Tax Alert

Barbados Budget 2019
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We cannot blink; we must stay the course

Yesterday, the Prime Minister and Minister of Finance, Mia Amor Mottley, delivered a Budget Speech characterized by honesty, passion and transparency. What is more, she made it clear that Barbados is committed to a journey of transformation that leaves little room to maneuver.

Close analysis of her presentation clearly shows that this Administration has made two big bets to put Barbados on a path to growth. The first is to preserve our international business sector, and the second is to make our tourism sector a stronger contributor to our economic recovery.

At the same time, the Prime Minister made it clear that the island’s growth strategy is “citizen-centric”. In stating that, the Prime Minister stressed that Barbados would be a participatory democracy. “Barbadians will not just have a piece of the rock, but a piece of the action,” she said.

The Government demonstrated its steadfast commitment to the OECD requirements by removing withholding taxes on interest, royalties and management fees for every investor, foreign and local. Along with these measures, certain anti-abuse provisions were announced.

In addition, the Prime Minister has reiterated her Government’s commitment to making it easier to do business in Barbados. For example, the management of the Corporate Affairs and Intellectual Property Office (CAIPO) will be outsourced to a professional team to guarantee efficiency and timeliness in registering businesses. Also, she announced dramatic changes to the Town and Country Planning Act to prevent repeated refusals to granting town planning permits. Just as welcome is the news of the gradual liberalization of exchange controls.

To add an even greater sense of assurance and transparency to foreign investors, the Prime Minister has undertaken to limit the degree of discretion of the Minister of Finance in granting tax concessions and incentives. In this regard, a commission will be established to review the investment code and tax concessions. This is in line with international best practices.

For the tourism sector, the Prime Minister has made it clear that this industry will have to contribute more through increased taxes on accommodation. She presented innovative opportunities that the industry could use to enhance its offering. For example, she suggested that the industry increase its medical tourism offerings to include therapies, rehabilitation and treatment services involving medical marijuana.

The Prime Minister also suggested that the industry could grow by encouraging private member gaming establishments (i.e. casinos) primarily linked to high-end mega investments. We interpret this to include establishments such as hotels with casinos.

In her presentation, the Prime Minister stressed, with considerable passion, her Government’s commitment to social justice and the equitable sharing of the burden involved in transforming Barbados. Recognising the heavy burden of taxation placed on the middle class, she promised corrective action by reducing statutory income tax rates, more in line with regional standards.

The Prime Minister broadened the base for VAT, but compensated taxpayers by extending the availability of the reverse tax credit and effectively exempting persons from tax on income between $25,000 and $35,000. However, this may not be sufficient to counteract the financial burden of increased bus fares.

She also listed a number of transformative initiatives that her Government plans to take. For example, seven departments have been earmarked to start the digitization of the Government. This is in response to the public outcry for improved services.

Additionally, by June 2019, Barbadians will be able to pay their taxes online. An even more welcome improvement will be the ability to pay tickets and fines for certain traffic offences online. The Government also intends for Barbadians to renew drivers’ licences and passports online.

To provide Barbadians with investment opportunities for their $9 billion in savings, the Prime Minister promised to open paths for investment. For example, a regime for Green Energy Bonds will be introduced; legislation to permit National Unit Trusts will be created and avenues will be established to permit investing in Government projects such as the Hilton and Sam Lord’s hotels.

The Prime Minister also noted the need for investment funds centred on small investors. For example, she mentioned the upcoming introduction of an innovative growth market for small start-up companies.

In summary, in a difficult environment and with limited choices, the Prime Minister has remained steadfast to the path she articulated nine months ago. She has painted a vision of what she would like Barbados to be by 2025. At the same time, she pulled no punches about how difficult it will be to make this happen. To quote her, “We cannot recover a lost decade in a few years, but we can do so in seven”.

We cannot blink; we must stay the course
### Executive summary cont’d

#### Real GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>Real GDP Growth Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY12</td>
<td>0.3 (14)</td>
</tr>
<tr>
<td>FY13</td>
<td>-</td>
</tr>
<tr>
<td>FY14</td>
<td>2.2</td>
</tr>
<tr>
<td>FY15</td>
<td>2.5</td>
</tr>
<tr>
<td>FY16</td>
<td>0.1</td>
</tr>
<tr>
<td>FY17</td>
<td>- (0.6)</td>
</tr>
</tbody>
</table>

#### Foreign Reserves

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount in Billions</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY12</td>
<td>1.51</td>
</tr>
<tr>
<td>FY13</td>
<td>1.20</td>
</tr>
<tr>
<td>FY14</td>
<td>1.12</td>
</tr>
<tr>
<td>FY15</td>
<td>0.97</td>
</tr>
<tr>
<td>FY16</td>
<td>0.67</td>
</tr>
<tr>
<td>FY17</td>
<td>0.47</td>
</tr>
<tr>
<td>FY18</td>
<td>1.05</td>
</tr>
</tbody>
</table>

#### Tax Revenue breakdown (in Millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Personal</th>
<th>Corporate</th>
<th>Other Direct Taxes</th>
<th>VAT</th>
<th>Import Duties</th>
<th>Excises</th>
<th>Other Indirect Taxes</th>
<th>Non Tax Revenue and Grants</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017/18</td>
<td>462.6</td>
<td>275.1</td>
<td>231.2</td>
<td>887.3</td>
<td>218.6</td>
<td>303.1</td>
<td>278.4</td>
<td>189.1</td>
</tr>
<tr>
<td>2016/17</td>
<td>488.3</td>
<td>248.2</td>
<td>233.9</td>
<td>890.3</td>
<td>245.2</td>
<td>225.6</td>
<td>163</td>
<td>259.5</td>
</tr>
</tbody>
</table>

#### Nominal GDP is

10.2bn

#### Fiscal Deficit

0.3

#### Credit Rating

B-

#### Debt-to-GDP ratio:

126.9%

#### Sources

Central Bank of Barbados
### Executive Summary cont’d

#### Economic Indicators

- **Inflation rate** (2018): 3.7%
- **Real Growth** (2018): -0.6%
- **Debt-to-GDP** (2018): 126.9%
- **Avg. Unemployment** (2018): 9.2%
- **Nominal GDP** (2018): BBD$10,263.9m
- **Gross International Reserves** (2018): BBD$1,049.7m

#### Projects

- **Total Investment (est.):** BBD$2bn
  - **Hotel/Accommodation:** 10 Projects
  - **Corporate/Retail:** 4 Projects

#### Annual Economic Highlights Comparison

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>BOP Current Account (%) of GDP</td>
<td>(3.8)%</td>
<td>(3.5)%</td>
</tr>
<tr>
<td>Gross Public Sector debt-to-GDP (%)</td>
<td>148.4%</td>
<td>126.9%</td>
</tr>
<tr>
<td>Total Imports of Goods (%) of GDP</td>
<td>30.5%</td>
<td>29.2%</td>
</tr>
<tr>
<td>External Debt Service to Curr. Acct. Cred.</td>
<td>8.3</td>
<td>4.9</td>
</tr>
<tr>
<td>GDP Nominal BBD$ m</td>
<td>$9,979</td>
<td>$10,263.9m</td>
</tr>
</tbody>
</table>

Sources: Central Bank of Barbados (December Press Release 2018)
Executive summary cont’d

Long run growth and development plan

National Training Initiative and First Jobs Initiative

Designed to enhance the skills of our human resource; to combat the youth unemployment problem by delivering technical and life skills to equip them for the 21st century.

Establishment of a Commercial Court

This self-financing Commercial Court will be ushered in by new legislation to deal with arbitration and alternate dispute resolution. Concomitantly, three additional criminal Courts will be established to address the backlog of criminal matters.

Ease of doing business

Amendments to the Town & Country Planning Act and fiscal incentives to attract FDI led by quicker, processes which are more transparent and predictable. Additionally, the management of CAIPO will be outsourced to a professional team which will guarantee timeliness and efficiencies in registering new businesses.

Establishment of a medical cannabis industry

The new industry will produce value-added products for export and domestic consumption.
Utilization of technology to enhance the quality and speed of delivering services via online platforms such as clearing imports via Customs, planning and development applications, driver’s license renewals, obtaining Police Certificates of Character, payment of taxes to the BRA and payment of fines for certain traffic offences.

Seven government departments which generate high volumes of activity have been identified for the first phase of the digitization programme, these include: Immigration Department, Registration Department, Police Department, International Business Division, Customs and Excise Department, Town and Country Planning Office and the Licensing Authority.

Commitment to a carbon neutral island by 2030 by the formulation and implementation of policies geared at eliminating fossil fuels for local consumption and exporting hydrocarbons produced on and off shore to generate foreign exchange.

Seven projects representing $2 billion of investment are likely to commence in 2020 which will add 1,500 new hotel 3,000 new tourism jobs. A new plan for rooms and Bridgetown is being considered which would include new hotels and convention centers from Savannah to Paradise.

Long run growth and development plan Cont’d
Personal Income Tax

Measure

Effective 1 July 2019, the following adjustments will be made to the tax bands and tax rates applicable to individuals:

- The tax bands on which rates of 16%, 33.5% and 40% are applied will be abolished.
- The first tax band will be on taxable income up to $50,000 on which a rate of 12.5% will be applied.
- The second tax band will be on taxable income over $50,000 on which a rate of 33.5% will be applied.

A further rate reduction is slated for 1 January 2020 in which the top tax rate will be reduced from 33.5% to 28.5%.

Commentary

The table below shows the reduction in total annual taxes of $9,250 and $3,750 for income years 2019 and 2020, respectively.

<table>
<thead>
<tr>
<th>EMPLOYMENT INCOME</th>
<th>EXISTING</th>
<th>PROPOSED CHANGES for Jul 01 - Dec 31 2019</th>
<th>PROPOSED CHANGES from Jan 1 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Salary</td>
<td>$10,000.00</td>
<td>$10,000.00</td>
<td>$10,000.00</td>
</tr>
<tr>
<td>TOTAL INCOME FROM EMPLOYMENT</td>
<td>$150,000.00</td>
<td>$150,000.00</td>
<td>$150,000.00</td>
</tr>
<tr>
<td>ALLOWANCES</td>
<td>(25,000.00)</td>
<td>(25,000.00)</td>
<td>(25,000.00)</td>
</tr>
<tr>
<td>Personal Allowance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TAXABLE INCOME</td>
<td>$125,000.00</td>
<td>$125,000.00</td>
<td>$125,000.00</td>
</tr>
<tr>
<td>TOTAL TAX PAYABLE</td>
<td>TAXABLE INCOME</td>
<td>RATE</td>
<td>TAX PAYABLE</td>
</tr>
<tr>
<td></td>
<td>30,000.00</td>
<td>10.0%</td>
<td>3,000.00</td>
</tr>
<tr>
<td></td>
<td>9,000.00</td>
<td>33.5%</td>
<td>3,025.00</td>
</tr>
<tr>
<td></td>
<td>75,000.00</td>
<td>49.0%</td>
<td>36,675.00</td>
</tr>
<tr>
<td>Annual income taxes payable</td>
<td>$125,000.00</td>
<td>45,025.00</td>
<td>$125,000.00</td>
</tr>
<tr>
<td>Monthly income taxes payable</td>
<td>3,365.42</td>
<td>2,614.58</td>
<td>(740.83)</td>
</tr>
</tbody>
</table>

The above calculations represent the effect of the changes in respect of a full income year, and not the transitional period (i.e., 2019/2019).

At first glance, the decrease in the personal income tax rates could be seen to be a welcome attempt by the Government to stimulate economic activity by encouraging spending and investment. However, it is not clear whether this will produce any relief or achieve increased economic activity. The question is whether this year’s increases in land tax, withholding tax on certain payments, bus fares and the newly enacted Value Added Tax on online transactions may negate these reduced income tax rates.
Of particular concern, is the continued removal of the allowances available to individuals. While the personal allowance of $25,000 remains in place, it is unclear whether other allowances will be abolished. Furthermore, given the Prime Minister’s statement that the $25,000 personal allowance is “universal”, it remains to be seen whether the current basic allowance of $40,000 for pensioners 60 years and older will continue.

Barbadians may also be uneasy about the proposal to move towards a tax credit system given our recent experience with the delayed payment of income tax and VAT refunds. Given that the measures are expected to take effect midway through income year 2019, this is the second consecutive year that the Tax Administration Management Information System (TAMIS) will need to be amended to accommodate the application of two different rates in one income year.

Reverse Tax Credit and Compensatory Income Credit

Measure
Currently, individuals who earn up to $18,000 are entitled to a Reverse Tax Credit of $1,300. From income year 2018, the Prime Minister proposed to increase the income threshold to $25,000, thereby increasing disposable income to those individuals who do not pay income tax but whose income is still affected by VAT on the acquisition of goods and services. It is anticipated that this will put approximately $20 million back into the hands of lower income earners. The Reverse Tax Credit is expected to be paid to qualifying individuals from September 2019.

As of 1 July 2019, a Compensatory Income Credit (CIC) of up to $1,250 per person will be introduced for those earning above $25,000 and up to $35,000. It places those qualifying individuals in a position where effectively there will be no income tax payable. Income tax at the relevant rate must first be paid by individuals in this category and then the amounts will be refunded.

Commentary
The extension of the reverse tax credit and the establishment of the CIC is consistent with the Government’s aim “to achieve greater social justices and fairness” through its fiscal policies. As a result, lower income earners should feel some relief in circumstances where prices of services and goods continue to rise locally.

However, the issue arises as to whether we would want our tax collection arm to be burdened by the dispensing of social programmes.
Foreign Currency Earnings Credit

Measure
Currently, individuals who are resident in Barbados and receive income from foreign sources which are transferred through the Barbados banking system, are eligible to claim a foreign currency earnings credit, which reduces their effective tax rate to 1.995%. This effective tax rate will now be increased to approximately 10% due to changes proposed to the rebate bands as outlined in the table below. These changes are effective for the balance of 2019, assumed to be from April to December 2019, with further changes to be implemented with effect from 1 January 2020 as outlined in the table.

<table>
<thead>
<tr>
<th>Current Factor</th>
<th>Balance of 2019</th>
<th>Effective 1 Jan 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>81% and over</td>
<td>93%</td>
<td>70%</td>
</tr>
<tr>
<td>61% to 80%</td>
<td>79%</td>
<td>59%</td>
</tr>
<tr>
<td>41% to 60%</td>
<td>64%</td>
<td>48%</td>
</tr>
<tr>
<td>21% to 40%</td>
<td>45%</td>
<td>34%</td>
</tr>
<tr>
<td>Up to 20%</td>
<td>35%</td>
<td>26%</td>
</tr>
</tbody>
</table>

Commentary
Though these changes may not be welcomed by the affected individuals, they support Government’s stated objective of sharing the burden of taxes across all taxpayers.
**Value Added Tax**

The Prime Minister has announced that various adjustments will be made to Barbados’ VAT regime in order to improve the net receipts of the VAT system, primarily by reducing the quantum of refunds that are payable by the Barbados Revenue Authority to registrants.

**Adjustments to exported services**

**Measure**

The export of certain services will no longer be zero-rated for VAT purposes and will be reclassified as VAT exempt.

**Commentary**

Persons unfamiliar with how VAT works may be unaware that one of the primary differences between a zero-rated supply and an exempt supply is that where a VAT registered person makes a zero-rated supply they are allowed to offset any VAT that they incurred in order to make that supply ("input tax") against the amount that they collect from their customers ("output tax"), with the net amount to be paid over to the Barbados Revenue Authority.

However, when a VAT registered person makes an exempt supply, they are generally prohibited from claiming the associated input tax and must bear that VAT cost themselves.

The Prime Minister has not indicated the specific exported services that are to be reclassified under this measure, but this will no doubt result in an increased VAT burden on persons in Barbados who will need to bear the full cost of the VAT they incur to export the services.

Unfortunately, this cost cannot be passed on to the consumer without affecting the competitiveness of the exporter’s pricing in the international arena.

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**Tax Administration**

**Measure**

In addition to the substantive changes affecting individuals, the Prime Minister announced certain procedural changes in relation to refunds and the filing of personal tax returns.

From 1 July 2019, individuals owed refunds for tax years 2011 to 2016 will receive up to $1,000 in cash. However, to receive these refunds, individuals will need to visit the Barbados Revenue Authority website or office and fill out a simple form. Amounts owed in excess of $1,000 will be repaid over the next 3 years and as cash flows allow.

Personal income tax returns can be filed on TAMIS beginning on 8 April 2019. Additionally, online payment of taxes will be possible from 30 June 2019.

**Commentary**

The introduction of online tax payments should improve the ease of doing business for both companies and individuals, and should reduce the time taken by Government in collecting revenue on payment dates. Furthermore, it is consistent with the current administration’s desire to digitise its systems.
Exemption on supply of water

Measures
Effective 1 April 2019, the supply of water and sewage services by the Barbados Water Authority (BWA) will be VAT exempt.

Commentary
It is our view that this measure should have little to no impact on consumers. However, as with all the other supplies which have been removed from the zero-rated schedule to the exempt schedule, this will cause the cost of the operations of the BWA to increase as it will now have to absorb the VAT on expenses (e.g. rent, electricity, and materials imported into Barbados) that would previously have been recoverable as input tax.

The BWA is a statutory body and as such the overall impact to Government is negligible; while the Barbados Revenue Authority will be saving a potential $10 million in refunds to the BWA, the BWA’s operational costs would increase by that same amount, thereby creating a nil effect.

VAT on accommodation increased

Measures
Effective 1 January 2020, VAT on accommodation will be increased from 7.5% to 10% which is expected to generate $27 million in a full calendar year.

Commentary
Whilst the original intention was to double the VAT rate to 15%, after strong representation from the tourism sector, the rate was increased by only 2.5% to maintain the competitiveness in the international market.

Notwithstanding this noble gesture, international visitors may overlook such an increase only if the tourism product enhances their experience in Barbados.

Villa accommodation now VAT exempt

Measures
Effective 1 April 2019, the Villa sector will now be exempt under the provisions of the VAT Act.

Commentary
This measure effectively eliminates VAT refunds that villas typically receive from the Barbados Revenue Authority. Accordingly, the economic cost of doing business may increase leading to such costs being passed on to consumers.

Additionally, the cost of constructing new villas will effectively increase as the VAT incurred on construction materials will no longer be refunded.
Some zero-rated goods now VAT exempt

Measure

Effective 1 April 2019, specific items which were listed as zero-rated in the First Schedule of the VAT Act will be classified as exempt in the Second Schedule.

Commentary

Whilst the Government’s intention was to address the base erosion in the VAT system, this measure will likely lead to price increases on these items. Notwithstanding, the Government proposes that regulatory protection will be provided to shield low income earners from excessive price increases.

The decision to maintain such items as medical drugs, educational services and agricultural supplies as zero-rated items is commendable.

Online VAT

The Prime Minister briefly mentioned the recently passed amendment to the VAT Act which seeks to apply VAT to goods and services obtained online for consumption in Barbados. The Government expects that collections as a result of this amendment will begin on 1 May 2019, and should result in increased revenue of $7 million within a year.

The intention of this amendment is to have the BRA’s agent interface with online payment processors, so that VAT will only be charged in eligible circumstances, i.e. where there is high certainty that the goods and services will be consumed in Barbados.

This amendment has not yet appeared in the Official Gazette, but the draft version available on the Barbados Parliament website gives some indication of how the various provisions have been worded.

Unfortunately, the amendment, which was read by Parliament and passed into law in a short eight days, fails to make certain fundamental changes to the VAT Act which are necessary to support the application of VAT to goods and services purchased online.

As an example, one of the Government’s main goals of this online VAT was stated to be the application of VAT to purchases from online retailers such as Amazon. However, under the VAT Act, tax may only be applied to goods which are supplied by someone resident in Barbados or, if supplied by someone not resident in Barbados, if the goods are physically located in Barbados when they are supplied. Further, the VAT Act also states that the time at which goods are supplied is when the goods are invoiced for, paid for, or delivered, whichever comes first. VAT is also chargeable on goods imported into Barbados.

Most online retailers, including Amazon, do not maintain stock in Barbados, and will issue an invoice and expect payment before the goods are delivered. This means that the supply of the goods will not take place in Barbados and, despite the wording of the recently passed amendment, VAT should not apply until such time that the goods are imported into the island.

1 Fourth draft dated 18 February 2019
Room rate levy

Measure

Effective 1 April 2019, the room rate levy applicable to the accommodation sector will be increased by 75%.

Commentary

When the room rate levy was first introduced, there were concerns that it would negatively affect the tourism industry. However, the Prime Minister has indicated that, following consultation with stakeholders, an agreement has been reached to further increase the levy by 75%. It is expected that this measure will generate $15 million over the course of one year.

The Prime Minister mentioned that she was petitioned heavily by stakeholders in the tourism industry to reevaluate a previously announced increase in VAT applicable to accommodation. As a result, and as discussed elsewhere in this document, the Prime Minister decided to reduce the proposed increased rate of VAT from the 15% to 10%. The new rate of 10% will be effective 1 January 2020. It is possible that this increase to the room rate levy was a compromise to recoup some of the expected revenue which would be lost due to the reduction in the proposed VAT increase.

Nevertheless, this adjustment will result in a significant increase in the levy to be charged by apartments, guest houses, hotels, villas and vacation rental properties which will now be as follows:

<table>
<thead>
<tr>
<th>ACCOMMODATION</th>
<th>OLD RATE (per night)</th>
<th>NEW RATE (per night)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apartment</td>
<td>$5.00</td>
<td>$8.75</td>
</tr>
<tr>
<td>Guest House</td>
<td>$5.00</td>
<td>$8.75</td>
</tr>
<tr>
<td>Hotel “B” Class</td>
<td>$5.00</td>
<td>$8.75</td>
</tr>
<tr>
<td>Hotel “A” Class</td>
<td>$11.00</td>
<td>$19.25</td>
</tr>
<tr>
<td>Hotel Luxury Class</td>
<td>$20.00</td>
<td>$35.00</td>
</tr>
<tr>
<td>Vacation Rental Properties</td>
<td>2.5% of nightly rate</td>
<td>3.75% of nightly rate (maximum BDS$35.00 per night)</td>
</tr>
<tr>
<td>Villas</td>
<td>2.5% of nightly rate</td>
<td>3.75% of nightly rate (maximum BDS$35.00 per night)</td>
</tr>
</tbody>
</table>

However, with the implementation of these new rates, there may be some dissention among tourists, some of whom may not be willing to pay the extra costs, especially for long-term visits.

They may consider cheaper destinations within the Caribbean with the intent to capture the similar benefits without the additional accommodation costs.
Budget commentary cont’d

Land Tax

Measure
An increase in land tax rates applicable to residential and non-residential properties has been announced.

Residential properties
The Prime Minister proposed an increase in rates of tax, and applicable bands, in respect of residential properties. The new rates of tax are as follows:

<table>
<thead>
<tr>
<th>2019 Tax Bands</th>
<th>2019 Tax Rate</th>
<th>Movement</th>
<th>Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0-$150,000</td>
<td>0.00%</td>
<td>$150,000</td>
<td>$150,000</td>
</tr>
<tr>
<td>$150,001-$450,000</td>
<td>0.10%</td>
<td>$300,000</td>
<td>$450,000</td>
</tr>
<tr>
<td>$450,001-$850,000</td>
<td>0.70%</td>
<td>$400,000</td>
<td>$850,000</td>
</tr>
<tr>
<td>&gt;$850,000</td>
<td>1.00%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

It should also be noted that the maximum amount of tax that can be collected on a property has increased from $60,000 to $100,000.

The Prime Minister also indicated that vacant lots exceeding 4,000 square feet will be subject to tax at the rate of 1.0% (up from 0.8%), with the goal of encouraging use of these properties. However, smaller vacant lots will be excluded from any increase in property tax.

Commercial properties
In addition to the changes for residential properties, the rate of tax applicable to commercial properties will be increased from 0.7% to 0.95%.

The Government expects that the revenue generated from the changes to the property tax rate will amount to $61.9 million with non-residential properties accounting for $39 million of the revenue generated.

Commentary
The result of this increase can be seen in the example below for a property valued at $1 million:

<table>
<thead>
<tr>
<th>Description</th>
<th>2015 - 2018 Tax Rate</th>
<th>2015 - 2018 Tax Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Value</td>
<td>$1,000,000.00</td>
<td></td>
</tr>
<tr>
<td>Tax on property up to $150,000</td>
<td>0.00%</td>
<td>-</td>
</tr>
<tr>
<td>Tax on the next $300,000</td>
<td>0.10% $300.00</td>
<td></td>
</tr>
<tr>
<td>Tax on the next $550,000</td>
<td>0.45% $2,475.00</td>
<td></td>
</tr>
<tr>
<td>&gt;$1,000,000</td>
<td>0.75%</td>
<td></td>
</tr>
<tr>
<td>Total Tax Liability</td>
<td>$2,775.00</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>2019 Tax Rate</th>
<th>2019 (Proposed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Value</td>
<td>$1,000,000.00</td>
<td></td>
</tr>
<tr>
<td>Tax on property up to $150,000</td>
<td>0.00%</td>
<td>-</td>
</tr>
<tr>
<td>Tax on the next $300,000</td>
<td>0.10% $300.00</td>
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<tr>
<td>Tax on the next $400,000</td>
<td>0.70% $2,800.00</td>
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<tr>
<td>&gt;$850,000</td>
<td>1.00% $1,500.00</td>
<td></td>
</tr>
<tr>
<td>Total Tax Liability</td>
<td>$4,600.00</td>
<td></td>
</tr>
</tbody>
</table>

This proposal is indicative of the Prime Minister’s stated intention to shift a portion of the tax burden from income to assets. However, in the example above, this measure results in a sharp hike of 66%.

Also, the valuations assigned to properties in Barbados for land tax purposes is cause for concern, and it is questionable whether the current valuations used by the land tax department accurately reflect market activity.

Property owners may view these rate increases as excessive when coupled with already high land tax values.
Commercial water rates

Measure
The Prime Minister announced a rebalancing of commercial water rates in order to align them with residential rates. Commercial operations will now be charged a rate of $4.66 per m³ for the first 40 m³. However, any usage above this threshold will be charged $7.78 per m³ up to a monthly cap of 12,000 m³. Any usage above this 12,000 m³ will be charged at the previous rate of $4.66 m³.

Commentary
This increase will have a profound effect on commercial operations that use large quantities of water, such as farms, laundromats, and golf courses.

While the previously announced reduction in corporate tax rates will no doubt provide some relief, companies will likely be reluctant to absorb this cost in addition to the other costs resulting from the other changes proposed in the Budget. As a result, it is expected that this additional cost will be passed on to consumers.

Gaming Tax

Measure
A further measure announced by the Prime Minister was the institution of taxes on gaming. The proposed taxes will be made up of a 20% withholding on winnings from lotteries and betting, and a 17.5% “VAT” on the net drop of slot machines.

Commentary
20% on lottery and betting
Many other jurisdictions regard winnings from lotteries and betting to be income and require that tax be withheld where the winnings are over a certain threshold. Additionally, some jurisdictions regard winnings from gambling to be income (and therefore taxable), and the amounts withheld are regarded as a prepayment of tax on that income.

However, Barbados has not historically considered winnings from gambling to be income, and; therefore, the question arises as to whether this new tax denotes a shift in Barbados’ view of winnings from lotteries and betting.

It is presumed that the Government intends this to be a final tax on the winnings, and that the withholding will only apply on winnings over a certain threshold. However, it is not clear what the threshold (if any) for this withholding will be, or whether amounts previously wagered and lost by the winner would be taken into consideration.

17.5% “VAT” on slot machines
While the Prime Minister verbally identified this tax as VAT in her address to Parliament, the application of this tax as she later described is not compatible with the operation of Value Added Tax in Barbados. It is therefore presumed that this 17.5% will be implemented as a “gambling tax”, as indicated in her written speech.

It is intended that this 17.5% tax will be applied to the net drop of the slot machines in each establishment. We understand that this net drop will be computed as the gross amount received by these machines as wagers, less the gross amounts paid out as winnings.
To facilitate this, the Government will require that all slot machines in licensed gaming establishments be updated to auditable machines to facilitate the computation of this net drop in a way that can be confirmed by the tax authorities. This tax will result in an additional cost to gaming establishments which cannot easily be passed on to customers.

**Withholding Tax - Non-residents**

**Measure**

Effective immediately, withholding tax has been eliminated on the payment of interest, management fees, and royalties to non-residents. Branch profits paid out of income earned outside Barbados will also no longer be subject to branch profits tax.

**Commentary**

This measure is not unexpected and is in line with the convergence of the offshore and onshore regimes which took place at the end of 2018, as Barbados complied with Action 5 of the OECD’s Base Erosion and Profit Shifting (BEPS) action plan. However, with management fees now being exempt from withholding tax, the Prime Minister also announced that such fees paid to non-residents will no longer be deductible for income tax purposes. While this will result in increased taxable income for companies paying such management charges, it should be viewed in conjunction with the significant reduction in corporation tax rates which became effective from income year 2019. The restriction of deductibility is used widely in OECS, Trinidad and Guyana, but its application is fraught with inconsistencies, largely due to the imprecise definitions of management fees.

Some jurisdictions in the region define management fees as “the charges made for the provision of management services and includes charges made for the provision of personal services and technical and managerial skills”. However, the application of this very wide definition has resulted in many fees being classified as management charges.

Branch profits paid out of income earned outside of Barbados will not be subject to tax, which is in line with the current treatment of similarly paid dividends. However, it should be noted that branch profits tax and dividends paid to a non-resident out of income earned from local sources will still be subject to tax at a rate of 5%.

**Withholding Tax - Residents**

**Measure**

The withholding tax rate applicable to interest will be increased from 12.5% to 15% and the same applies to dividends from local sources.

**Commentary**

Presumably these rates apply to resident individuals only, and is a final tax. Prior to this measure, where an individual had a company, corporation tax would be paid at the top rate of 5.5% (effective IY 2019) and tax would be withheld at 12.5% on dividends to the individual. As this was less than the top marginal personal income tax rate of 40%, there was the incentive to conduct business through companies. However, this recent change, together with the reduction in the top personal income tax rate to 33.5%, should narrow this differential.

However, with Government calling for additional local investment in projects such as the Hilton and Sam Lord’s Castle, the appetite for such investments by individuals may be dampened by this increased withholding. With corporation tax rates at a maximum of 5.5%, it would be inconsistent to apply this withholding in the case of companies.
Transfer Pricing

Measure
The Prime Minister announced that Transfer Pricing rules will be introduced.

Commentary
As part of our commitment to the OECD, the Government intends to introduce Transfer Pricing rules soon. These will govern the taxation of transactions involving the sale of goods and services between related parties.

Transfer Pricing rules represent one of the main pillars in the OECD’s BEPS initiative. The rules seek to prevent pricing manipulation between related parties designed to achieve a tax advantage. The rules achieve their purpose by treating related parties as if they were independent entities such that the prices charged between them accord with the arm’s length principle.

However, Transfer Pricing rules are complicated and require deep analysis coupled with wide consultation if they are to be effectively implemented.

Thin Capitalization Rule

Measure
Effective 1 September 2019, a thin capitalisation rule of 1.5 to 1 will be introduced for companies making interest payments to non-resident related parties who own more than 10% of the company’s equity.

Commentary
This rule means that interest related to debt that exceeds the ratio 1.5 to 1 will not be allowed as a tax deduction. For example, where a company has equity of $100 and debt of $200, only the interest related to $150 of the loan is tax deductible. The interest computed on the remaining $50 is not an allowable deduction.

It should be noted that the 1.5 to 1 ratio is somewhat restrictive. Other jurisdictions that introduced this rule began with a more liberal ratio of 2 to 1.

Nevertheless, we trust that the Government will provide ample guidance on how this rule will operate in practice, and how it will work in tandem with the solvency requirements for banks and insurance companies.
Exchange Controls

The Prime Minister announced that exchange controls will gradually be relaxed. The Government has reiterated its commitment to maintaining a 2 to 1 peg with the US dollar. However, the Prime Minister noted that, with the advancement of trade and globalization, the exchange controls currently in place to preserve the exchange rate, could adversely disrupt economic efficiency and growth.

Measure

Effective 1 July 2019, all Barbadians will be allowed to open foreign currency denominated bank accounts to hold foreign currency they have earned here or abroad, and the 70% compulsory conversion will be abolished.

Commentary

This will no doubt be an appreciated change for many Barbadian individuals and companies alike, as the ability to retain funds earned in foreign currency in an account will provide easier access when it is needed. The measure may also encourage foreign investment in Barbados, as investors are usually concerned about the ability to easily repatriate cash from the jurisdiction when needed. In addition, this may also have the effect of reducing the existing black market US dollar exchanges among Barbadians. It may also encourage Barbadians with foreign accounts to bring the foreign currency home.

The cumulative effect would be additional cash being added to the island’s foreign reserves.

Measure

The Government will allow foreign currency proceeds from the sale of assets to be repatriated in foreign currency or kept locally in a foreign currency account. These proceeds will not be subject to the capital appreciation policy.

Commentary

This is a welcomed initiative as investors were restricted to repatriating any capital appreciation on assets sold for foreign currency in tranches. This now permits investors to quickly redeploy their capital into other ventures.

Measure

There will be a cap on the foreign exchange fee of BDS$100,000.

Commentary

This fee had raised the cost of doing business in Barbados. The introduction of this cap, which we presume is an annual cap, will help businesses to control their costs and generate growth.

Increased Bus Fares

Measure

Effective 15 April 2019, Barbadians will be paying an increased bus fare of $3.50.

Commentary

An increase from the current $2.00 to $3.50 means an average Barbadian working for $250 per week, taking four buses on any given day, will be paying $70 in bus fare for a five day work week. This represents 28% of their salary. It is unclear what steps will be taken, if any, regarding any amendments to school children and pensioners who currently travel free on Transport Board buses.

The Prime Minister also mentioned the option of having discounted passes which will be made available to frequent commuters, however, details of this have not yet been released.
## EY Tax leaders

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