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Three steps on the road to recovery

Prime Minister and Minister of Finance, Mia Mottley, today delivered what she called Barbados’ Economic and Recovery Plan.

Like a doctor informing family on the state of health of a relative, she told Barbadians that their country is basically in intensive care. However, she also made clear that, in her judgement, the patient’s prognosis is good. In the meantime, however, she outlined three steps on the road to recovery within the next three years.

Phase 1 is designed to stabilize the patient and stop the bleeding. It also calls for what she described as “bitter medicine”, but it is medicine that will be shared by all Barbadians.

To stop the hemorrhaging, the first step is to cut Government’s transfers to prominent state owned enterprises (“SOE”). To begin with, she proposed that the Barbados Tourism Marketing Inc and Barbados Tourism Product Authority which cost the Government approximately $96.3 million a year, will no longer be funded out of the Consolidated Fund. Instead, she stated that it will be funded completely by a fee of US$70 paid by passengers flying outside of CARICOM a fee of US$35 for those flying within CARICOM. Further infrastructural maintenance will be funded by an interim room levy ranging from US$2.50 to US$10.00 per night, and a 2.5% Product Levy on all Direct Tourism Services. In addition, starting 1 January 2020, the Prime Minister also proposed to increase the Value Added Tax (“VAT”) on rooms from 7.5% to 15%.

With regard to the new fees on air travel, although the Prime Minister expressed confidence that this would have little effect on the level of travel to Barbados, we are concerned that it would make Barbados’ aggregate airport tax and fees amongst the highest in the Caribbean.

The interim room levy is a funding mechanism which is widely applied by hotels around the world and should not, in itself, place a too onerous burden on guests. The proposed VAT increase in 2020 needs to be carefully reviewed because in conjunction with the aforementioned imposts, it will contribute to a major increase in the cost of our tourism product and thereby risk making Barbados less competitive.

To further enrich the funding of these tourism entities, there will be a 10% shared accommodation levy on all fees charged for shared accommodation, such as AirBnB and Home Away. The 10% shared accommodation levy is a fair and an efficient way to tax this activity, especially if collections are handled by AirBnB and Home Away.

In a bolder step, the Government announced that it will de facto be privatizing these tourism entities by transferring lead responsibility to the private sector for ownership and management. This is an encouraging step. We hope this is a blueprint for SOEs in the future.

In yet another step to remove SOEs from the Consolidated Fund, Government is proposing a new method of funding the Sanitation Services Authority’s annual budget of $65 million. A new levy will be issued on householders and businesses but it will be collected by the Barbados Water Authority. The levy, known as the Garbage and Sewage Contribution (“GSC”) will be $1.50 per day per household, but this will be discounted to 0.75 cents for pensioners. Businesses will pay GSC of 50% of their water bill. While this is an unusual method of collecting user fees, it is a more direct way of having all Barbadians contribute to the cost of the sewage system.

The Prime Minister was able to keep some of her election promises, namely the removal of tuition fees for undergraduate programmes at University of the West Indies (“UWI”), the increase in the non-contributory old age pension, and the removal of the NSRL, which was responsible for doubling inflation for the first quarter of fiscal year 2018 when compared to the same period in 2017. She also removed the annual road tax, but compensated for the loss in revenue by introducing a new tax on petrol, diesel and kerosene. As well, she announced one-time registration fees on new and second hand commercial and private vehicles, but commercial vehicles will still have to pay an annual registration fee.

Other measures to speed up the country’s healing process included an increase in the basic corporation tax rate from 25% to 30% and the introduction of a new personal income tax band of 40% on assessable income above $75,000. This puts the corporation tax rate back to what it was in 2005, and the top personal income tax rate to what it was in 2004.

For personal income tax, the last time we had three tiers of tax was 26 years ago; then the top marginal income tax rate was 40% where it remained until 2003. Clearly Government is turning the clock back to levels of taxation imposed when we last sought assistance from the International Monetary Fund (“IMF”). We hope that as the situation improves, that these tax rates could be reduced again.
The medicine of tax increases is made less bitter by the Government’s willingness to waive all interest and penalties under certain conditions. Basically, the Barbados Revenue Authority (“BRA”) will accommodate delinquent taxpayers based on mutually agreed payment plans for the income years 2002 to 2016. Failure to adhere to such plans will result in the forfeiture of the waivers. Hopefully this amnesty will boost tax collection.

The Prime Minister also explained that VAT would be applied to the online purchase of goods and services. While this might be considered a welcome blood transfusion, we believe that the application and collection of VAT in such circumstances warrants careful consideration.

In yet another transfusion, effective 1 October 2018, employers’ and employees’ NIS contributions will be increased by 1.5% and 1.0%, respectively. This represents a new Health Service Contribution which will raise $45 million per annum. Furthermore, the National Insurance (“NIS”) will transfer this money directly to the Queen Elizabeth Hospital (“QEH”).

While stemming the blood loss is clearly critical to Barbados’ economy, its health still requires ongoing expenditure and fueling of economic growth. To this end, the Prime Minister committed to spending money in a number of areas. For example, she committed to spend $15 million on repairs to the South Coast Sewage Plant and another $12 million on the Bridgetown Sewage Plant.

Government will purchase second hand garbage trucks from Europe. It will also spend $3 million on a D9 tractor and compactor for use by the Sanitation Service Authority. There is also $25 million for the purchase and repair of buses. On the positive side, all of these new buses will either be electric or use clean energy.

An essential debushing and road repair programme will cost $25 million. And in keeping with Government’s commitment to protecting the most vulnerable in society, the Accident and Emergency Department will get a facelift to the tune of $11 million, inclusive of equipment.

Importantly, in resolving a long outstanding issue, the Government has pledged a 5% salary increase to all public servants for the period 1 April 2018 to 31 March 2019.

There are other smaller expenditures, for example $5 million on a roof replacement programme; $2.5 million to fix the Supreme Court Building; $10 million to purchase new equipment for the Ministry of Transportation and Works, $2 million for electrical upgrades for National Housing Corporation (“NHC”) housing units, and $2 million to create a “smart Bridgetown” by implementing free Wi-Fi.

While Phase 1, described above, represents Government’s mission critical initiatives, Phases 2 and 3 reflect its commitments over the longer term. For example, Phase 2 promises further revenue growth by increasing user fees and consolidating Corporate Affairs and Intellectual Property Office (“CAIPO”) and the Financial Services Commission (“FSC”). The Prime Minister also promised to lend support to the International Business Sector which is facing challenges from the Organization for Economic Cooperation and Development (“OECD”) and its harmful tax initiatives.

In Phase 3, there would be a review of all remaining SOEs and Government Departments with a view to contain costs. There would also be a comprehensive review of tax policies which has not been done for 25 years. It is expected that Phases 2 and 3 will generate net additional revenues of $200 million.

In summary, through this mini budget, the Government has endeavoured to spread the economic burden fairly across Barbadians, companies and visitors. Inevitably, some stakeholders will quibble that the medicine is more bitter than needed. However, most will agree that whatever pain we experience is necessary to sustain the currency peg and bring an essential measure of stability in the early days of what may be a lengthy recovery.
Real GDP growth was estimated at -0.7% for the first quarter of 2018. The IMF has forecasted real GDP growth to improve to 0.5% at the end of 2018 and 0.8% in 2019. Real GDP growth is projected to remain stable at 1% over the period of 2020 to 2022.

Source: Projections based on International Monetary Fund Staff Report for the 2017 Article IV Consultation (Baseline figures)

Fiscal deficit fell from 9.4% to 5.7% during the fiscal period 2015/16 to 2016/17 as a result of improved revenue performance. It made a further improvement to 4.2% in 2017/2018.

Source: Central Bank of Barbados (Quarterly Report, March 2018)

The average unemployment rate was estimated to be 10% in 2017, compared to 9.7% in 2016.

Source: Central Bank of Barbados (Quarterly Report, March 2018)
Macroeconomic review cont’d

Economic dashboard

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth %</td>
<td>0.3</td>
<td>-</td>
<td>-</td>
<td>0.7</td>
<td>1.8</td>
<td>0.6</td>
<td>-0.7</td>
</tr>
<tr>
<td>Average unemployment %</td>
<td>11.5</td>
<td>11.6</td>
<td>12.3</td>
<td>11.3</td>
<td>9.7</td>
<td>10.0</td>
<td>n.a.</td>
</tr>
<tr>
<td>Gross public sector debt % of GDP</td>
<td>88.1</td>
<td>96.9</td>
<td>99.2</td>
<td>100.2</td>
<td>101.7</td>
<td>96.8</td>
<td>102.8</td>
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<td>Gross central government debt</td>
<td>9,838.7</td>
<td>11,069.3</td>
<td>11,518.2</td>
<td>12,255.2</td>
<td>13,407.1</td>
<td>13,656.4</td>
<td>13,782.3</td>
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<tr>
<td>Gross central government debt % of GDP</td>
<td>105.6</td>
<td>120.0</td>
<td>125.0</td>
<td>133.7</td>
<td>148.0</td>
<td>144.7</td>
<td>150.5</td>
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<tr>
<td>Foreign exchange reserves</td>
<td>1,457.7</td>
<td>1,144.1</td>
<td>1,054.9</td>
<td>929.4</td>
<td>683.6</td>
<td>409.7</td>
<td>423.3</td>
</tr>
<tr>
<td>Import cover (weeks)</td>
<td>20.2</td>
<td>15.6</td>
<td>14.8</td>
<td>13.7</td>
<td>10.5</td>
<td>6.7</td>
<td>6.9</td>
</tr>
</tbody>
</table>

Fiscal deficit % of GDP

As at March 2018, Barbados’ foreign exchange reserves increased by BD$14m to BD$423m as compared to December 2017. The high debt service obligations constrained the reserves to 6.9 weeks of import cover, which is close to half of the standard benchmark of 12 weeks.

Gross central government debt

Gross central government debt increased at an annual compound growth rate of 6.8% over the period 2012 to 2017. It is estimated to increase by a further 0.9% to BD$13,782 as at March 2018.

Source: Central Bank of Barbados (Quarterly Report, March 2018)
Macroeconomic review cont’d

Composition of current expenditure

As at March 2018, total expenditure was estimated to increase by approximately 4% in 2017/18 over the previous period. Transfers and subsides were projected to constitute 39% of the expenditure in 2017/18, wages and salaries 25%, interest 24%, and goods and services 12%.

Source: Central Bank of Barbados (Quarterly Report, March 2018)
Removal of Tourism SOE Subsidies

Measure
The Minister has removed subsidies to the Barbados Tourism Marketing Inc. (“BTMI”) and the Barbados Tourism Product Authority (“BTPA”). These entities, which are responsible for the marketing and development of Barbados’ tourism product, will now be managed through a partnership between the private sector and Government. Government will retain a minority shareholding and a “golden share” but the entities will be owned and managed by the private sector. These entities will be funded by the newly proposed Airline Travel and Tourism Development fee (“ATTDF”), discussed below.

Commentary
This change marks a departure from the previous approach to the sector, which was characterized by the grant of generous subsidies and concessions. The Minister has indicated that as a result of this change we should see a reduction in the public expenditure by BDS$96 million. The revenue to be gained from ATTDF is approximately at BDS$95 million, with BDS $75 million going to BTMI and BTPA. It is anticipated that funding by the ATTDF will not be for the long-term, but is to assist with the creation of a sustainable product. The fact that Government has not budgeted the same level of financial support of BDS$96 million to the entities, though a similar amount will be collected, suggests that these entities will be expected to be managed efficiently towards long-term sustainable profitability.

Airline Travel and Tourism Development fee

Measure
Effective 1 October 2018, an ATTDF will be charged on passengers departing Barbados. This fee will be levied in addition to Departure Tax, which is currently charged at the rate of US$27.50 per passenger. Passengers flying outside of CARICOM will pay an additional sum of US$70.00 representing ATTDF, while those travelling within CARICOM will pay an additional US$35.00 representing ATTDF.

Commentary
This measure applies not only to visitors to Barbados’ shores but to Barbadians. With this measure, the Minister appears to be exhorting all Barbadians to re-evaluate their spending habits by introducing tax measures targeted at dampening discretionary spending and forcing Barbadians to prioritise “essential” expenditure.

The imposition of the ATTDF places Barbados on the higher end of the spectrum of departure fees in the region. However, without a focused study, it is difficult to assess the long-term benefits or costs to the Barbados economy.
Barbados’ mini-Budget 2018

Budget commentary cont’d

Room Levy

**Measure**

Government will introduce a Room Levy to be applied to hotel rooms as follows:

- “B” Class and Apartments: US $2.50 per room per night
- “A” Class: US $5.50 per room per night
- Luxury: US $10.00 per room per night

**Commentary**

Similar measures have been applied in other jurisdictions in the form of donations. In any event, the proposed levy does not appear to be onerous.

DTS Product Levy

**Measure**

A 2.5% Product Levy is to be applied on all Direct Tourism Services. Service providers will collect this levy on Government’s behalf.

**Commentary**

We await details of the scope of this levy in order to assess its impact and effectiveness.

VAT on accommodation

**Measure**

Commencing 1 January 2020, VAT on accommodation will increase from 7.5% to 15%.

**Commentary**

This will likely lead to a decrease in hotel bookings and may be detrimental to the sector. This problem will be compounded by the proposed VAT charge on all online transactions for the purchase of goods and services by Barbadian residents (discussed below), which may cause hoteliers to increase their fees.

Shared Accommodation Levy

**Measure**

A 10% Shared Accommodation Levy will be applied to all fees charged for shared accommodation by providers such as AirBnB, Home Away, and others.

**Commentary**

This is long overdue as previously no taxes were applied to this form of business. This measure is expected to result in an increase in room rates per night.

It remains to be seen how this levy will be implemented. For example, who will be responsible for collecting? Will financial institutions serve as collecting agents as is done with the foreign exchange fee or will the service provider be required to collect on Government’s behalf?
Garbage and Sewage Contribution

Measure
The Prime Minister indicated that, in order to fund the Sanitation Services Authority (SSA) after its removal from the consolidated fund, government will impose a new Garbage and Sewage Contribution (GSC) effective 1 August 2018. This GSC would be collected by the Barbados Water Authority.

Citing the sewage connection fees that are currently only paid by residents of Bridgetown and the South Coast, the Prime Minister announced that all households will now be required to pay the equivalent of $1.50 per day, while the GSC for commercial entities will be 50% of their water bill. Additionally, all pensioners living alone will pay only 50% of the fee (i.e. $0.75 per day).

The majority of the household GSC (i.e. $1.25 per household per day) will go to fund the SSA, while 50% of the GSC for commercial entities will be paid to the SSA and the remainder will be kept by the BWA to offset the operational costs of the sewage systems.

Commentary
The need to properly fund and maintain the country’s sanitation and sewage systems is paramount; especially in light of the long-standing sewage issues experienced on the Island’s south coast, and the associated “bad press” both domestically and internationally.

Commercial entities will be forced to bear greater costs as a result of this GSC, with entities such as farms, golf courses, etc, with high water usage paying a potentially disproportionate share.

Additionally, as illustrated in the example calculation below, the proposed GSC will represent an approximate increase of $45 per month to each household’s water bill, or approximately $550 annually. Pensioners who live alone, will only pay half of the GSC, amounting to an approximately $23 increase per month to their water bill, or $274 per year.

<table>
<thead>
<tr>
<th>Garbage and Sewage Contribution</th>
<th>Regular Customer</th>
<th>Previous</th>
<th>After proposed changes</th>
<th>INCCREASE/ (DECREASE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum Water Bill before Garbage Sewage Contribution tax</td>
<td>32.00</td>
<td>32.00</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Garbage and Sewage Contribution (GSC) @ $1.50 per day</td>
<td>-</td>
<td>45.63</td>
<td>45.63</td>
<td></td>
</tr>
<tr>
<td>Total Monthly Water Bill</td>
<td>32.00</td>
<td>77.63</td>
<td>45.63</td>
<td></td>
</tr>
<tr>
<td>Annual Effect</td>
<td>384.00</td>
<td>931.50</td>
<td>547.50</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Garbage and Sewage Contribution</th>
<th>Non Contributory Pension Recipients</th>
<th>Previous</th>
<th>After proposed changes</th>
<th>INCCREASE/ (DECREASE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum Water Bill before Garbage Sewage Contribution tax</td>
<td>32.00</td>
<td>32.00</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Garbage and Sewage Contribution (GSC) @ $0.75 per day</td>
<td>22.81</td>
<td>22.81</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Monthly Water Bill</td>
<td>32.00</td>
<td>54.81</td>
<td>22.81</td>
<td></td>
</tr>
<tr>
<td>Annual Effect</td>
<td>384.00</td>
<td>657.75</td>
<td>273.75</td>
<td></td>
</tr>
</tbody>
</table>
NSRL Repeal

Measure
The Prime Minister announced that the National Social Responsibility Levy (“NSRL”) will be repealed from 1 July 2018 in accordance with campaign promises. The effect of the NSRL’s introduction in September 2016 and its subsequent increase from 2% to 10% in July 2017 resulted in an increase in prices leading to depressed economic performance and high inflation.

Commentary
A report by the Central Bank of Barbados stated that inflation doubled in 2017 due to the drastic increase of the NSRL. The Prime Minister expects that the removal of this levy, will notably reduce prices for Barbadians over the course of the next several months. Especially since VAT was chargeable on the NSRL this compounded effect will be removed.

This change will no doubt be welcomed by local retailers, manufacturers and consumers. Additionally, this repeal may offer some relief to the tourism sector, potentially leading to greater opportunity for profitability given that this levy increased the cost of all imports used in the tourism sector, directly impacting gross margin.
Fuel Tax

Measure
The Prime Minister announced that Road Tax will be abolished and replaced with a Fuel Tax. This change will come into effect from 1 July 2018 and will be levied at a rate of 40 cents per litre of petrol, 40 cents per litre of diesel and 5 cents per litre of kerosene.

It is expected that this Fuel Tax is likely to raise $80 million, which, according to the Prime Minister, is greater than the Road Tax previously collected of $65 million. No indication was given by the Prime Minister as to the timeline for this expected revenue earner.

With respect to the registration of vehicles, there will be a new fee imposed from 1 July, 2018 of $400 for registration upon purchase of new or second hand private vehicles and $1,000 for persons purchasing new or second hand commercial vehicles. Commercial vehicles will still be required to pay a registration fee on an annual basis but will now pay 50% of the previous fees paid for Road Tax. This is expected to generate $5 million.

Commentary
The NSRL component on fuel was previously 12 cents per litre on gasoline and 11 cents per litre on diesel, making the net increase on gasoline and diesel from this new Fuel Tax, 28 cents per litre.

Although the removal of Road Tax may be a welcomed change by most with an annual fee varying from $400 - $1,600, one must assess the net effect of this Fuel Tax compared to the one off Road Tax and whether a true benefit is being gained by road users.

Averages based on 2013 Swift

Average tank size 42L

<table>
<thead>
<tr>
<th></th>
<th>Increase/Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Previous</td>
<td></td>
</tr>
<tr>
<td>Gas cost per Litre</td>
<td>3.60</td>
</tr>
<tr>
<td>Average gas bill</td>
<td>151.20</td>
</tr>
<tr>
<td>(42L * $3.60 per L)</td>
<td></td>
</tr>
<tr>
<td>assumption gas will last 1 week</td>
<td></td>
</tr>
<tr>
<td>Average Yearly Gas Bill</td>
<td>7,862.40</td>
</tr>
<tr>
<td>Road Tax per annum</td>
<td>400.00</td>
</tr>
<tr>
<td>Average Annual Road Tax &amp; Gas Bill</td>
<td>8,262.40</td>
</tr>
<tr>
<td>Proposed changes</td>
<td></td>
</tr>
<tr>
<td>Gas cost per Litre</td>
<td>3.88</td>
</tr>
<tr>
<td>Average gas bill (42 L * $3.88 per L)</td>
<td>162.96</td>
</tr>
<tr>
<td>assumption gas will last 1 week</td>
<td></td>
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<tr>
<td>Average Yearly Gas Bill</td>
<td>8,473.92</td>
</tr>
<tr>
<td>Road Tax per annum</td>
<td>-</td>
</tr>
<tr>
<td>Average Annual Gas Bill</td>
<td>8,473.92</td>
</tr>
<tr>
<td>Increase/Decrease</td>
<td>611.52</td>
</tr>
<tr>
<td>Decrease</td>
<td>(400.00)</td>
</tr>
<tr>
<td>211.52</td>
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Corporation Tax

Measure

The Prime Minister announced an increase in the standard corporation tax rate from 25% to 30%\(^1\). This change takes effect from 1 October 2018 and is expected to generate an additional $57 million in tax revenue.

Commentary

Measures aimed at broadening the tax base help to ensure that everyone pays their fair share of taxes. This increase in corporation tax is one of the burdens businesses face in light of Barbados’ mission critical recovery. The increase to 30% is reminiscent of income years past where the corporate tax rate ranged between 37.5% in 2002 and 33% in 2004. Thirteen years onwards companies see the 30% tax rate of 2005 reemerging.

Table 1 compares our tax rate to that of our Caribbean neighbours. The increase in corporation tax rate moves Barbados from the low end of the pack to the middle, along with countries such as Grenada and Jamaica, who have been through IMF programmes.

Table 1

<table>
<thead>
<tr>
<th>Corporation Tax Rate (%)</th>
<th>Antigua &amp; Barbuda</th>
<th>Barbados</th>
<th>Belize</th>
<th>Dominica</th>
<th>Grenada</th>
<th>Guyana</th>
<th>Jamaica</th>
<th>Montserrat</th>
<th>St. Kitts &amp; Nevis</th>
<th>St. Lucia</th>
<th>St. Vincent &amp; Grenadines</th>
</tr>
</thead>
<tbody>
<tr>
<td>25</td>
<td>30</td>
<td>25</td>
<td>25</td>
<td>30</td>
<td>40</td>
<td>25/33</td>
<td>30</td>
<td>33</td>
<td>30</td>
<td>30</td>
<td>30</td>
</tr>
</tbody>
</table>

The Prime Minister estimated that this increase in tax rate would yield additional revenue of $57 million per year. The abolition of the NSRL may contribute to increased economic activity and thereby taxable profits. However, this could be tempered by the effect of other proposed measures e.g. the fuel tax, the Garbage and Sewage Contribution, the 1.5% employer Health Service Contribution etc.

\(^1\) No mention was made of any adjustments being made to the 15% corporation tax rate for manufacturers or residential rental companies.
It is not clear whether this new tax rate applies to the entire 2018 income year or will be prorated from 1 October 2018. It is hoped that the new Tax Administration and Management Information System (“TAMIS”) would be configured to handle these changes.

The proposed change in the corporation tax rate from 25% to 30% will have an impact on the foreign currency earnings credit (“FCEC”). Using the highest available foreign currency earnings credit of 93%, the effective tax rate for companies will increase from 1.75% to 2.1%.

**Personal Tax**

Also announced were changes to the personal tax regime, effective July 1 2018, with the introduction of a new tax band from $75,001 of assessable income to be taxed at the rate of 40%.

Following this change, the personal tax bands, and corresponding rates will be as follows:

<table>
<thead>
<tr>
<th>Income (BDSS)</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 to 25,000</td>
<td>0.00</td>
</tr>
<tr>
<td>25,001 to 60,000</td>
<td>16.0%</td>
</tr>
<tr>
<td>60,001 to 75,000</td>
<td>33.5%</td>
</tr>
<tr>
<td>Over 75,001</td>
<td>40.0%</td>
</tr>
</tbody>
</table>

The calculation\(^2\) following shows the effect of the new 40% tax rate and the increase in National Insurance payments through the implementation of the new Health Service Contribution.

This calculation assumes an annual income of $150,000 and the deductions for two children, a spouse and charitable donations.

Based on the calculation –

- the total additional income tax payable is $4,225 per annum;
- the increase in NIS contributions is $558 per annum; and
- the effect is therefore an overall reduction in disposal income and an increase in the monthly taxes payable of $398.58.

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\(^2\) Please note that this calculation represents the effect of the change in respect of a full income year, and not the transitional period (i.e. 2018).
### PERSONAL TAX CHANGES

<table>
<thead>
<tr>
<th></th>
<th>Previous</th>
<th>PROPOSED CHANGES</th>
<th>INCREASE/DECREASE</th>
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<td><strong>EMPLOYMENT INCOME</strong></td>
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<td></td>
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<tr>
<td>Annual Salary</td>
<td>150,000.00</td>
<td>150,000.00</td>
<td>0.00</td>
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<tr>
<td><strong>TOTAL INCOME FROM EMPLOYMENT</strong></td>
<td>$150,000.00</td>
<td>150,000.00</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>ALLOWANCES</strong></td>
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<td></td>
</tr>
<tr>
<td>Personal allowance</td>
<td>(25,000.00)</td>
<td>(25,000.00)</td>
<td></td>
</tr>
<tr>
<td>Child allowance- 2</td>
<td>(2,000.00)</td>
<td>(2,000.00)</td>
<td></td>
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<tr>
<td>Spouse allowance</td>
<td>(3,000.00)</td>
<td>(3,000.00)</td>
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<tr>
<td><strong>TOTAL ALLOWANCES</strong></td>
<td>(30,000.00)</td>
<td>(30,000.00)</td>
<td></td>
</tr>
<tr>
<td><strong>ASSESSABLE INCOME</strong></td>
<td>$120,000.00</td>
<td>$120,000.00</td>
<td>0.00</td>
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<tr>
<td><strong>DEDUCTIONS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Donations to Registered and Exempt charities</td>
<td>(5,000.00)</td>
<td>(5,000.00)</td>
<td></td>
</tr>
<tr>
<td><strong>TAXABLE INCOME</strong></td>
<td>115,000.00</td>
<td>115,000.00</td>
<td>0.00</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Taxable Income</th>
<th>TAX PAYABLE</th>
<th>Taxable Income</th>
<th>TAX PAYABLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>35,000.00</td>
<td>16.0% $5,600.00</td>
<td>35,000.00</td>
<td>16.0% $5,600.00</td>
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<tr>
<td>80,000.00</td>
<td>33.5% $26,800.00</td>
<td>15,000.00</td>
<td>33.5% $5,025.00</td>
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<td></td>
<td></td>
<td>65,000.00</td>
<td>40.0% $26,000.00</td>
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<tr>
<td>Annual income taxes payable</td>
<td>$115,000.00</td>
<td>32,400.00</td>
<td>$115,000.00</td>
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</tbody>
</table>

**Annual Health Service Contribution**

- **Annual Insurable earnings**: $55,800.00

**Annual 1% of insurable earnings**: 1.00% $0.00

**TOTAL ANNUAL TAXES PAYABLE**: $32,400.00

**MONTHLY IMPACT**

- **Monthly income taxes payable**: $2,700.00

**Monthly Health Service Contribution**

- **Monthly Insurable earnings**: $4,650.00

**Monthly 1% of insurable earnings**: 1.00% $46.50

**TOTAL MONTHLY TAXES PAYABLE**: $2,700.00
Health service contribution

Measure

The Prime Minister announced the introduction of a 2.5% Health Service Contribution, to be implemented through the National Insurance Scheme (“NIS”), with the view of generating revenue to fund the operation of Barbados’ public hospital, the Queen Elizabeth Hospital (“QEH”). It is expected that the revenue raised from this measure will meet more than 25% of the Budget of the QEH. The 1.5% will be paid by employers and 1.0% will be paid by employees and self-employed persons.

This measure will come into effect on 1 October 2018 and is expected to raise $50 million in one fiscal year.

Commentary

The introduction of this Health Service Contribution will increase the monthly personal statutory deductions of individuals and raise the salary costs for businesses. The purpose of this increase is to help fund the operation of the QEH. The Prime Minister indicated that amendments will be made to the appropriate legislation to ensure that the NIS may forward the collected funds to the QEH directly for the purpose for which it has been collected. This legislative change would be gladly welcomed to ensure the efficient allocation of newly generated revenue to the QEH.

Value Added Tax

Measure

The Honourable Prime Minister announced changes to the current VAT regime which will be effective from 1 October 2018. These changes apply VAT to all online transactions for the purchase of goods and services on which no VAT was previously charged. This proposal seeks to address the global tax challenges arising from digitalization which is in line with the OECD’s objective (Base Erosion and Profit Shifting [BEPS] Action 1) for the taxation of the digital economy.

Commentary

Imported goods are already subject to VAT on the cost, insurance and freight value on entry of such goods into Barbados; customs duties are also applied at this time. If this change to VAT is implemented at the point of purchase, it would exclude the customs duties component and lead to a reduction in VAT collected since, on importation, VAT is applied after customs duties are computed.

We therefore expect that the focus of this change will be on online services (such as Netflix) which are used in Barbados. However the question remains as to how the application of VAT to these services will be administered. The Prime Minister indicated that the necessary change the VAT Act, as well as full guidance, will be put in place so that Barbadian residents will know how this will operate.

Nevertheless, three options exist:

• the Barbados resident making the purchase will pay the VAT; or
• the entity providing the service will be required to account for the VAT; or
• the commercial banks and other financial institutions will be asked to account for the VAT as a surcharge based on a resident’s Credit Card charges (similar to the current 2% foreign exchange commission).

The first option is not viable as the average Barbadian is not a VAT registrant and is therefore not used to paying VAT over to the government. To expect each individual to account for the VAT on their on-line expenditure may be burdensome and difficult to enforce.

In the second option, most online service providers such as Netflix, do not have a physical presence in Barbados on which the BRA can easily impose a requirement.

Asking the Banks and other financial institutions may be the best option, but this gives rise to its own logistical issues.
Greatest among these would be the additional administrative burden to the financial institutions which may lack the necessary detail on the transactions to know if the services are zero-rated or exempt, and how much VAT should be charged as a result.

Many other regional jurisdictions already impose VAT on services imported for domestic or private uses, known as the reverse charge VAT. However, accounting for VAT in this way has been limited to businesses.

Nevertheless, there will be numerous logistical issues associated with the application of VAT as discussed above that will need to be resolved. The Prime Minister might have considered an increase in the already existing foreign exchange commission (“FEC”) in order to achieve the same results, but this would likely have led to an increased cost of imported goods given that VAT is applicable on importation. However, an increase in the FEC would be much simpler to implement and administer. Further consideration needs to be given to the practical aspects of this proposal.

Additionally, in the context of the tourism sector, this proposed change will also have an impact on hoteliers who “import” goods and services to enhance their offerings. Certain luxury goods and services, which might be considered “optional” for the ordinary person, may be categorised as essential in the context of the tourism industry. Hoteliers may therefore be forced to either absorb the cost of importing these goods and services, thereby reducing profits, or pass the cost on to the consumer. Given that Barbados is already a high cost jurisdiction, it remains to be seen whether any resulting increase in hotel rates will dampen the appetite for our tourism product.
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