

Highlights of the 2011 Barbados Budget



Contents

- Brief Overview
- Personal Tax Changes
- Vat Changes
- Business and Other Tax Changes
- We can help

Brief Overview

The Honourable Christopher Sinckler, Minister of Finance and Economic Affairs, delivered the Financial Statements and Budgetary Proposals of the Government of Barbados on Tuesday, August 16, 2011.

The Minister highlighted the fact that even in spite of the Government's previous efforts to increase revenues and contain expenditures, there was every likelihood that owing to the prolongation of the depressed economic conditions globally, regionally and at home, the deficit reduction efforts would fall short of the anticipated target of 7.2% of GDP as was outlined in the Financial Statement and Budgetary Proposals for 2010 and as per the Medium Term Fiscal Strategy. In a continuation of these efforts the Minister has placed strategic emphasis on a new economy, renewable energy programs, tax and regulatory compliance.

Economic Overview

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.

The Minister noted that preliminary information received from the office of the Accountant General indicated that current revenue for the period April 1st to June 30th, 2011 was \$584.7 million, an increase of \$43.9 million or 8.1% from the amount recorded for the corresponding 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 and total expenditure for April to June 2011 was \$717.4 million compared to \$966.7 million in the corresponding period of 2010. However the Minister indicated that the level of debt to be financed of (\$1.026.5 million) was still too high and that there is a need to devise a Strategy to reduce the Deficit in Line with the Medium Term Fiscal Strategy (MTFS).

The provisional fiscal deficit for the period stood at 8.9% of GDP according to the CBB Economic Review for the first six (6) months of 2011. The Minister of Finance alluded to various mechanisms to address this issue. Efforts for the past seven (7) months fell short of achieving the anticipated target of 7.2% of GDP but would likely result in an increase to above 10% in the fiscal year 2010/2011. However, overall economic growth stood at 2.1% at the end of the first half of 2011 which resulted in an improvement to the 0.5 % decline recorded at the end of the second quarter 2010.



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

Adjustments to Land Tax Bands – effective tax year 2011/12

Residential

Measure:

The existing tax bands should be adjusted while maintaining the current rate structure. These will be done as follows:

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

Comment:

Based on the proposal, for properties valued less than \$1 million, there is likely to be a reduction in taxes.

Commercial Land Tax Changes

Effective tax year 2011/2012

Measures:

- 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.

Comments:

This measure is expected to eliminate the incidence of abuse of these concessions and to assist with the Government's effort at increasing tax compliance.

Green Economy Changes

Measures:

An increase in the current allowance from \$5,000 to \$10,000 for Environmentally Approved Products under the Income Tax Act for approved installation of renewable energy infrastructure for individuals and \$25,000 per year for registered small businesses.

The write-off of 150% of costs associated with the conversion to alternate energy over a five year period for businesses whose filings with the Inland Revenue Department and VAT Division and whose compliance with NIS and Land Tax are up to date or who have in place arrangements to settle their arrears

The introduction of a one-off "energy grant" commencing October 1, 2011 up to a maximum of \$5 million.

Comment

This is consistent with the Government renewable energy plan.



Income Tax Changes

Measure:

The increase in the fee for the late filing of the income tax returns from \$100 to \$500.

Comment:

This should encourage compliance with tax filing requirement by professionals and self-employed persons and satisfy international agencies and key Double Taxation Treaty Partners. This will also assist in the accumulation and assimilation of information.

Application of Business losses

Measure:

With effect from tax year 2011, business losses can no longer be offset against employment income for the computation of tax payable.

Comment

The practice to reduce taxes payable from employment income by using losses from other business ventures and incorporating these into other filings will be brought in line with what currently exists for residential and commercial rents.

It appears that this may be a disincentive to hobby farmers.

VAT

Measure:

Effective September 1, 2011, zero rating for VAT purposes of all sporting vehicles, equipment and gear temporarily imported for the sole purpose of competitive activities.

Fees

Measure:

Adjustment to a number of fees notably

- Companies failing to file actuarial reports and financial statements, will incur a penalty of \$500 plus \$100 for each month or part of a month that the fee imposed remains outstanding.
- Reduction for registration of pension plan, a reduction from \$2,500 to \$250.
- Reduction of registration of pension plan for 1 year from \$5,000 to a minimum of \$250

Comment:

This measure is welcomed for small pension plans and regulatory compliance.

International Business

Measure:

The Ministry of Finance has invited the Attorney General's Office to work alongside the International Business Unit to devise a multi-year licensing application to allow International Business Companies desirous of procuring a multi-year license in one go with an appropriate discount to do so.

Comment:

This will reduce the administrative red tape and increase government's revenue.



Agriculture

Measure:

With immediate effect, a rebate of up to \$5,000 will be provided to farmers who retrofit livestock housing structures with the use of solar energy. Expected Loss in Revenue of \$4.35 million over multiple years.

Equipments will be provided as a part of the Tractor Cultivation Scheme under the Ministry of Agriculture, Food, Fisheries and Water Resources for on-lending to farmers at a 'pepper-corn' rate inclusive of insurance of the equipment. The estimated cost for one Mulch Compositor is US\$55,000 or Bds\$110,000 while the cost of one row mulcher or mulch spreader is US\$50,000 or BDS\$100,000.

The interest rate applicable to loans under the Agricultural Development Fund has been set at 6.5%. This will be reduced to 5% over the next three years.

Manufacturing

Measure:

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

Waiver of Interest and Penalty (WIP) Programme

Measure:

Corporations will now be permitted a 100% waiver of interest and penalty on outstanding tax due to the Inland Revenue Department, VAT office and National Insurance Office, if payment of eighty percent (80%) of the amount due is made in full by a one-off cash payment.

Comment:

This should assist Government with the adjustment of the interest and penalties in arrears .

Information Technology

Measure:

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.

Housing

Measure:

Proposed implementation of a “special purpose legislation” with an appropriate Validation Order and Schedule in respect of extensions that are now in breach of the Town Planning Regulations across NHC housing estates. However, extensions started after September 1st 2011 will not be eligible for this programme and will therefore have to seek full permission from the Chief Town Planner.

In February 17th 2011, the Cabinet of Barbados agreed to a formal extension of the twenty year programme. This means that any resident having been a tenant of the NHC in any of its rental estates under the original list of estates, and who meet the eligibility criteria, will now be able to benefit from the programme once they reach the twenty year qualification time.

Other Changes

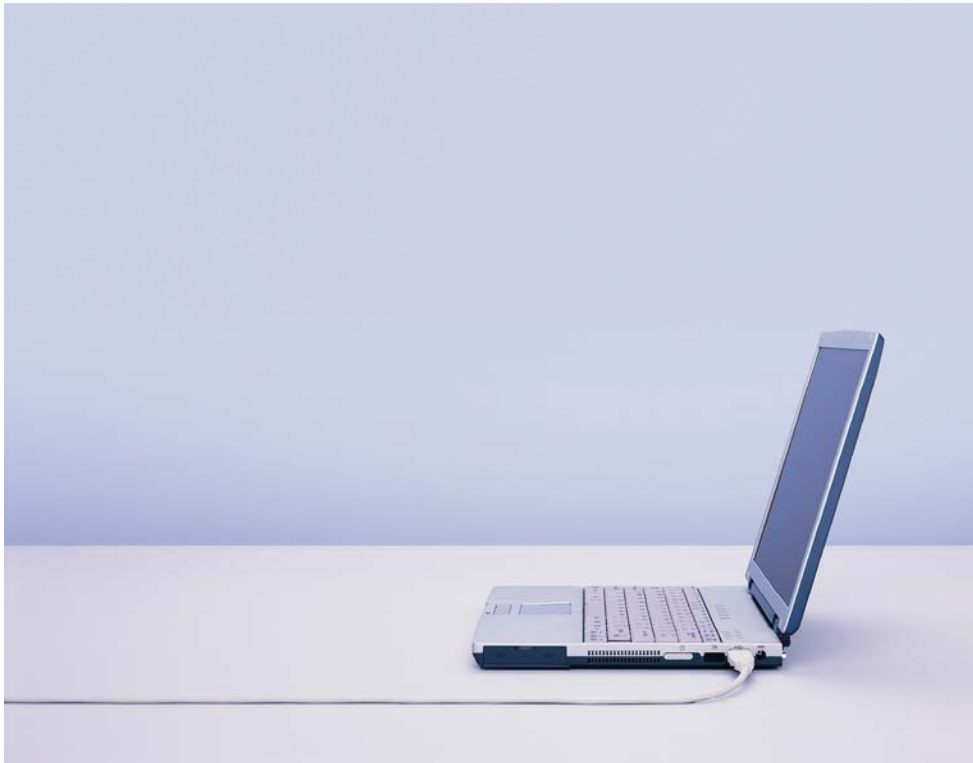
Dematerialisation

With effect from January 1, 2012, the dematerialisation of Government Paper.

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;

- Issues shall be no more than \$5 million Barbados dollars;
- Issues shall be made to no more than 500 persons;
- The issuing company must be listed on the Barbados Stock Exchange. (Junior Stock Exchange)



We can help

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

Information is current to August 16, 2011.

Contact us

Wayne Lovell

Director

T: (246) 434-3928

E: wlovell@kpmg.bb

Marianne Greenidge

Senior Manager

T: (246) 434 3918

E: mariannegreenidge@kpmg.bb

Juan Wright

Manager

T: (246) 434-3913

E: juanwright@kpmg.bb

www.kpmg.bb

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

© 2011 KPMG, a Barbados partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in Barbados.

KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss Cooperative.