28 May 2014

Position of the Bahamas Chamber of Commerce and Employers Confederation's Coalition for Responsible Taxation Regarding Tax Reform

In the past week, the Ministry of Finance (the MoF) was provided with the draft reports from Oxford Economics and Ernst & Young, following the economic modelling commissioned by the Coalition for Responsible Taxation (the Coalition) and the Bahamas Hotel and Tourism Association (the BHTA), respectively. The reports now provide empirical information to facilitate informed decision making, and demonstrate the wisdom of the Prime Minister and Minister of Finance in awaiting the results prior to any final decision regarding tax and fiscal reform.

Meetings were also held in the past few days involving representatives of the Coalition, the MoF and the Office of the Prime Minister, including the Right Honourable Perry G. Christie, Prime Minister and Minister of Finance; the Honourable Michael Halkitis, Minister of State for Finance; the Honourable Khaalis Rolle, Minister of State for Investments; and John Rolle, Financial Secretary, and we look forward to follow-up meetings to collaboratively develop a plan of fiscal and tax reform that will have public and private sector support.

At those meetings, the Coalition presented the critical themes that form the basis of our position. Below we present those themes.

KEY RECOMMENDATIONS

A. Tax Reform Must be Accompanied by Fiscal Reform

Given the public discourse over tax and fiscal reform, it is clear that the Private Sector and wider populace are not in favour of any additional taxes, without clear demonstration from the Government of improved expenditure control, tax compliance and accountability. Accordingly, the following commitments are necessary if there is to be consensus from the Private Sector on the introduction of new taxes:

1. The implementation of an act that amongst other things provides limits to capital and recurrent expenditure relative to Gross Domestic Product (GDP), requires comprehensive reporting of projected costs and benefits of planned programmes as a condition precedent, requires a balanced budget and mandates reductions in the national debt and the building of national reserves.
2. The implementation of the Freedom of Information Act, with accompanying legislation to protect whistle blowers.
3. Improved compliance rates regarding existing taxes; while this is a longer term initiative, there must be demonstrable efforts to modernise the processes and imbed greater accountability for a failure to achieve increased compliance and greater penalties imposed on those businesses and individuals found to be evading taxes.
4. Energy reform must be prioritised, with the appointment of a representative from the Private Sector to the committee charged with selecting an appropriate entity with which to enter into a Power Purchase Agreement (PPA) and devising the structure of the PPA.

5. Implementation of the Gaming Act and related reforms, and expeditious implementation of the Government's stated intention to legalise and tax Web Shops.

B. Payroll Tax Can Only Provide Short Term Relief

Given the Government's intention to advance The Bahamas' accession to the World Trade Organization within the next 18 months, a payroll tax will not facilitate the necessary revenues when the reductions in duty rates are required. Accordingly, this tax alternative is only a short term measure and thus may not serve the objectives of the wider tax reform effort and international trade negotiations.

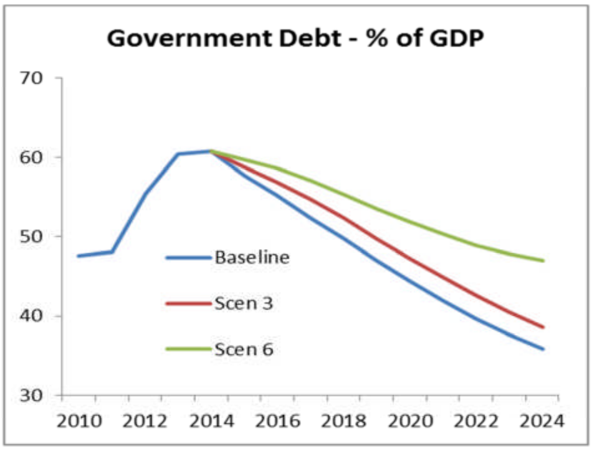
C. VAT at a Lower Rate with Limited Exemptions

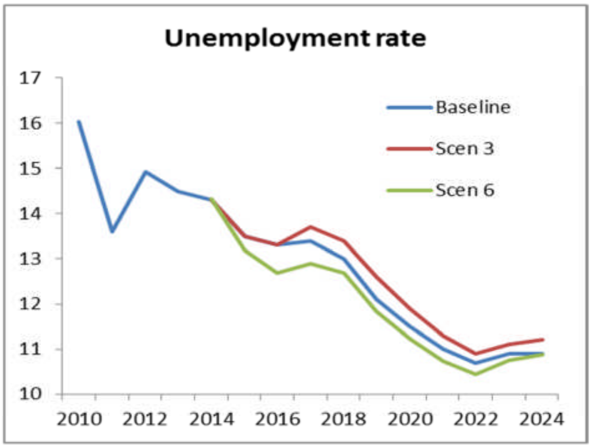
Based on the empirical information obtained, and the wider objectives of tax reform incorporating international trade membership consideration, VAT is broadly accepted as the most appropriate tax alternative in the current circumstances. Should the Government choose this path, the Coalition holds the position that VAT must be implemented at the lowest possible rate with proportionate reductions to duty. Under these circumstances, the tax has the potential to be broadly accepted, and therefore have greater compliance and generate greater revenue than many other inefficient existing taxes such as business license fees, duty or property tax. The Oxford Economics report presents various VAT rate scenarios, and given the stated objective of keeping the rate as low as possible to keep our tourism and other international competitiveness at the fore and to foster continued economic recovery, the Coalition directs the MoF's attention to Scenario 6 (VAT at 5%) and Scenario 3 (VAT at 7.5%); both have narrow exemptions, which allows the tax to be far simpler to administer and thus significantly widens the tax base and revenue potential. However, we highlight that such rates are only viable with expenditure control and improved collection rates in other taxes, which the Government must commit to in order to demonstrate that all sectors, private and public sector and the wider citizenry, must work together to make this happen – the burden cannot fall to any one sector.

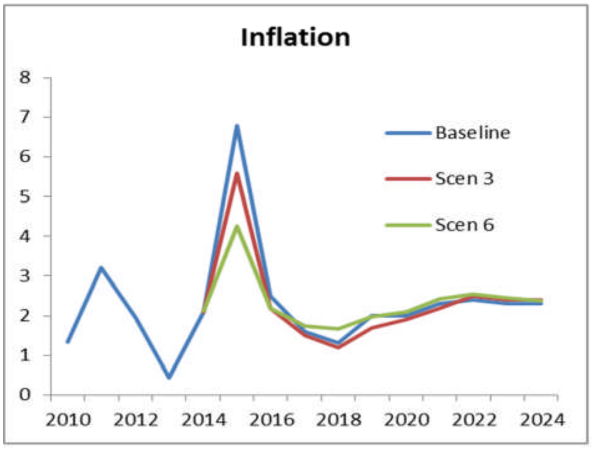
D. Broadened Tax Base and Increased Compliance

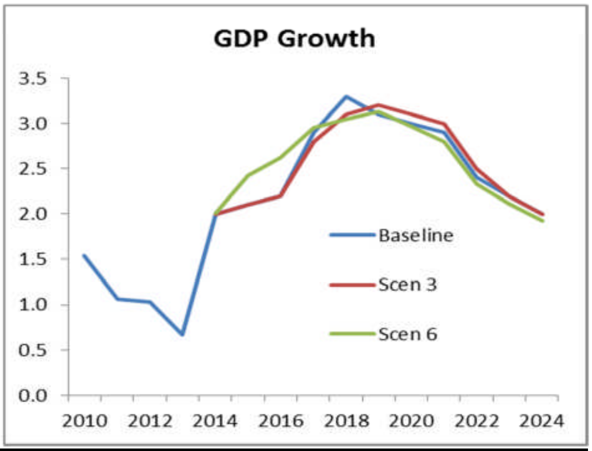
As the tax base is broadened and compliance increased significantly, we recommend that the Business Licence Fees be reduced to half of one percent for all VAT registrants and one percent for non VAT registrants. This tax at current levels based on gross sales is a serious disincentive for businesses to reinvest, which serves to slow domestic investments, GDP growth and employment. It is evident that businesses have already commenced retrenching efforts and ceased investments and have been cutting back on employment due to losses sustained from massive business licence fee increases imposed in the last budget cycle. Reducing this tax will indicate that the Government is concurrently enacting measures to stimulate business development and the economy, and hence increase confidence among businesses.

KEY FINDINGS FROM OXFORD ECONOMICS RESEARCH









		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	10-yr average
GDP growth - % yr																	
	Baseline	1.5	1.1	1.0	0.7	2.0	2.1	2.2	2.9	3.3	3.1	3.0	2.9	2.4	2.2	2.0	2.6
	Scen 3					2.0	2.1	2.2	2.8	3.1	3.2	3.1	3.0	2.5	2.2	2.0	2.6
	Scen 6					2.0	2.4	2.6	3.0	3.0	3.1	3.0	2.8	2.3	2.1	1.9	2.6
Unemployment Rate																	
	Baseline	16.0	13.6	14.9	14.5	14.3	13.5	13.3	13.4	13.0	12.1	11.5	11.0	10.7	10.9	10.9	12.2
	Scen 3					14.3	13.5	13.3	13.7	13.4	12.6	11.9	11.3	10.9	11.1	11.2	12.5
	Scen 6					14.3	13.2	12.7	12.9	12.7	11.8	11.2	10.7	10.4	10.7	10.9	12.0
CPI inflation - % yr																	
	Baseline	1.3	3.2	2.0	0.4	2.1	6.8	2.5	1.6	1.3	2.0	2.0	2.3	2.4	2.3	2.3	2.6
	Scen 3					2.1	5.6	2.2	1.5	1.2	1.7	1.9	2.2	2.5	2.4	2.4	2.4
	Scen 6					2.1	4.3	2.2	1.7	1.7	2.0	2.1	2.4	2.6	2.4	2.4	2.4
Gov't Debt - % GDP																	
	Baseline	47.6	48.1	55.4	60.5	60.8	57.7	55.2	52.3	49.7	47.0	44.4	41.9	39.6	37.6	35.8	35.8
	Scen 3					60.8	58.8	56.9	54.7	52.3	49.8	47.3	44.9	42.6	40.5	38.6	38.6
	Scen 6					60.8	59.7	58.6	57.1	55.3	53.5	51.9	50.3	49.0	47.9	47.1	47.1
Baseline – 15% VAT with original planned exemption structure																	
S3 – 7.5% VAT with minimal exemptions, 4.3% p.a. Gov't expenditure growth and status quo property tax compliance																	
S6 – 5.0% VAT with minimal exemptions, 4.3% p.a. Gov't expenditure growth and status quo property tax compliance																	

KEY FINDINGS FROM ERNST & YOUNG RESEARCH

VAT as originally proposed for the tourism industry at 10% and 15% would have the impacts of:

- 9% increase in the price to tourists, as VAT is applied to a range of goods and services.
- Consumer Price Resistance would result in an 11% reduction in tourist consumption due to a reduction in the number of visitors and lower levels of consumption by those who do visit.
- Corresponding reduction in tourism spending.
- Reduction in Employment Levels with the multiplier effect resulting in a significant loss of jobs.
- Reduction in tourism's contribution to GDP.

Alternatively, reducing the proposed VAT rate on tourism industry businesses and implementing other fiscal reform measures would reduce the negative economic impact of VAT. A lower VAT rate combined with additional revenue and fiscal compliance measures would raise additional revenue for the Government from the tourism sector and have minimal impact on price competitiveness.

OTHER RECOMMENDATIONS

1. Private Sector Leadership on VAT Steering Committee – to assist with the development of Regulations, Guidelines and the review of systems and procedures being put in place to support implementation.
2. Private Sector Leadership on VAT Implementation Committee – to help develop and implement the roll-out and readiness efforts, focused on education, training and technology interfaces.
3. Other Revenue Sources – included in previous recommendations submitted to the MoF.
4. The genuine consideration of having the Bahamas Chamber of Commerce and Employers Confederation (BCCEC) be responsible for the registration of all businesses in The Bahamas, with precedents set in other jurisdictions. This will have the advantage of removing the Government from the unpopular position of closing businesses, despite them operating illegally.
5. Remove inefficient taxes or those that are a disincentive to investment.
6. A Joint Public Relations Effort to promote agreed-on fiscal and tax reform efforts and raise business and consumer confidence.

Robert Myers
BCCEC Coalition – Co-Chairman

Gowon N.G. Bowe
BCCEC Coalition – Co-Chairman