



Our view



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The Minister of Finance and Economic Affairs, the Honourable Christopher Sinckler delivered his second Financial Statement and Budgetary Proposals on Tuesday, August 16, 2011. The Budget was in general a good budget for business, and for some individuals, to the extent that there were no additional taxation measures, but given the current fiscal position and notwithstanding the lack of options available to the Government, the approach may be deemed somewhat surprising.

The forthcoming year will be very busy with consultations with all stakeholders, as was announced in the Budget tonight. This is essential to assist the Government in its move towards achieving a deficit target of 7.2% of GDP, as outlined in its Medium Term Fiscal Strategy (MTFS), and support for strategic initiatives on a "New Economy", renewable energy programs, and tax and regulatory compliance.

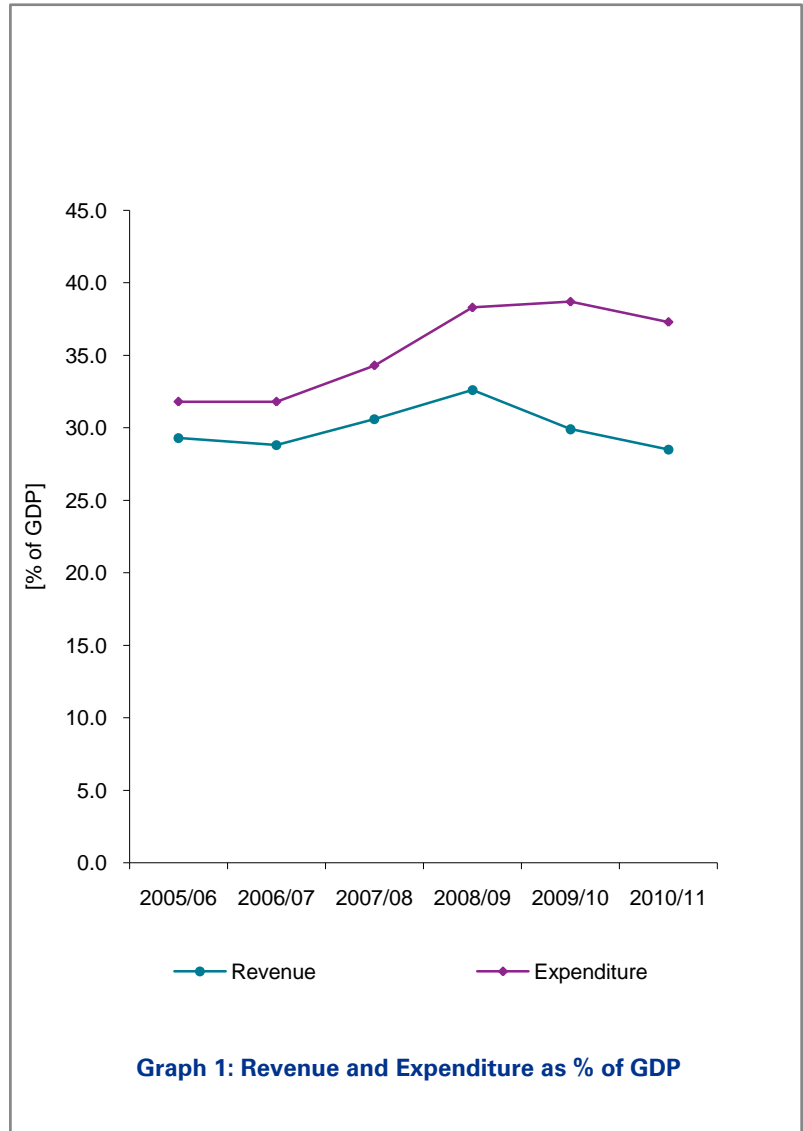
Economic Implications

Theoretically this budget counts as broadly “neutral” since it appears that the main austerity measures were announced in the last budget. But in practice the fiscal stance is anything but neutral.

The fiscal deficit, for the period 2010/2011, was estimated at \$751.1 million or 8.8% of GDP compared to the revised deficit for 2009-2010 of \$702.9 million representing 8.5% of GDP. Preliminary information indicates that current revenue for the fiscal period 2010/2011 was \$2,304.4 million, down 0.2% from the amount recorded for the corresponding fiscal period 2009/2010, and current expenditure increased to \$2,916 million up 3.8% from last year.

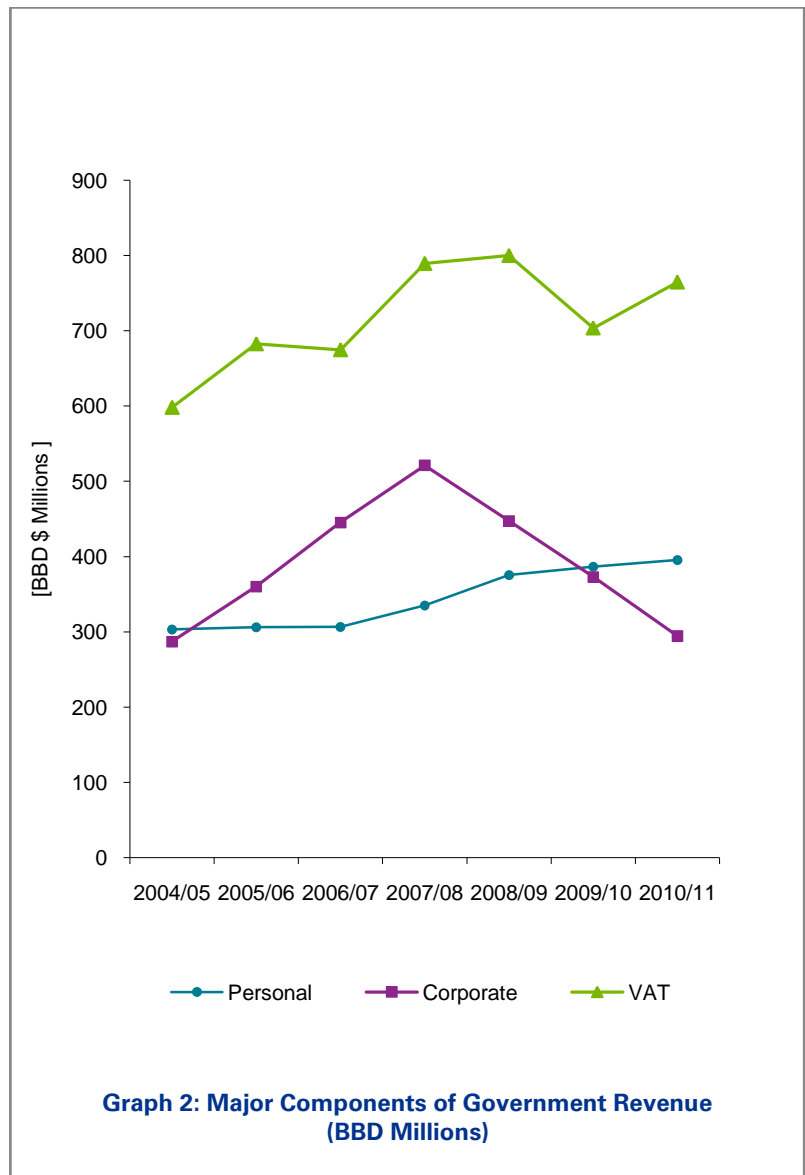
For the period April 1st to June 30th, 2011 the total current revenue was \$584.7 million, an increase of \$43.9 million or 8.1% from the amount recorded for the same period during 2010. Current expenditure, exclusive of amortisation of \$70.0 million, decreased by \$29.9 million from the 2010 figure to \$628.4 million. Total expenditure for April to June 2011 was \$717.4 million compared to \$966.7 million in the corresponding period of 2010.

For fiscal 2011-12, the strategic initiatives are expected to result in a revised deficit of 5.2% of GDP and current revenue of \$2,455.4 million, an increase of 6.6% over the actual out-turn for 2010-11.

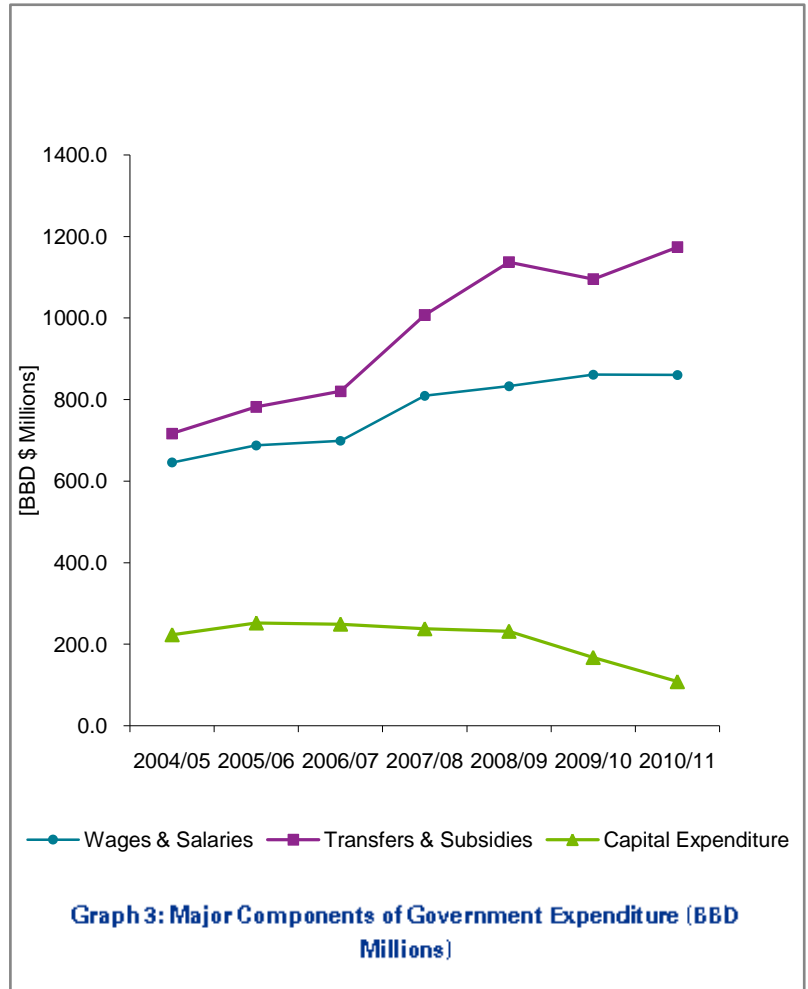


Information provided by the Central Bank of Barbados indicates that the Government revenues continue to decline albeit not at the rate previously experienced. Also increases in Government expenditures appear to have been halted.¹

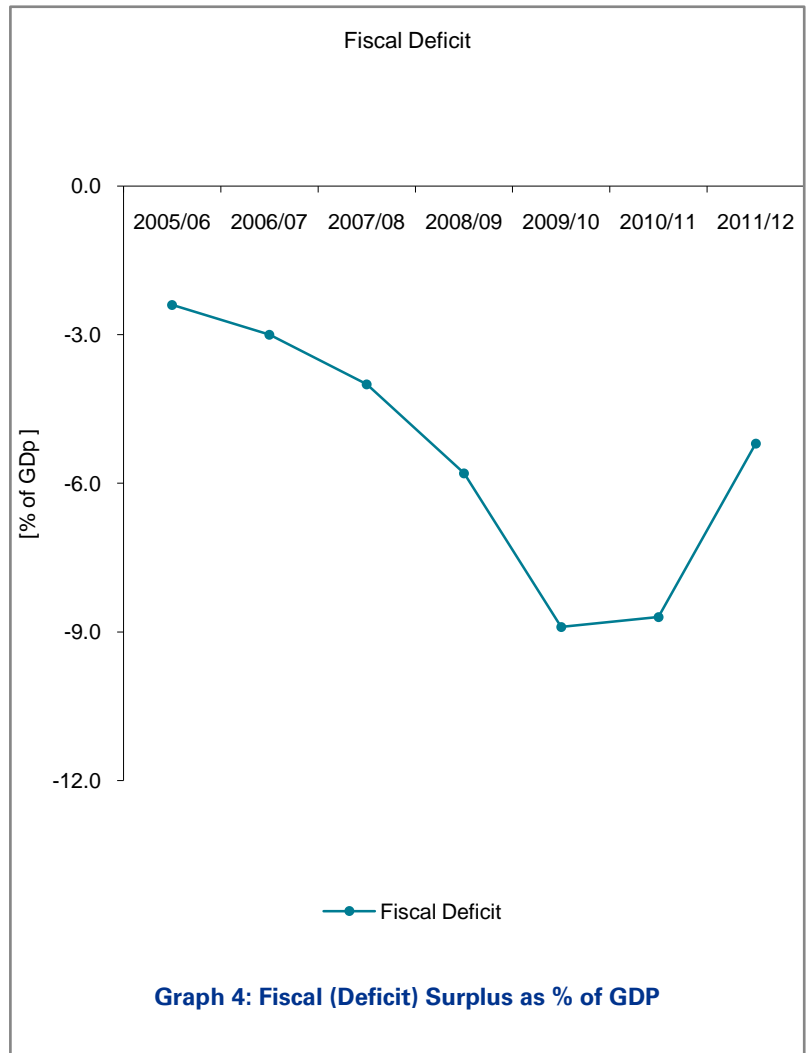
¹ No revised figures were provided for 2010/2011.



The major components of Government revenue continue to be VAT. However, personal tax revenues now appear to exceed corporate tax revenues. This is a worrying trend and is likely to continue in view of the measures proposed. The fall in corporate tax revenue may be directly attributable to the International Financial Services sector which the Minister has considered in his proposals.



On the expenditure side of particular concern is the large contribution from transfers and subsidies where attempts are being made to reduce the amounts.



From the chart it appears that the Government has arrested the deficit and based on the projected results for fiscal 2011/2011, anticipates a further reduction in the deficit as they try to meet the targets of the MTFS.

Public Sector Implications

The Minister's proposed strategy to reduce the deficit in line with its MTF5 focusing on one key ingredient, efficient and well-directed public sector spending by regularly reviewing the efficiency of Government expenditure programmes and seeking where possible to remove wasteful spending, excessive spending due to inefficient and uncoordinated/unshared procedures, reducing cost overruns and improving service delivery.

The Minister is requiring Ministries to review and reprioritise their programmes to help reduce costs by removing programmes no longer needed or not seen as priority, by improving procedures to remove inefficiencies, and by sharing more resources and more procedures between programmes. He is also requesting state-owned agencies to improve their levels of efficiency and rely less on government subventions.

For decades now state owned enterprises have operated well below private companies in productivity. Reducing public spending will not increase efficiency – a radical reform must accompany the cuts. It is hoped that e-government initiatives will continue and the efforts in the National Initiative for Service Excellence (NISE) programmes and others are accelerated.

Allowing the private and voluntary sector to participate in this process is critical. The government has the opportunity to benefit from the latent knowledge and enthusiasm by engaging these organisations in reform by stating the problems and allowing all providers-in-house, private or voluntary – to come up with new, innovative solutions rather than just contracting with them for 'doing the job'.



Corporate & Personal Tax



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It was anticipated that under the prevailing circumstances that Government would not address its fiscal deficit by seeking additional revenues from businesses.

This is consistent with the social framework aimed at maintaining employment. However, there is a need to address non-compliance by businesses to enhance the gathering of information to support global regulatory requirements.

Regarding personal taxes, focus continues to be placed on tax breaks or credits used by individuals.

Corporation tax

Brief overview

There were no corporate tax changes announced in the budget. However, greater emphasis was placed on addressing non-compliance.

Key changes announced at the Budget

Effective tax year 2011, the fee for the late filing of tax returns will be increased from \$100 to \$500.

With immediate effect a conditional amnesty under the Waiver of Interest and Penalty programme offered by the National Insurance Department, the Value Added Tax Division and the Inland Revenue Department will give a 100% waiver of interest and penalty on outstanding tax due to the departments if payment of 80% of the amount due is made in full by a one-off cash payment. This incentive will remain in place until the close of the current calendar year, December 31, 2011.

An increase in the energy conservation and renewable energy deduction from \$5,000 to \$25,000 per year for registered small businesses.

Our view

It is hoped that all efforts will be made and put in place to support these initiatives.

Impact on tax payer			
Positive	Neutral	Negative	Both positive and negative

Summary of proposal

It is hoped that this measure will assist in alleviating some of the pressures regarding exchange of tax information.

The renewable energy deduction is consistent with attempts to seek and encourage use of alternative energy.

Who is affected

Businesses with a serious history with delinquencies.

Small businesses now adversely affected by increasing energy costs.

Timing

Income year 2011

Individual Taxes

Brief overview

There were no changes to personal tax rates announced in the budget. In the previous budget where interest was directed at middle-income earners by way of removal of the travelling and entertainment allowances, attention was now paid to reducing tax refundables by separation of business and employment income such that losses from other business ventures can no longer be offset against taxes payable on employment income. This requirement is consistent with that which currently exists for residential and commercial rents.

Key changes announced at the Budget

In calculating the tax payable of a person for an income year there will be a separation of business and employment income.

An increase in the energy conservation and renewable energy deduction from \$5,000 to \$10,000 per year for individuals.

Our view

Mention was made of individuals in the agricultural sector and it appears that the Minister is suggesting some abuse in the use of losses from this section to reduce employment income. However, previous budgets encouraged initiatives towards “kitchen gardening” and “hobby” farming to reduce high importation of vegetable products. Under the circumstances this appears harsh and sudden. Maybe consideration could have been given to restricting the amount of losses to be applied.

It is unsure whether the \$10,000 deduction per year for renewable energy is only for expenditures in the particular year or if there is a rollover, since such systems usually cost \$30,000.

Impact on tax payer			
Positive	Neutral	Negative	Both positive and negative

Summary of proposal

It is likely that there will be a further increase in personal taxation since the tax collected from the elimination of the business losses is likely to exceed the credits associated with the renewable energy deduction.

Who is affected

Middle income individuals earning employment income and utilising business losses as well as individuals embarking on renewable energy ventures.

Timing

Income year 2011

Taxation of Domiciled Individuals

Impact on tax payer			
Positive	Neutral	Negative	Both positive and negative

The issue

With effect from income year 2010, individuals resident but not domiciled in Barbados were able to reduce the effective rate of tax they would have been required to pay in Barbados on foreign income by claiming a foreign currency earnings credit in respect of income earned outside Barbados. It was felt this credit was restricted to non-domiciled individuals. It is proposed that the credit be extended to individuals domiciled in Barbados in respect of income earned outside of Barbados.

Who is affected

These changes will affect a high net worth, in particular, individuals domiciled in Barbados.

Timing

Effective income year 2012

Our view

The ability for domiciled individuals to bring foreign income and gains to Barbados is an encouraging step.



Land Tax



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Impact on tax payer			
Positive	Neutral	Negative	Both positive and negative

The issue

Recent valuations in properties conducted by the Government has resulted in increases and an expected associated rise in taxes payable. Mindful of the current economic situation and the likelihood of significant increases in land arrears the Minister proposed a revision on the existing tax bands.

Regarding commercial properties eligible for rebates and/or exemptions from taxes, there were concerns that the benefit was being abused.

Who is affected?

Owners of residential and commercial properties.

Summary of proposal

The existing tax bands to be adjusted while maintaining the current rate structure.

For residential properties:

Residential Rates	Improved Value	
	Proposed	Current
0% on first	\$190,000	\$150,000
0.1% on next	\$310,000	\$250,000
0.45% on next	\$750,000	\$600,000
0.75% on excess of	\$1,250,000	\$1,000,000

For Commercial Properties:

To establish criteria for determination of tax rebates.

Land tax rebates to be based on the tax demanded.

A rebate of no more than 50% on the land tax demanded for that year, for properties which can prove that they have engaged directly in the manufacturing activity and those which have been certified by the Division of Energy to be engaged in the production/manufacture of solar energy.

Requirement to have tax clearance certificate from Inland Revenue Department and the VAT office.

Land tax rebates granted on a current basis except entities in the hotel sector and restaurants who can pay in the last quarter to qualify for the rebate.

Timing

Effective this tax year 2011/2012

Our view

The expansion of the tax band is not expected to have an impact on taxes collected by the Commissioner of Land Tax when compared to 2010/2011, but will allow land and home owners to increase in taxes for the next period.



Other Tax and Non-Tax Matters

Waiver of Interest & Penalties Programmes

With immediate effect a conditional amnesty under the Waiver of Interest and Penalty programme offered by the National Insurance Department, the Value Added Tax Division and the Inland Revenue Department will provide for a 100% waiver of interest and penalty on outstanding tax due to the departments if payment of eighty percent (80%) of the amount due is made in full by a one-off cash payment. This incentive will remain in place until the close of the current calendar year, December 31, 2011.

This conditional amnesty will also be available on computations of penalty and interest for all persons who have not filed personal income tax for any period prior to the calendar year 2007. The 5% late fee on taxes payable will be waived under this amnesty, however the flat fee of \$500.00 will be charged for each year of filing.

Value Added Tax

There will be an amendment to the VAT Act to allow the sale of a time share by an Approved Tourism Enterprise to be zero-rated, which will entitle the enterprise to recover all VAT on inputs.

Tourism

Effective January 1, 2012, the duty free concessions offered to the hotel and manufacturing sector on the importation of electric water heaters will be discontinued.

Sporting

With effect from September 1, 2011 all sporting vehicles, equipment and gear temporarily imported for the sole purpose of competitive activities will be exempted from VAT.

Agriculture

With immediate effect a rebate of up to \$5,000 will be provided to farmers who retrofit their livestock housing with the use of solar energy.

The provision of financial assistance for the purchase of three mulch compositors to give fruit and vegetable farmers access to cost effective equipment to be used for the production and application of disease and weed-free organic matter.

Once the Agricultural Development Fund has been recapitalized interest rates applicable to loans will be reduced from 6.5% to 5% over the next three years.

Manufacturing

Effective 1st September 2011, all parts imported into the country for the purpose of assembly of personal computers will be free of all import duties and VAT.

International Business

The introduction of a multi-year licensing application to allow International Business Companies desirous of procuring such a license in one go with an appropriate discount to do so [tentatively] from next year.

Proposals to review and amend, where necessary, legislation to improve facilitation of efficiencies and to develop new products to assist in attracting even more players to our jurisdiction

Withholding tax on Remittances

Effective income year 2012, the taxes that businesses have to pay on remittances to global insurers offering services especially in the cruise industry will be removed.

Junior Stock Exchange

Effective January 1, 2012, SMEs wishing to access equity through an issue of shares shall under the following conditions be exempted from publishing a prospectus:

1. Issues shall be no more than \$5 million Barbados dollars;
2. Issues shall be made to no more than 500 persons;
3. The issuing company must be listed on the Barbados Stock Exchange.

Conclusion

The economic pressures facing the Government appear to have provided little options in addressing the fiscal deficit on a current basis. Indications are that the deficit based on the information provided has stabilized. The Government proposes to embark on strategic moves to increase GDP growth over the next 20 years by focusing on such areas as alternative energy, cultural industries, logistics and sports and health tourism which are expected to drive the earning of foreign exchange. To assist with these broad objectives for economic enhancement, the Minister proposes strategic sectoral reform and initiatives undertaken by a team of external and internal businesses, economic and financial practitioners, to produce an implementable blueprint to triple Barbados' GDP. The Minister is anticipating close collaboration and co-operation from members of the social partnership who have declared a desire to engage and support a bold reform agenda across public, private and civil society sectors in Barbados in order to revitalise the Barbados economy and further deepen our extensive social development network.

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