airport and the Port will be removed.

We can help

Your KPMG adviser can help you assess the effect of the tax changes in this year's budget on your personal finances or business affairs, and point out ways to take advantage of their benefits or ease their impact. We can also keep you abreast of the progress of these proposals as they make their way into law and help you bring any concerns you may have to the attention of the Ministry of Finance.

Information is current to May 18, 2009. The information contained in this document is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

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