

# Tax Newsletter

PRICEWATERHOUSECOOPERS 



November 30, 2005

## Gearing up for growth

The Minister of Finance and Economy presented the 2005 Budget on Wednesday November 30, 2005 setting the stage for the continuation of the comprehensive tax and fiscal reform programs which started in 2004. Before disclosing the proposed reform measures and reporting on the Government's achievement in meeting the objectives of the last Budget, the Minister painted a picture of financial misconduct of the previous administration and the weak fiscal position that the "Sunshine" Government inherited.

An atmosphere of anticipation surrounded this year's Budget for several reasons, including the following:


Firstly, the announcement in September 2005 that the Government would be implementing a VAT type tax (ABST = Antigua and Barbuda Sales Tax) during the second quarter of next year. This in itself is an overly ambitious timeframe considering that the final legislation will not be available until early next year.

Secondly, the Government's previously expressed commitment to fiscal reform and to reducing the overall deficit.

Finally, speculation surrounding the Personal Income Tax Act and the changes that would be made to the definition of assessable employment

### 2006 Budget Highlights - Tax measures

- Introduction of the Antigua and Barbuda Sales Tax (ABST) during the second quarter of 2006 and the repeal of the hotel taxes, restaurant and catering services tax, and the telecommunications tax.
- Revision of the property tax system. Special exemptions to residential property owners on the first \$150,000 of owner occupied property.
- Incentives for accommodation for World Cup Cricket 2007.
- Allowable deduction for mortgage interest and contributions to private pension plans.
- Decrease in the CST by an additional 2.5% from 5% on the basket of goods; addition of a number of other items to the basket with a reduction of the CST from 10% to 2.5%.
- Placement of the basket of essential goods on the list of price controlled goods.
- Reduction in the stamp duty on the transfer of property from a parent to a child with a value of less than \$500,000 from 10% to 2%.
- Senior citizens over 60 to be exempt from departure tax.
- Various levels of relief from property tax on properties used for agriculture, in the hotel and manufacturing industry etc.
- Removal of 10% CST on computers.
- Relief for taxi and bus drivers and tour operators.
- Relief for businesses that expand and increase their number of employees.

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income (particularly with respect to allowances and fringe benefits received) and the introduction of a new property tax regime.

In its 2005 budget the “Sunshine” Government articulated some objectives in order to maintain sustainable levels of operations. The objectives included, obtaining a current account surplus of 4% of GDP within 5 years, an overall fiscal balance not exceeding 3% of GDP within 5 years and a debt service ratio of no more than 15% within 5 years. Were these benchmarks to be achieved, the Government anticipated achieving sustained real growth in annual output of no less than 5%, inflation to be contained at no more than 5% annually and full employment in Antigua and Barbuda.

The Minister in his budget reported that the Government is confident of achieving the objectives that were articulated in the 2005 Budget. He reported that the economy of Antigua and Barbuda grew by 5.2% in 2004 and is projected to see economic growth of 5% in 2005 and 8% in 2006. The Minister projected a small budget surplus of \$1,691,094 after removing debt amortization from the category of recurrent expenditure. The budgeted recurrent expenditure is \$580,553,898 and the recurrent revenue is budgeted at \$582,244,992. The budgeted recurrent deficit for 2005 was EC\$86,128,502 when debt amortization was included. The projected recurrent deficit for 2006 on a comparable basis was not provided by the Minister.

Strong gains were reported in the construction, banking and insurance sectors during 2005. The performance of these sectors is expected to continue to drive economic growth in 2006 bolstered by a rebounding tourism sector driven by the build up to World Cup 2007. The gaming sector is also expected to grow significantly in 2006 with 10 new companies scheduled to begin

operations and ultimately employing approximately 500 persons.

A number of additional fiscal measures were introduced as part of the overall reform program to reduce the Government’s deficit. As in the 2005 budget these measures raised a number of questions and the Government has indicated that it will continue to dialogue with the stake holders to ensure that these measures are understood and implemented in a manner that would ensure that the objective of the reform program are met while avoiding any administrative pitfalls by rushing to certain reforms without the appropriate lead time. The major questions coming out of the budget are:

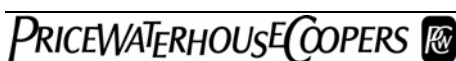
1. “When will the administrative capacity of the Inland Revenue be strengthened to keep pace with the tax reform program”. The Government had promised in the 2005 budget to increase the administrative capacity of the Revenue Authority, however, this did not happen.
2. “When will the Government begin to stem the increase in recurrent expenditures”. We note that the recurrent expenditure for 2005 increased significantly over 2004 and that the 2006 budget projects that it will increase even further keeping pace with the projected increases in revenue.

We now outline below the proposed package of measures by the Government in further detail.

## **PUBLIC SECTOR REFORM/ EXPENDITURE MANAGEMENT**

The following were a prominent part of the Government’s overall reform package for 2005 to rationalize and reduce the overall deficit coupled with the comprehensive tax reform program:

- Reduction in the public service wage bill by 20%;
- Limiting tax concessions to under EC\$100 million;
- Strengthening of the tax collection mechanism; and



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- Reducing the cost of government.

The reduction in expenditures that was anticipated by the Government from these initiatives was not realized.

The Government has now formalized a voluntary severance package which it hopes will achieve the objective of reducing the public service wage bill and Government has pledged that it will continue its efforts to reduce the overall cost of Government.

In relation to the controlling of concessions and the setting of a cap of EC\$100 million on the value of the concessions, no details were given as to value of the concessions granted in 2005. In addition, the question that still remains unanswered is whether the cap applies to new concessions or also to new concessions already granted but not utilized.

Finally, the admirable goals set by the Government in 2005 to rationalize and reorganize the revenue generating departments, to ensure greater efficiency and productivity in revenue collections, and to improve as well the service provided to the general public will have to be achieved in 2006. Some strides have been made, notably the capture of 24,000 parcels of land that were not previously recorded in the property tax registry. However the administrative capacity of the tax collection machine is under-resourced. Therefore the Government will need to make this commitment or expect to lose significant revenues from its tax reform program.

### **Fiscal and Debt Management**

The Minister reported that as a result of the measures employed to enhance revenue generation and control expenditure the Government was able to realize the following:

- a 24% decline in the overall deficit and a 12% decline in the current account deficit in 2004; and
- a 35% decline in the overall fiscal deficit and a 63% decline in the current account deficit for 2005 (as projected).

These gains were reported as being realized as a result of a reduction in disbursements on goods and services and a reduction in debt payments.

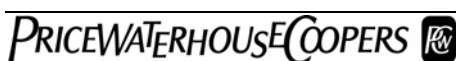
The Minister also reported that significant debt reduction was achieved in 2004 when the Government negotiated EC\$500 million in debt forgiveness. Efforts to achieve further debt forgiveness continued in 2005 and the Government expects that its efforts will improve Antigua and Barbuda's credibility with its creditors.

### **Effect of Oil Prices on the Economy**

The Minister outlined the efforts of the Government to cushion the impact of the sharp increase in oil prices during 2005 through subsidies. He also spoke of the arrangement made with PetroCaribe to purchase oil from Venezuela under an agreement whereby 60% of the cost of the oil would be paid immediately and the remaining 40% financed through a soft loan with a 25 year maturity period, a 1% interest rate and a 2 year moratorium on servicing the debt.

The Government's efforts were a policy decision and a part of its economic and social program to reduce the impact of rising prices on the economy and the general public.

The Government recognizing that the policy was not sustainable discontinued the policy or subsidies in mid 2005 and has allowed the market forces to determine the price at the pump. We now hear from the Minister that in order to establish a more transparent, competitive and effective approach to oil pricing the Governments of the OECS are discussing the adoption of a new pricing structure.



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In the interim the Government is planning to fix the price of fuel at the pump at a price above market while it attempts to establish whether the very recent reduction in the price of oil is sustainable. In other words the tax rate on fuel charged by the Government will increase.

**Comments:** When can we expect a pricing policy decision from the OECS Governments? We recognize that the price per barrel of oil is very volatile and that it would be very difficult to predict whether the recent reduction in oil price is sustainable or not.

Why is the Government now attempting to fix the price of fuel at the pump to recover lost revenue when this was an economic and social policy decision to assist the end consumer? We believe some clarification is required from the Government on this matter and that any price fixing at a level above market should be avoided.

#### **Micro and Small Business Development**

Government proposes to enact a Small Business Development Act. This legislation will establish statutory definitions of micro and small businesses; formalise a system of fiscal incentives for micro and small businesses; establish programs for the provision of technical assistance in areas such as marketing, financial management and the use of best practices; and reserve 25% of all government procurement for qualified small business.

To assist micro and small businesses to obtain adequate security for loans from financial institutions, the Government proposes to establish a micro and small business credit guarantee scheme.

The facilities to be guaranteed will include term loans, overdrafts, letters-of-credit, payment guarantees and contract bonds.

The micro and small business credit guarantee scheme will offer domestic credit institutions protection against losses arising from borrowers defaulting on loans by covering such risks as borrower insolvency and protracted default.

The scheme will assist micro and small businesses in arranging adequate security for loans, increasing working capital, increasing cash flow, expansion and diversification of operations, accessing new technology and increasing sales and profits.

**Comments:** Government should aim to include any reduced tax rate planned for small companies within the Income Tax Act.

#### **The Stabilization Fund**

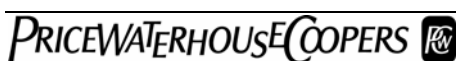
Personal Income Tax was reintroduced in April 2005, as part of the overall reforms of the tax system.

In the first quarter of 2006, a number of persons will file personal income tax returns with the Inland Revenue Department for the first time.

**Comments:** The personal income tax forms have not yet been issued by the Inland Revenue Department. We urge the Inland Revenue Department to have these returns available by December 31, 2005 in order that taxpayers may be able to confirm their understanding of the Personal Income Tax Act and to be in a position to file their returns on or before March 31, 2006.

#### **Reduction of wage cost**

Government reported that efforts to rationalize public sector spending on wages and salaries through the reduction in the Government wage bill by 20% in 2005 were not successful. Government anticipates that the voluntary severance package recently announced should



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significantly achieve its desired objectives in 2006.

**Comments:** Government was late in announcing its voluntary severance package and has not confirmed its position in the event that the workers do not take up Government's offer before February 28, 2006 voluntarily. Government could be more resolute in carrying out its plans and we look forward to Government reporting in Budget 2007 that mission has been accomplished in this area.

It is our understanding that the Government's wage bill grew in 2004 and 2005, however no statistics were provided by the Minister as to the reasons for the increase.

### **Rationalizing Concessions**

The Minister did not provide an analysis of concessions granted in 2005 so there is no way of assessing whether Government complied with its directive.

**Comments:** We are interested in knowing how concessions were granted and how the cap of EC\$100 million is intended to operate. Will it apply to all concessions granted under such legislation as The Cricket World Cup (Visitor Accommodation) Incentives Act, 2005 and the Hotel Aids Act? How will a person who has been granted concessions know when the EC\$100 million limit has been met. Does the cap relate to actual tax relief granted or on tax relief to be granted?

## **INSTITUTIONAL REFORM**

### **Government Accounting**

We understand that the re-engineering of the Treasury and integration of financial accounting software have commenced.

**Comments:** We recommend that Government consider moving to accrual accounting rather than maintain the current system of cash accounting where outstanding bills do not get recognized in the statement of account of the country

### **DEFICIT FINANCING**

Government proposes to issue treasury bills and bonds on the Regional Government Securities Market via the Eastern Caribbean Securities Exchange.

**Comments:** We must question the appetite that regional investors will have for these securities in view of the recent restructuring of debt instruments recently issued by the Governments of Dominica and Grenada.

## **REVENUE GENERATING MEASURES**

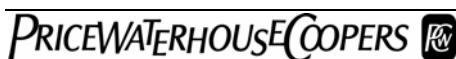
### **Antigua and Barbuda Sales Tax (ABST)**

The Government proposes to accelerate the programme to simplify and rationalise tax policy and tax administration in Antigua and Barbuda by introducing the Antigua and Barbuda Sales Tax (ABST) in the second quarter of 2006.

ABST will replace the Consumption tax, the Hotel (bed-night) Tax, the Hotel Guest Tax, the Hotel Guest Levy, the Restaurant and Catering Services Tax, and the Telecommunications Tax.

It will apply to both goods and services and will be visible so that purchasers will be aware of how much ABST they are paying, and when they are paying it.

This single tax is expected to generate \$157 million in revenue thereby replacing the \$120 million generated by the six taxes that will be replaced. Since the ABST is slated for implementation in the second quarter of next



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year, the revenue from the ABST for nine months in 2006 is estimated at \$130 million.

The replacement of the consumption tax with a value added tax on domestic and imported goods and services is consistent with Free Trade Area of the Americas requirements and will better enable Antigua and Barbuda to meet its obligations under the WTO agreement.

**Comments:** If on November 30, 2005 Government can confirm an implementation timetable of the ABST at the start of the second quarter in 2006, we would have expected more information on the following:

1. The rate(s) of ABST that will be levied (expected to be 15%);
2. The final list of supplies that will be zero rated and exempt;
3. The threshold level at which persons will have to register. The draft legislation makes provision for a threshold level of \$300,000 in taxable supplies to apply to supplies of hotel and holiday accommodation and supplies made by restaurants. No guidance has so far been given for the level that would apply to other persons;
4. The transitional provisions. For instance, wholesalers and retailers need to know if they will be receiving a credit for taxes paid on goods that are in stock at the date of implementation. If no credit is given, Government needs to be aware that this is likely to result in traders running down their stock on which the current taxes would have been paid. This action would result in Government experiencing a reduction in revenue during this period. If this issue is not resolved shortly, the increased level of uncertainty may result in a reduction of business activity since purchasers may feel that they can expect cheaper prices after the introduction of

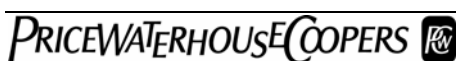
ABST;

Hoteliers will also be concerned about the transitional provisions since contracts with overseas tour operators for 2006 are likely to have been signed since mid 2005. They will need to know if they will be afforded any relief on these contracts if the ABST rate is going to be higher than the rate of taxes they are currently subjected to.

### **Other issues of concern with the introduction of ABST**

We have the following additional concerns over the implementation of ABST:

1. Notwithstanding Government's efforts to consult with all of Antigua and Barbuda on the ABST, in our view the time period for the introduction of ABST in the second quarter of 2006 is too soon. This should be no earlier than 6 months from the date the Government enacts the legislation at which point all persons affected will know clearly what the issues are including the rate, threshold level, transitional provisions and other items necessary for the successful implementation of a VAT regime such as ABST.
2. The proposed filing date for ABST returns of the 15<sup>th</sup> day of the month following the month for which the return is due is too short. We understand that this is being extended to the last working day of the month instead of the 15<sup>th</sup>. This would be a welcomed change.
3. The proposed settlement of refunds is of concern. It is admirable that the Government will allow the offset of a refund due against a liability in a subsequent period. However there may be cases with registrants who are always in a refund position. Such persons should be able to receive their refunds more quickly than is proposed.



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4. The imposition of a reverse charge will result in additional costs being levied on entities operating in the international business sector who will be making exempt supplies. Such entities would never have envisaged such additional costs when establishing their business in Antigua and Barbuda.
5. The Commissioner of Inland Revenue must demonstrate that he has the required staffing levels to meet the demands that will be made of his office in administering the ABST regime. This will require increased staffing levels in the enforcement and technical areas. In fact with VAT regimes being introduced across the region it is time that Governments in the region who will be introducing a VAT regime over the next couple of years consider the establishment of a centralised "back office" where all issues of a technical nature will be cleared throughout the region.
6. There needs to be a Tribunal to hear ABST appeals that is separate from the current Tribunal that is in place to hear matters relating to income and corporate tax.
7. It is proposed that the sale of real property, to the extent that the property relates to residential premises or land attributable to those premises, qualify as an exempt supply. This suggests that all non-residential transfers (commercial) would be subject to both ABST and standard stamp duties payable on property transfers. This would be punitive and in many jurisdictions it is one or the other. In addition, there is no definition of "residential property". In view of the importance of real estate development to the economy of Antigua and Barbuda we urge Government to amend the proposed legislation to avoid situations that give

rise to double taxation and further to consider reducing the ABST rate in relation to property transfers.

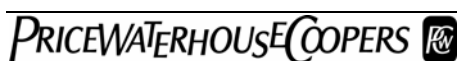
ABST is now a reality and Government needs to recognise that a well planned implementation process will be the key to the success of the ABST regime. We recommend the establishment of a joint working committee of the private and public sector to meet bi-weekly in 2006 to ensure that all concerns are addressed in both the pre and post ABST period.

### Property tax

The property tax system will be revised to ensure wider coverage, more equity in its application and an increase in revenue to the Government. In addition the basis of construction replacement cost will be replaced by market value as the basis for assessing tax liability. Further, the value of a building will be assessed exclusive of the value of the related land.

The key features of the new system are:

- a. The division of Antigua and Barbuda into precincts and districts to ensure better management of tax assessment and collection;
- b. The implementation of a fully computerized system that will facilitate the computation of taxable values, the preparation of valuation lists for public inspection, the recording of tax payments and the automatic generation of delinquency notices;
- c. All real property will be classified into three broad categories: Agriculture, Residential and Other.  
The category "Other" includes property used for commercial, hotel, industrial and recreational purposes;
- d. Codes to determine unit values of lands and buildings in accordance with classification,



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use, location and other relevant valuation factors will be integrated into the new system.

The following exemptions will be granted:

- Persons occupying residential properties that they own will be exempted from paying property tax on the first \$150,000 of the residential property. This will be deducted from the value of the property before the tax is assessed;
- Residential property owned and occupied during two consecutive years by a local pensioner, with the provision that such property was not rented in part or in whole during the year preceding tax year, shall be entitled to a reduction of 50% of the tax ordinarily payable in respect of such property.

There is no relief for taxes assessed on land used for residential purposes.

The following property owners will get the following property tax relief:

- a) 90% tax relief on productive agricultural land;
- b) 25% tax relief for taxable property adopted for use in the hotel industry;
- c) 25% tax relief on property used by manufacturing enterprises;
- d) 50% tax relief on property maintained as a historical site;
- e) 50% tax relief for property maintained for cultural purposes and/or recreation; and
- f) 50% tax relief for property reserved for special public interests, including institutional property.

**Comments:** The upgrading of the property tax structure was previously proposed in the 2005 budget however the proposed change never materialized. The Minister has again proposed to

upgrade the legislation and the property tax structure in 2006 with the updating of the property tax registry. The net effect of the proposed changes is not quantifiable at this time and no timeframe for its implementation was proposed by the Minister. We will also have to await the definition of a pensioner, productive agricultural land, historical sites, institutional property etc.

We would welcome any simplification of the property tax structure. Its success will depend on an efficient and effective implementation and administration which has been lacking in the past. It is disappointing that the Minister did not specify an implementation date.

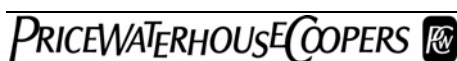
### **Incentives for Cricket World Cup Accommodations**

The Minister outlined in his budget speech the following activities that would be eligible for incentives and relief under The Cricket World Cup (Visitor Accommodation) Incentives Act, 2005 (WCIA):

- The construction and extension of a hotel, guest house, villa, condominium or upscale residential complex; or
- The conversion of an existing building by reconstruction or renovation into a hotel, guest house, villa, condominium or upscale residential complex; and
- Restaurants, night clubs and catering services.

The incentives and relief that would be available are as follows:

- Corporate income tax holiday for a period based on the number of rooms as follows:
  - (a) 50 rooms and under — 15 years
  - (b) Over 50 rooms — 25 years



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- A percentage relief on stamp duty on transfer of land and non-citizens landholding license fees based on the total number of rooms as follows:
  - (a) 50 rooms and under — 50%
  - (b) Over 50 rooms — 100%
- Exemption from property tax for the duration of the period of any income tax holiday granted, or for a maximum of twenty years, whichever is the greater.
- A percentage tax credit against corporate income tax for financial institutions based on the quantum of the investment they fund as follows:
  - (a) EC\$1 million and under — 1%
  - (b) Over EC\$1 million and up to EC\$5 million — 2%
  - (c) Over EC\$5 million and up to EC\$10 million — 3%
  - (d) Over EC\$10 million — 4%

The tax credit would be available to a financial institution only in respect of the tax year in which the investment was made.

- Waiver of all customs duty and consumption tax on the importation of building materials, equipment, furniture, furnishings, appliances, office equipment and vehicles to be used in the construction and operation of the business/corporation for a period to be determined by Cabinet. Customs Service Tax is to continue to be paid by the licensee (applicant).
- The right to repatriate all capital, royalties, dividends and profit free of all taxes (withholding taxes).

The draft Act makes the following stipulations:

- Projects must be completed not later than 31<sup>st</sup> December 2006.
- The project must be used to accommodate or provide services to tourists throughout the period of the tax relief.

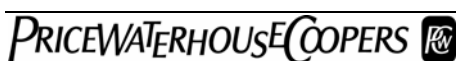
It should be noted that the Minister can revoke all concessions if the stipulations are not complied with and the person receiving the concession will be liable to pay for the exemptions already received under the agreement.

In the event that the Cricket World Cup 2007 is postponed or cancelled, any person who has been granted tax exemption and relief under the Act will continue to enjoy the tax exemptions and relief as if the World Cup had taken place.

If a project approved under the Act is sold or transferred during the tax holiday period but continues to be used for the purpose specified, then the tax relief and exemptions provided by the Act shall continue to apply to the new owner for the remainder of the tax relief period.

Any person interested in obtaining the concessions provided under the WCIA will be required to make an application for a license by June 30, 2006. The application must include the following documents:

- certificate of ownership of the property or existing business for which the license is sought;
- certificate of title to the land to be used for the project;
- the planning approval, if any, for the project pursuant to the Physical Planning Act;
- estimated expenditure and the source of the funds to be used;
- a feasibility study forecasting economic benefits to Antigua and Barbuda and a project feasibility study forecasting the use of the property for tourism after the Cricket World Cup 2007;



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- a certificate from the Commissioner of Inland Revenue stating the applicant's current status in respect of his tax liability to the Government;
- an undertaking in writing that the project would be completed not later than the 31st December, 2006; and
- An undertaking in writing that the project would be used to accommodate or provide services to tourists throughout the period of the tax relief.

**Comments:** While we are in full support of the Cricket World Cup Incentive package and believe that there could be significant economic benefits for Antigua and Barbuda we have several concerns that require clarification:

- The Income Tax Act (ITA) already provides hotels licensed under the Hotels Aid Act with automatic concessions if certain criteria are met in terms of additional room capacity. However, the corporate income tax concessions under the ITA are less generous than those provided by the WCIA. In addition, the WCIA provides for additional concessions. Our concerns are as follows:
  - Will hotels that are currently under construction where completion is expected in 2005 or 2006 and which had already received concessions from Cabinet as stipulated in the ITA be eligible to apply for the concessions provided by the WCIA?
  - If an existing hotel constructs some new rooms will the exemptions and relief provided by the WCIA apply to the entire income and property tax?
  - What are the legal implications of having the same set of concessions under different legislation for the provision of the same service?
  - Will there be any specific relief available in relation to the net income

generated by an unincorporated business? A corporation will be exempt from income tax, however no provision is made in the legislation for any relief for an unincorporated business in relation to net income generated in excess of any salary allocation. Will an individual be required to incorporate to get any relief on surplus income? If this is the case, what are the stamp duties payable on the transfer of the property to a corporation?

- One of the reliefs available under the WCIA provides for the waiver of the consumption tax on imports. No mention is made as to whether there will be a waiver of the ABST which is scheduled to replace the consumption tax in the second quarter of 2006.

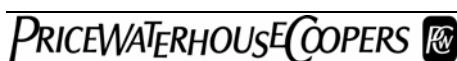
We recommend that consideration be given to replacing the current Hotel Aids Act with a Tourism Development Act that consolidates all tourism development legislation covering all tourism activities and which would include those covered by the WCIA.

## REMOVAL AND REDUCTION IN TAXES

### Increase in the threshold for personal allowances under the Personal Income Tax Act (PIT)

The income tax threshold represents the amount of income an individual may earn in any year of assessment before becoming liable to personal income tax. At present the threshold is EC\$3,000 per month or EC\$36,000 per annum.

The Minister announced that he proposes to "establish mechanisms within the tax system that would allow deductibles in respect of mortgage interest payments and in respect of contributions to private pension plans". The appropriate



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mechanisms to give full effect to this initiative will be established by the Inland Revenue Department in 2006.

**Comments:** The Minister proposed to leave the implementation of this initiative to the already overburdened Inland Revenue Department instead of passing legislation to amend the Personal Income Tax Act which is more efficient. The overriding question here is whether the implementation will be by regulation or by legislation.

In addition, the Minister gave no details as to the application of these allowances and whether there would be limits with respect to mortgage interest or whether contributions to other types of retirement saving plans would also be deductible from assessable income.

It is also disappointing that the Minister did not state a specific implementation date. The Minister's proposals have arisen as a result of extensive feedback that the Government has had in response to the implementation of the PIT. Given that the first assessment period has not yet been completed, we would have thought that the time to implement the amendments to the PIT would be now.

The Minister had advised during 2005 that there would be a moratorium on the taxation of allowances and fringe benefits until January 2006. A committee was subsequently set up to review the position and make recommendations to the Minister in regards to the taxation of these allowances and fringe benefits. We had anticipated some comments from the Minister on this issue given that the first assessment period is almost completed.

### **Reduction in the Customs Service Tax (CST)**

The Minister proposes to reduce in January 2006 the CST on the items in the basket of

essential goods from 5% to 2.5% and to increase the items in the basket of essential goods to include the following:

- Fruits and Vegetables
- All Baby foods
- Over-the-counter Baby medicines
- Baby toiletries, including powder, oil, shampoo
- Baby bottles and feeding nipples, and
- Bottled Water

The CST on these additional items will be reduced from 10% to 2.5%.

In order to ensure that retailers pass on the reduction in tax to the end consumer the items in the basket of essential goods are to be placed under price control.

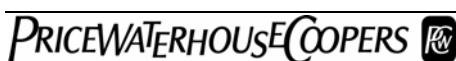
**Comments:** Antigua and Barbuda is a free market economy and restrictions on such a large variety of goods could have a damaging effect on some businesses.

Consumers should anticipate some reasonable savings on the purchase of these essential goods. These savings may however be affected by the introduction of the ABST.

### **Reduction in the stamp tax on transfer of property to a child**

The Minister proposes a reduction in the stamp duty payable on the transfer of property from a parent to a child as part of the Government Social Program.

Currently, a parent wishing to transfer property to a child would have to pay stamp duties equivalent to 7.5% of the value of the property, while the child would face a tax liability equivalent to 2.5% of the value of the property.



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The proposal will allow a parent to transfer property valued at less than \$500,000 to a child for a nominal stamp duty of 2%.

**Comments:** This is a welcomed move by the Government. However no specific timeframe was given for its implementation. We believe that some consideration should be given to the reduction of stamp duty on the transfer of property between a husband and a wife where the transfer is part of divorce proceedings and that all taxpayers should benefit from the reduced rate of stamp duty on the first \$500,000 where the value of the property subject to transfer in such circumstances exceeds \$500,000.

#### **Miscellaneous tax reduction measures**

##### ***Senior citizens exempted from departure tax***

As of January 2006, persons 60 years or older will be exempted from the airport departure tax.

##### ***The CST on computers will be reduced from 10% to 0%***

No timeframe has been given for the implementation of this initiative.

##### ***Reduction in duty and consumption tax for taxi and bus drivers and tour operators***

Every taxi and bus driver and tour operator in the tourism industry will receive a 50% reduction of the duty and consumption tax on batteries, tires and shock absorbers for vehicles used by taxi drivers, bus drivers and tour operators. The implications arising from the introduction of ABST were not addressed.

**Comments:** We applaud the initiative however no details were given as to a timeframe for its implementation and how the system would be effectively managed. The implications arising

from the introduction of ABST were not addressed.

#### ***Tax credits to businesses***

The Minister is proposing a mechanism for providing tax credits to businesses that expand operations and increase levels of employment.

In addition, efforts will be made to formalize a system of tax credits to be granted to incorporated and unincorporated businesses that support the development of education and sports in Antigua and Barbuda and to those business that make contributions to cultural events, particularly Carnival and Independence celebrations.

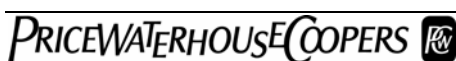
**Comments:** The Minister made no commitment that this tax credit system will be introduced. Our concern with this tax credit system is that it may conflict with other incentive programs already in place for hotels, manufacturers etc.

#### **OTHER ISSUES NOT RAISED IN THE BUDGET SPEECH**

##### **Consolidation of the Income Tax Act (ITA), and the Personal Income Tax Act (PIT)**

We understand that the Government has committed itself to the consolidation of the ITA and PIT by the second quarter of 2006. However, no mention was made in the budget as to the timing of the implementation and whether the tax base will be maintained or if there will be any substantial changes.

We would welcome the consolidation of the ITA and PIT as it would simplify the process, clarify current ambiguities and possibly make the administrative process more efficient.



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In view of the introduction of PIT, we also believe that the following restrictions which are currently a part of the Income Tax Act be removed:

- Restriction on loan interest on loans made by related parties to closely held companies.
- Restriction on rent and compensation paid to related parties.

### **Permanent Resident Scheme**

The purpose of this scheme, which was introduced in 1995, is to offer permanent residence status in Antigua and Barbuda to high net worth individuals wishing to establish residence, and eventually domicile, for tax purposes in Antigua and Barbuda.

An individual that receives a Permanent Resident Certificate is able to freely enter and leave Antigua without restriction. These individuals are not granted an Antiguan and Barbuda passport, but could be considered for citizenship after seven years' residence for existing and potential holders of a Permanent Resident Certificate.

Individuals who have been granted residence under the Permanent Residency Scheme pay an annual levy of US\$20,000 and must maintain a residence in Antigua and Barbuda.

With the introduction of the PIT, the tax status of individuals holding a Permanent Resident Certificate has changed. They would now be subject to personal income tax due to the fact that they would qualify as resident under the ITA. The Government is currently very reluctant to renew Permanent Resident Certificates and they have not made any comments as to their position with regards to the scheme. This matter needs to be addressed urgently to bring some certainty to the issue for existing and potential holders of a Permanent Resident Certificate.

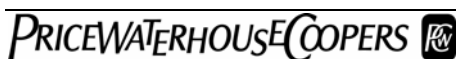
### **Corporate tax rate for banking institutions**

In the 2005 Budget the corporate tax rate for banking institutions that maintained commercial lending rates at or below 10% and residential mortgage rates at or below 8% was reduced to 27.5% from 30% on a one year basis. The Minister did not disclose whether this initiative had been successful or whether it would be continued in 2006.

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