

# 2024/25 Budget review Barbados

18 March 2024

**Resilient Bajans, Resilient Barbados**



# Content

## Table of contents

Budget observations and overview	1
----------------------------------	---

Summary of highlights	2
-----------------------	---

Economic overview	3
-------------------	---

Appendix - Tax reforms as a result of Pillar Two	4
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Building trust for today and tomorrow	5
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Connect with us	6
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# 1

## Budget overview





## Barbados Budget 2024/25 - observations

Starting shortly after 3pm the Prime Minister was quick to announce that there would be no new taxes in the budget. However, it would be necessary to adjust some rates. Those rates later transpired to be the cost of natural gas supplied by the National Petroleum Corporation which the Prime Minister noted was the cheapest commodity and the new rates would also be cheap.

In a wide ranging conversation with Barbados, the Prime Minister set out her budget along three key themes:

- Growing the Barbados economy
- Resilient Bajans, Resilient Barbados; and
- A people-centred Barbados.

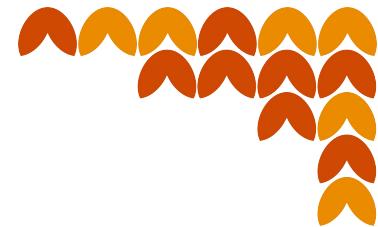
The Prime Minister again called for the country to come together in order for Barbados to achieve sustained economic growth of 4 - 5% and set out fifteen growth strategies. Similar to recent years she has sought to diversify the economy calling for increased exports, the establishment of Barbados as an agro-processing hub, incentives for the film industry, expansion of the deep water harbour, review of tax structures and new investment funds.

In addition to diversification, the budget also seeks to unlock capital and ease investment particularly with respect to unlocking mortgages and unblocking investments in renewable energy. Regarding mortgages, there will be colloquium of stakeholders to address the speed of approvals and also the speed and cost of the legal process. Interestingly, she called out that her own legal profession is in the unusual position of self-regulating its fees.



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# Barbados Budget 2024/25 - observations (continued)



In terms of unblocking renewable energy investments, she spoke of the ongoing challenges presented by delays in regulatory approval, protracted rate hearings and the need for storage facilities in order to expand renewable energy production; calling for new legislation to suit our market rather than copy legislation suitable to larger ones. She also spoke of the Government's preferred option of direct negotiation for storage facilities.

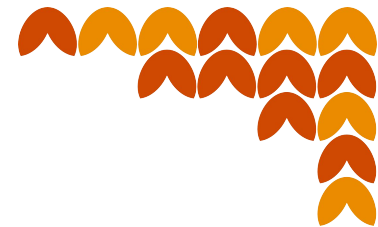
A new tax credit was also introduced for the digitisation and reengineering of existing business processes. Whilst the timeline for project implementation is short, as it comes into effect on April 1, 2024 and projects must be completed by June 30, 2025, it has the potential to kickstart the digitisation of many businesses by alleviating the financial impact of implementation costs.

Capital projects was a familiar refrain in the call for economic growth and the Prime Minister referenced several public and private sector projects including the Indigo and Hyatt hotels on the south coast, the Royalton and Pendry hotels on the west coast, as well as the Pier Head redevelopment. Another area highlighted for growth was the monetisation of derelict public and private sector buildings across Barbados.

Similar to last year there was mention of modern transfer pricing legislation being introduced in the coming year whilst legislative incentives for the film industry first noted last year are now due within the next three months.

On the theme of 'Resilient Bajans and Resilient Barbados', the budget focuses on tax credits for green economy projects, capital works of the Barbados Water Authority, a tax credit for beach rehabilitation, coral restoration and other marine conservation works approved by the Coastal Zone Management Unit; as well as the temporary elimination of VAT and import duties for the residential generators and water pumps and tanks.

# Barbados Budget 2024/25 - observations (continued)



When turning to a people-centred Barbados, the Prime Minister outlined a number of allowances for the police, nurses and teachers together with five personal days for members of the public service. These measures were coupled with support for those with special needs and facilities for the gifted.

Within our summary we've focused on the key fiscal measures including tax credits to encourage investments to both spur economic growth and resilience, by way of incentives for individuals to invest in water tanks, pumps and generators to address the challenges of being a water scarce island and, more recently, issues with the stability of the national grid.

While there would be no new taxes, it has not been long since the Prime Minister announced changes to Barbados' corporate tax regime in response to the OECD's Pillar Two. This will see local corporations other than registered small businesses, insurance companies and international shipping paying tax at 9%, whilst in-scope multinational corporations will be required to pay an additional top up tax to 15%. Draft legislation was recently completed which has seen some additional provisions being introduced including the reintroduction of group loss relief which will be welcomed by many. We have included an appendix outlining these Bills which are still to be passed by the Senate.

Should you wish to discuss the impact of any of the proposed measures on your organisation, please reach out to our Tax and Legal Services team.

I trust you will find this summary useful.

**Ross Parker**  
Territory Leader

# Overview



On 18 March 2024, the Hon. Mia Amor Mottley S.C., M.P., Minister of Finance and Economic Affairs, Culture, Security and the Public Service conducted the Budgetary Proposals and Financial Statements for 2024 where she opened the discussion by outlining the strategic vision for Barbados for 2024 onwards.

In her address, Prime Minister Mottley provided a strategic vision for a sustainable and resilient future which would see all Barbadians benefiting. The Prime Minister continues to challenge Barbadians, the private and public sector, to strive for meaningful change in the way we presently do things and thereby propel the country to a higher GDP growth target of 4-5 percent growth. Essentially, the Prime Minister is asking Barbadians to answer a simple question which is best paraphrased and summarised as “why are we doing this, what are we doing and is this the best way to do it?”.

As of February 2024, the economic performance of the country is promising with GDP growth forecasted at 4% with an overall debt-to-GDP ratio of 114.6% compared to 178.9% in 2018, when the current administration took office. The unemployment level of Barbados is at 8% which is below the historical average of 10.3%. International reserves are at \$3 billion or approximately 33 weeks, the highest levels ever recorded.

The Prime Minister noted that confidence is being restored within the Barbadian economy and is further evidenced by the upgrades received from international rating agencies with regards to the policies and practices enforced/implemented as it relates to the management of the economy. It is with this confidence, the Prime Minister outlined that liquidity support from the international financial community, local, regional and international investors, members of the country's social partnership and the private sector are now lending to the Government of Barbados with less reservations.



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# Overview (continued)



In her presentation, the Prime Minister outlined three themes which will allow Barbados to continue to strengthen and develop; *Growing the Barbados Economy*, *Resilient Bajans* and *a Resilient Barbados* and *A People-Centred Barbados*.

In addressing the first theme, the Prime Minister provided a fifteen (15) point broad outline to achieve the objective identified earlier. The outline included the main areas of:

**Creating Business Barbados** with the aim of providing support to entrepreneurs by including all the necessary services from pre to post incorporation with a seamless process. The aim is to facilitate the ease of doing business in Barbados. This is a theme which has featured in many budget speeches and is admittedly a very difficult topic to resolve.

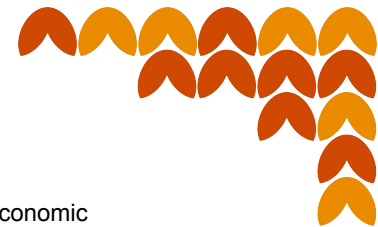
**Increasing public and private sector partnerships** which entails offering a more business-friendly environment, ensuring long-term growth in well-being by prioritising national development projects.

**Digitisation and digital process re-engineering/reorganisation.** The Government is prioritising the widespread adoption of digitisation as a means to enhancing efficiencies in the public and private sectors as it is fundamental to our long-term development. The focus will be on doing it institutionally, in training and educational institutions.

**Unlocking renewable energy investment.** The Prime Minister highlighted that the dire need of obtaining storage within Barbados' energy sector is of critical concern. In order to achieve the goal of 100% generation of renewables by 2030 there are a number of objectives which need to be achieved including changes in Barbados' legislative and regulatory framework and investment in infrastructure, specifically battery storage facilities. A study is shortly to be commenced on the renewable sector. The nation was informed that there is \$500m in renewable energy investment which is being delayed as a result of the changes required in the sector.

**Modernising our tax structure.** Revising our tax treaties will make us more attractive to foreign investment.

# Overview (continued)



The third theme, a **People-Centred Barbados** is focused on the Government's objective of empowering people and providing them with economic enfranchisement. Included within the budget was a discussion on reducing the effects of inflation, improving the provision of health care at QEH, road works remediation, job creation, and education reform.

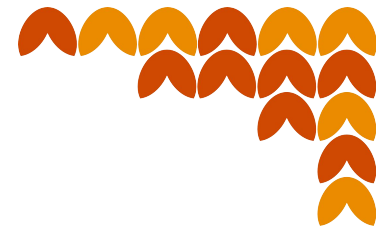
This year's budget was not dissimilar to the budget for 2023/2024. There were a number of medium to long term objectives identified to move the country to the next level of development. Many of these goals will be years in the planning and implementation and the Prime Minister recognised that fact. As the country has emerged from the numerous serious crises faced since 2018, and is now in a state of relative economic calm, it is not surprising that the plan for the future is now focused on envisioning where Barbados will be in the next 5-10 years.



# 2

## Summary of highlights





# Summary of highlights

## 2024/25 Budget selected highlights

12-14

Review of corporate tax rates and introduction of new IP tax regime

15-19

Incentives for individuals, including land tax rebates, VAT reductions and waivers of import duties

20-21

Launch of new state-owned enterprise to promote business facilitation

22-23

Introduction of new tax credits with effect from 1 April 2024

24-25

New framework for granting and regulating tax concessions

# 2024/25 Budget highlights (continued)



## Review of corporate tax regime

The corporate tax reforms announced by the Prime Minister include:

- the creation of a corporate tax rate of 5.5% applicable to resident entities registered under the Small Business Act;
- the creation of a corporate tax rate of 9% applicable to the majority of resident entities;
- the imposition of a 15% top-up tax applicable to resident entities that are members of in-scope MNEs;
- the implementation of Job and Research & Development refundable tax credits; and
- the creation of a the new Intellectual Property (IP) tax regime.

**Our view:** These measures were previously announced in November 2023 and there are presently two Bills before the House to implement them (see the Appendix attached for more details). Barbados' response to the OECD's Pillar Two regime signals its commitment to achieving alignment with international standards. The adoption of the GloBe Rules represents an important step in the evolution of Barbados' corporate tax regime. As an early adopter of the GloBE Rules and with the country's recent removal from the EU Grey List, it is hoped that Barbados will remain a viable destination for global business.

By retaining relatively low corporate tax rates for small and medium sized entities and introducing new tax credits, it appears that the Government is striving to develop a framework designed to cater to small and medium-sized businesses even in the face of global pressure.



# 2024/25 Budget highlights (continued)



## Review of corporate tax regime (continued)

### IP tax regime

The new IP tax regime is effective 1 January 2024. The applicable corporate tax of resident entities that are engaged in qualifying IP business will be calculated in accordance with a new formula. The corporation tax rate applicable to resident entities engaged in qualifying IP business is 4.5%.

**Our view:** IP regimes such as this are commonly referred to as “Patent Boxes” and are commonly used to incentivise research and development. As long as Barbados’ regime is competitive, it could attract IP businesses to relocate to Barbados. It will, however, be important for Barbados to develop or attract people with the necessary skill sets to satisfy the needs of these businesses.

### Other tax matters

In order to remain compliant with international rules and to incentivise our economy, the Prime Minister expressed the importance of revising some of the tax treaties to which Barbados is a party. Furthermore, the Prime Minister expressed the intention of the Government of Barbados to:

- enact transfer pricing legislation in the near future; and
- improve the process for obtaining a tax clearance certificate from the BRA.

The Prime Minister also announced that the Economic Substance Act will be amended to reduce the onerous reporting requirements which are no longer necessary as we have modernised our tax system by adopting the GloBe rules.



# 2024/25 Budget highlights (continued)



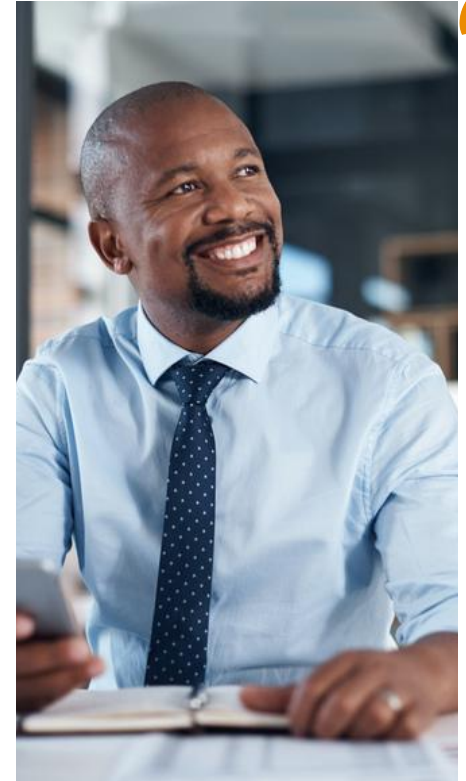
## Other tax matters (continued)

### Review of corporate tax regime (continued)

**Our view:** while being compliant with international rules and off the EU and OECD tax haven lists is key for reputational purposes, the impact of the GloBe Rules on the Barbados economy is a significant unknown.

Transfer pricing legislation has been long promised and will serve to further increase tax transparency of cross-border transactions within multinational enterprises.

Barbados was required to introduce economic substance requirements as a result of its relatively low corporation tax rates. Now that these rates have been increased it is encouraging to hear that the economic substance requirements will be eased.



# 2024/25 Budget highlights (continued)



## 20% land tax rebate due to perennial flooding

### Measures affecting individuals

The Prime Minister rolled out several climate resilient initiatives as part of the Government's Household and Community Resilience Programme. We have set out the proposals below.

Effective 1 April 2024, a 20% land tax rebate will be granted to homeowners on the following conditions:

- the rebate will be on the assessed land tax for residential properties that suffer from perennial flooding and associated damages;
- the home owner must have valid home insurance with flood insurance coverage; and
- there should be at least one flood event during the year in order for homeowners to claim the rebate.

**Our view:** While this initiative is welcomed, we are uncertain as to whether this will assist low income homeowners given the current cost of home insurance.



# 2024/25 Budget highlights (continued)



## Measures affecting individuals (continued)

### Extension of reduced VAT rate in residential light bills

The reduced 10% VAT rate on residential electricity bills will be extended from 1 April 2024 to 30 September 2024. Residential customers will pay only 10% VAT on the first 250 kilowatt-hours of electricity instead of the standard 17.5% VAT rate.

**Our view:** This initiative will benefit the average household where modern lifestyles necessitate that we are “plugged in” for the simplest of daily activities with a savings achieved of up to \$18.75 per month.

### Waiver of VAT on the sale and installation of water tanks

Effective 1 April 2024, a waiver of VAT on the sale and installation of water tanks, septic tanks and electrical pumps for residential properties was granted for two years. Once the water tank installation programme is established and implemented by Barbados Water Authority, households can access and pay via their water bill.

**Our view:** This is a welcome initiative which will allow homeowners the opportunity to acquire water tanks without the upfront cost and is a much needed solution for homeowners who suffer from frequent water outages.



# 2024/25 Budget highlights (continued)



## Measures affecting individuals (continued)

### Waiver of import duties

The Prime Minister proposed to extend the current waiver of import duty and VAT on the purchase and installation of generators at residential homes by an additional two years, whereby homeowners can continue to purchase and install generators and transfer switches, irrespective of the fuel type, fee of import duties and VAT.

**Our view:** This measure was first introduced in 2022 and an extension of the waiver will be welcomed given the frequency of power failures in recent years. In addition, given the increase in severe weather systems during the hurricane season, homeowners would be well advised to invest in an alternative energy source in the event of a catastrophic weather event.



# 2024/25 Budget highlights (continued)

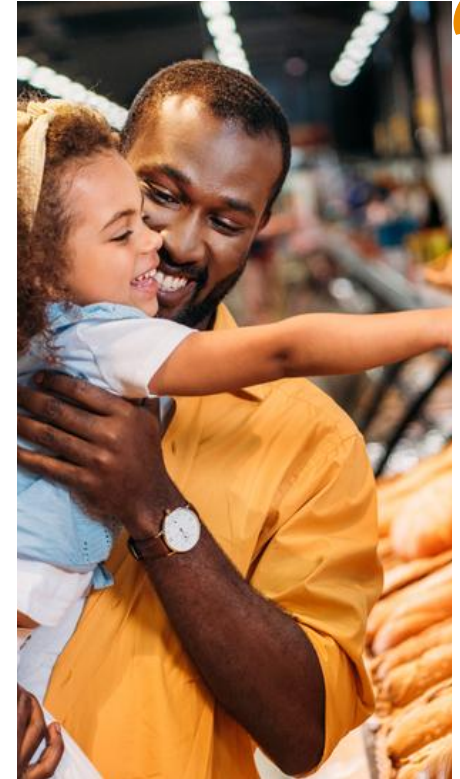


## Social security

### Measures affecting individuals (continued)

The Prime Minister announced that the National Insurance and Social Security Scheme (NIS) has developed a new, easier way for self-employed persons to participate in and be covered by the NIS. The “new way” is intended to cover all properly classified self-employed persons in Barbados. The Prime Minister iterated that self-employed persons only have to make contributions and twice a year the NIS will notify each contributor as to what they are covered for and to what benefits they are entitled.

**Our view:** Further details on the “new and easier way” for self-employed persons to participate in the national insurance scheme were not given. However, any new process that makes it easier to contribute and gives self-employed persons flexibility in making contributions would be welcomed by those individuals.



# 2024/25 Budget highlights (continued)

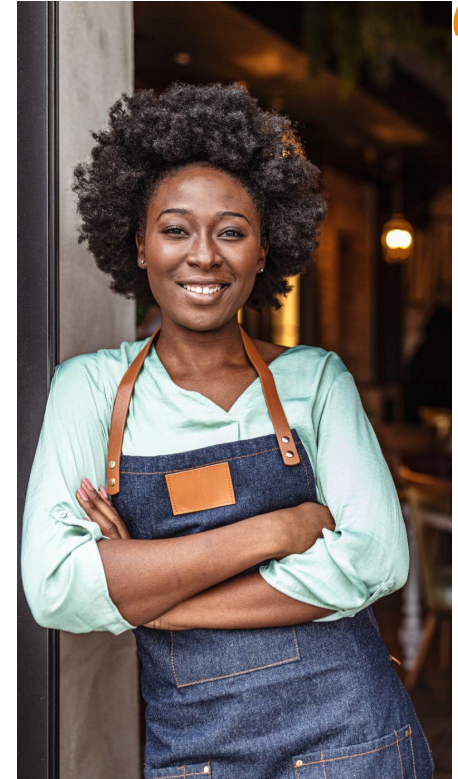


## Minimum wage

### Measures affecting individuals (continued)

Since its inception three years ago, the minimum wage has been set at \$8.50/hr and \$9.25/hr for security officers. The Prime Minister has proposed that this base will be indexed and increased on an annual basis, with a full review every five (5) years.

**Our view:** Given the steady increase in inflation since its introduction, making a provision for an annual increase in the minimum wage would be greatly welcomed by the low-income earners of the population.



# 2024/25 Budget highlights (continued)



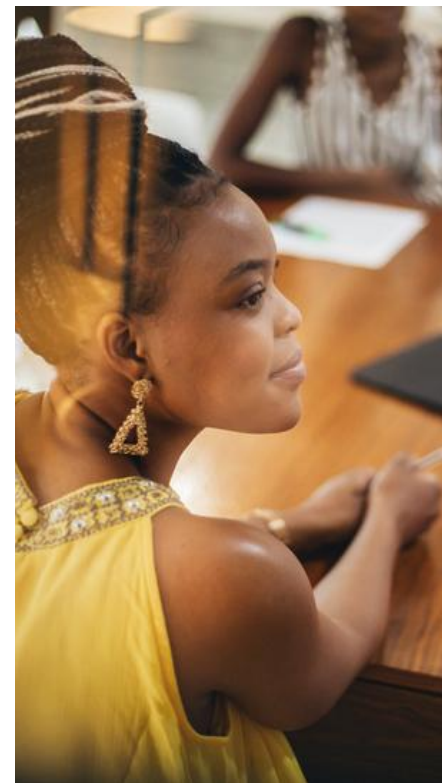
## Launch of a new state-owned enterprise

### Business facilitation

The Prime Minister announced that efforts to launch a new state-owned enterprise to aid in and promote holistic business facilitation in Barbados, are well underway. This new entity, dubbed “*Business Barbados*”, will be tasked with providing a wide range of support to Barbados entities prior to their establishment and throughout their lifecycle. The Corporate Affairs and Intellectual Property Office (CAIPO) will be subsumed into Business Barbados and will operate as two distinct divisions: (i) the Corporate Registry; and (ii) the Intellectual Property Division.

Business Barbados will partner with existing entities such as Invest Barbados and Export Barbados to offer a cohesive and centralised ecosystem to attract new global business, facilitate business establishment, assist entities with ongoing legislative requirements, aid in access to financing and offer dedicated legal support.

The Prime Minister also announced that during the course of this year, the Companies Act will be overhauled and modernised to complement this initiative and to ensure it is fit for purpose.



# 2024/25 Budget highlights (continued)



## Launch of a new state-owned enterprise (continued)

### Business facilitation

**Our view:** The global business sector is Barbados' second largest industry. Ease of doing business is therefore vital to Barbados' ability to retain and maintain its reputation as a respected and attractive domicile for global business. This initiative is both welcomed and ambitious as there are several challenges to be addressed. The Prime Minister did not specify the timeline for the establishment and implementation of Business Barbados, but it is hoped that improvements in business facilitation will be top-of-mind, particularly in the light of the proposed corporate tax reforms.



# 2024/25 Budget highlights (continued)



## Introduction of new tax credits

The Prime Minister proposed the introduction of the following refundable and/or non-refundable tax credits to take effect from 1 April 2024:

- a 25% non-refundable tax credit to boost the 50% research and development tax credit for projects related to the ocean and to the greening of the economy;
- a 50% refundable tax credit for projects resulting in net zero emissions in Barbados;
- a 50% refundable tax credit for investments in projects identified and approved by the Government in the context of the National Development Strategy;
- a 75% tax credit for the provision of educational and life skills facilities for persons with special needs;
- a 50% tax credit for centres for gifted persons;
- a 50% tax credit for the development of elderly care facilities and hospices;
- a 50% tax credit for centres offering artificial intelligence, coding, robotics and digital training;
- a 50% refundable tax credit for the purchase of local art up to \$1m for outfitting of investment projects;



# 2024/25 Budget highlights (continued)



## Introduction of new tax credits

- a 50% tax credit for the development of entertainment and sports venues;
- a 50% tax credit for the construction of laboratories
- a 50% tax credit for beach rehabilitation, coral reef restoration and other marine conservation works approved by the Coastal Zone Management Unit;
- a 100% tax credit for local companies engaged in digitizing and/or reengineering their business processes and upgrading their systems, for use within the same income year on completion with effect from 1 April 2024 to 30 June 2025.

**Our view:** The comprehensive list of tax credits proposed has been designed to stimulate and foster economic growth, enhance public services, improve infrastructure and manage resources effectively for the betterment of the Barbadian society and economy. We eagerly await further details on how these credits will be applied in practice as the distinction between refundable and non-refundable tax credits is quite important..



# 2024/25 Budget highlights (continued)



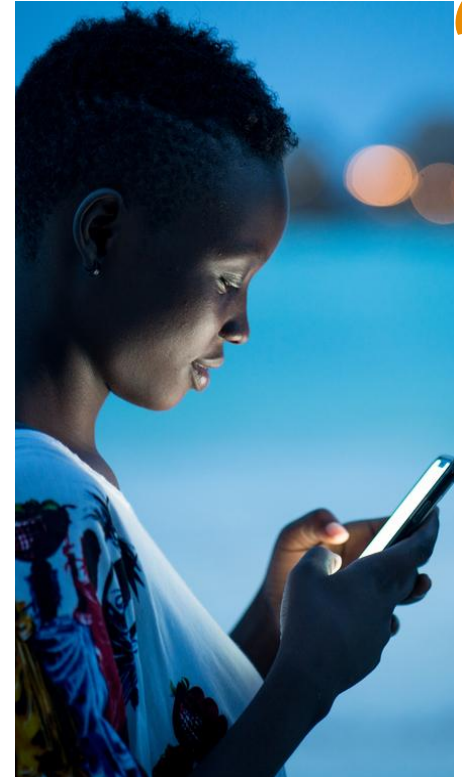
## New framework for granting and regulating tax concessions

The Prime Minister announced that effective 1 January 2025, all beneficiaries of tax concessions, rebates or other exemptions issued prior to 1 January 2005 will be required to re-apply to the Minister of Finance for the grant of concessions.

While applications for concessions will be considered with reference to sector-specific legislative provisions, consideration will also be given to whether applicants are:

- earning foreign exchange;
- depositing foreign currency into the banking system to support the balance of payments;
- creating quality local jobs and training opportunities;
- “greening” their infrastructure;
- digitising business operations, systems and process in the furtherance of public policy initiatives to build resilience; and
- introducing new technology or new business eco-systems.

**Our view:** This continues the conversation from the 2023 budget and the proposed framework is in keeping with Government’s overriding view that all individuals and entities must play their part in contributing to national growth. This initiative seeks to incentivise businesses while simultaneously achieving “buy-in” in specific areas of Government’s broader public policy objectives.



# 2024/25 Budget highlights (continued)



## New framework for granting and regulating tax concessions

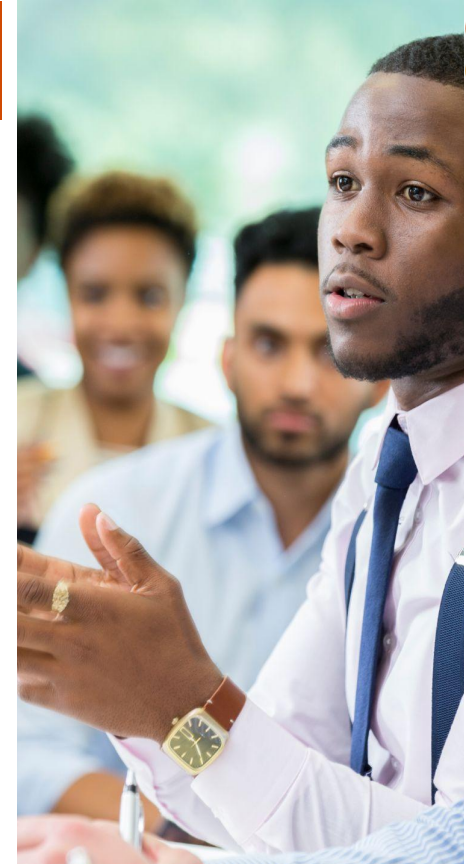
Effective 1 April 2024, the annual aggregate concession levels for new investments will be capped and restricted to a prescribed timeframe for the utilisation of concessions as follows:

Capital expenditures	Timeframe	Max. concession level
Over \$200m	20 years	\$1,000,000
\$100m - \$200m	15 years	\$750,000
\$50m - \$100m	10 years	\$500,000
\$25m - \$50m	5 years	\$250,000

Approved concessions shall be applied against any impost (import duty) on goods, maintenance of equipment and systems required for the operation of the specific project identified in the application.

Applicants will be required to submit to the Barbados Revenue Authority and the Customs and Excise Department, at the beginning of each financial year, their plans for the utilisation of the concession. A Monitoring and Enforcement Unit will also be established to ensure that the public purpose for which concessions are granted is being adhered to.

**Our view:** The Government, quite reasonably, is keen to ensure that businesses honour the commitments made at the time of requesting tax concessions. This new framework for regulating tax concessions, strikes the balance between managing tax expenditures and holding businesses accountable to their stated purposes for which the concessions were granted.





# 3

## Economic overview



# Economic overview



The economy of Barbados has shown signs of rebound with a strong growth rate of 4.4 percent in the first nine months of 2023. The growth is mainly attributable to the growth of the tourism sector, which saw an 18 percent increase in tourist arrivals compared to the previous year. The tourism sector's strong performance reflects the recovery from the effects of the COVID-19 pandemic as arrival numbers resume to the pre-pandemic levels. Inflation in Barbados has been moderating, with a reduction to 4.3 percent as of July 2023 from a peak 6.7 percent in May 2022. This reduction was influenced by lower international fuel prices as well as freight costs. However, some domestic factors, such as drought conditions impacted the agricultural sector though there was an increase in the demand for food and services due to tourism. The result led to higher prices for food-related items as well as domestic services.

This economic rebound has led to higher employment with unemployment claims reverting to pre-pandemic levels.

## IMF Facilities

Barbados has successfully completed second reviews of the International Monetary Fund (IMF) Extended Fund Facility (EFF) along with the Resilience and Sustainability Facility (RSF) which has allowed authorities to draw a further US\$19m and US\$57m under the EFF and RSF respectively. The aim of these funds are to strengthen fiscal sustainability, support the structural reform agenda and build resilience to natural disasters as well as reduce greenhouse gases.

Economic Variable	FY18	FY19	FY20	FY21 (p)	FY22(e)	FY23 (e)	Dec 2023 (p)
Fiscal Balance-to-GDP (%)	-4.5	-0.3	3.5	-4.8	-4.7	-2.0	-0.1
Real GDP Growth Rate (%)	-0.7	0.3	-12.7	-1.3	13.8	4.4	4.4
Inflation (%)**	4.4	3.0	1.7	0.5	1.6	4.9	5.2
Unemployment (%)	11.6	8.9	13.6	10.9	7.2	8.3	8.3
Public Sector Debt-to-GDP (%)	178.90	125.00	113.60	143.60	127.90	116.50	115.50

The above data is for the fiscal year starting April 1 and ends on March 31st

(p) - provisional

(e) - estimated

\*\* - Calendar Year 12-Month-Moving Average

Source: Central Bank Review of Barbados' Economy 2023

# Economic overview (continued)

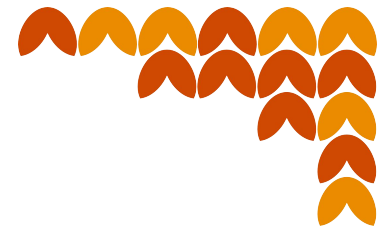
The EFF will allow for the continuation of the structural reform agenda - strengthening of tax and customs administration, as well as Public Financial Management, adoption and implementation of pension reform and the rationalisation and consolidation of State-Owned Enterprises.

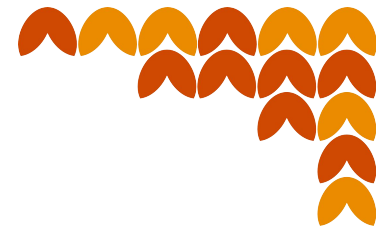
The RSF is meant to assist with the goal of transitioning to a fully renewable-based economy by 2030 which includes measures to incentivize private sector investments in climate resilient infrastructure and into renewable energy projects. Performance under both programs have thus far continued to show strong results; with the EFF satisfying all performance criteria stipulated by the IMF, as well as implementing the requisite structural benchmarks. All reform measures under the RSF have been completed.

Overall, the financial system in Barbados remains stable, with credit to the non-financial sector growing by 1.7 percent. Liquidity levels are high, and interest rates have remained relatively stable due to capital controls.

## Inflation and employment

The unemployment rate stood at 8.3 percent as of September 2023, up from 7.1 percent from the prior period, September 2022. This increase is captured within the agricultural and the administrative services sectors. These job losses were offset by small employment growth numbers within the wholesale, manufacturing, retail trade and utilities sectors. Despite the unemployment rate rising, it continues to remain below the historical average of just over 10 percent to date.

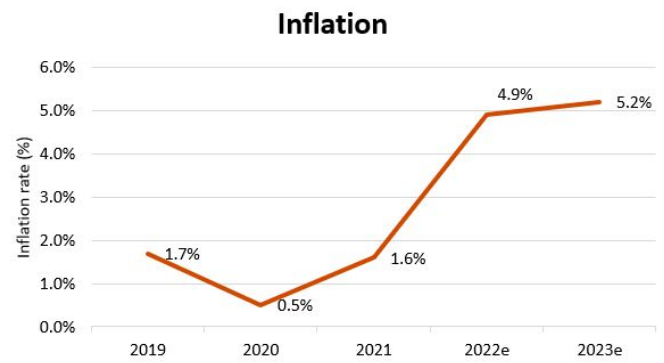




# Economic overview (continued)

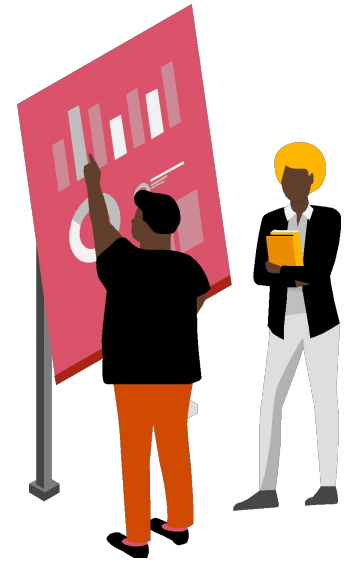
The inflation rate is estimated to have increased to 5.2 percent at the end of 2023, compared to 4.9 percent in the previous year. Volatile international fuel prices are the main contributor and risk to such changes in the country's inflation rate given that conflicts continue to affect global commodity prices.

Domestic factors such as prolonged drought conditions and higher demand for restaurants and recreational activities due to increases in tourism, as well as increased prices for domestic services and food items



Source: (

\*Data represents a 12-month moving average for the calendar year



# Economic overview (continued)

## Economic sectors

Real economic activity expanded by an estimated 4.4 percent in 2023 falling from a high of 18.8 percent for 2022 which was really as a result of emerging from Covid restrictions.

### Tourism

The tourism output accelerated to an estimated 13.2 percent due to an increase in arrivals to the country from major markets such as the United Kingdom and Canada, as well as CARICOM territories. This upward trend is the direct result of enhanced promotional activities, the full resumption of the Crop Over festival and other entertainment or sporting activities, such as cricket.

### Manufacturing

Manufacturing output, more specifically, food and beverage production experienced an upswing growth of 2.6 percent and 3.5 percent respectively. This upswing is mainly attributed to the increases in local entertainment events and the boost in tourism numbers leading to a surge in demand.

### Agriculture

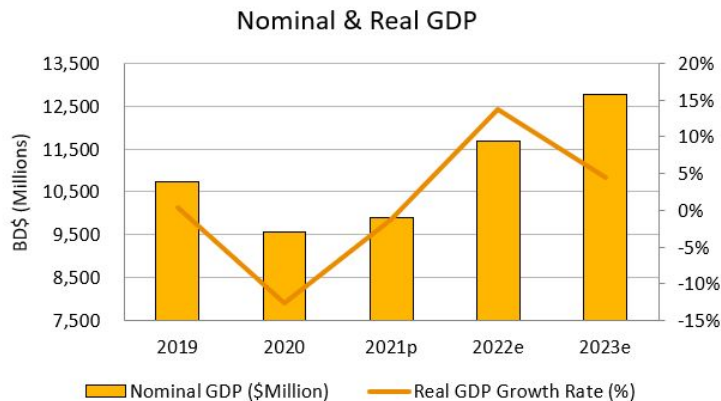
Agricultural output has shown volatile changes throughout 2023. Though a surge in crop production evidenced from an increase by just over 20 percent compared to 2022, the impact of climate-related events such as droughts, led to a dip in production of meat and animal-related products such as milk. Sargassum seaweed continued to impact the fishing sector throughout the 2023 period.



# Economic overview (continued)

## Non-traded Activity

The expansion in tourism led to increases of 4.9 per cent in the wholesale and retail sector as well as 3.5 per cent increase in business and other services sectors. The construction sector also expanded with projects such as the Wyndham Hotel, Indigo, Crane Resort, Apes Hill Villas, the Geriatric Hospital and various improvements by the Barbados Water Authority and road work projects.

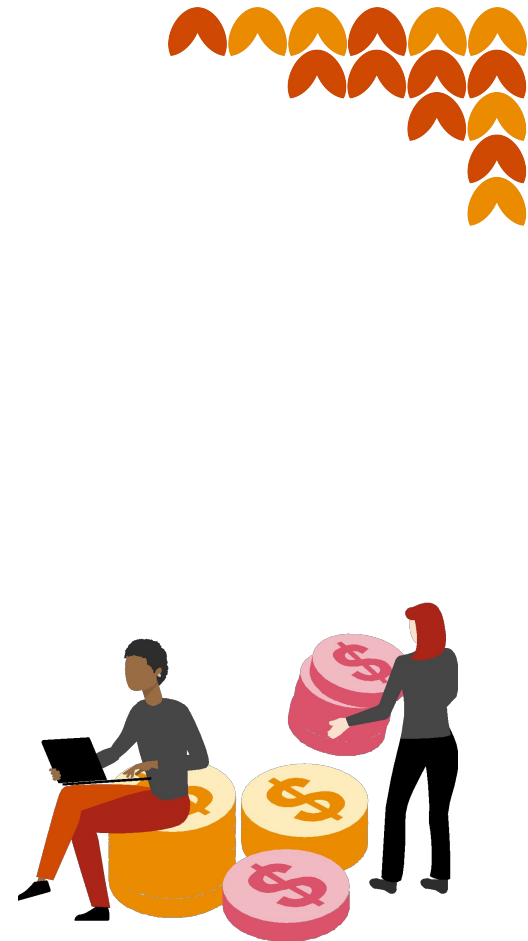


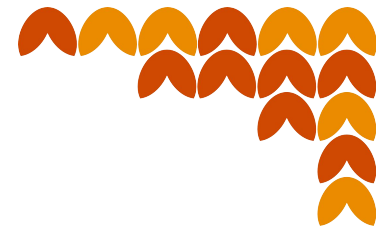
e - Estimated

p - Provisional

\*Data represents a 12-month moving average for the calendar year

Source: Central Bank of Barbados - Review of Barbados' Economic Performance 2023





# Economic overview (continued)

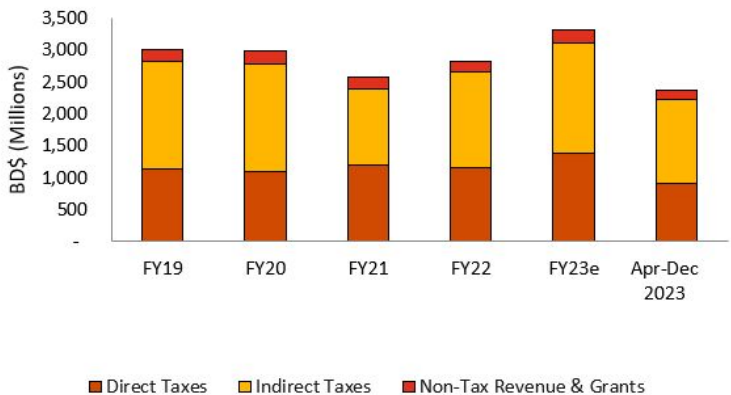
## Fiscal balance

According to the Central Bank, Barbados' fiscal performance for FY 2023 resulted in a primary surplus of \$493.9m or 3.8 percent of GDP and a fiscal deficit of \$9.1m or 0.1 percent GDP. While total revenue for the FY2023 period increased by 17.6 percent, from \$2.8bn in FY22 to \$3.32bn against total expenditure which increased by 7 percent, from \$2.9bn to \$3.1bn. Projected revenue for April to December 2023 was \$ 2.4bn with expenditure of \$2.3bn.

## Revenue Collection

Government revenue primarily consists of direct and indirect taxes and non-tax revenue and grants. Indirect taxes make up the majority averaging 52.8 percent of total revenue over the last five years (2018-2023) with direct tax revenue and non-tax revenue and grants accounting for approximately 41 percent and 7 percent on average respectively over this period.

Composition of Government Revenue



Source: Central Bank of Barbados - Review of Barbados' Economic Performance 2023

# Economic overview (continued)

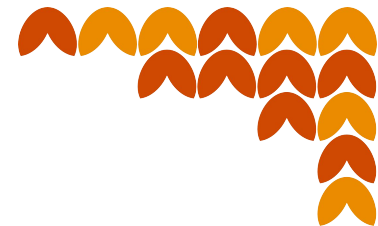
## Indirect taxes

At \$1.7bn, the indirect tax revenue was \$232m or 15.5 percent higher than in FY 2022. This was mainly due to the VAT revenue expansion to \$1bn or a 15.6 percent increase from the previous year, driven primarily by increased activity in the transportation and storage, manufacturing and tourism sectors. For the 9 months to December 2023, indirect tax revenue increased by \$53m or 4 percent compared to the corresponding previous period and was similarly driven by VAT revenue expansion and increases in import duties.

## Direct taxes

Direct tax revenue increased by approximately \$233m (from \$1.15bn to \$1.4bn) in FY 2023. This was largely driven by a 22 percent (\$98.3m) increase in corporate tax receipts and \$88.2m in one-off pandemic levy receipts, previously charged to individuals and corporations.

For the nine months to December 2023 there was a reduction to \$904.5m from \$988.7m. Corporate tax collections saw the biggest drop with a fall of \$54.3m or 15 per cent, due to changes in timing of tax collections. Property tax revenue demonstrated a sharp decline of \$6.9m due to the introduction of a \$300,000 exemption from property values.



# Economic overview (continued)

## Expenditure control

The rise in expenditure was mainly as a result of increases in interest, linked to debt financing, of \$150 (representing 75 percent of the total increase).

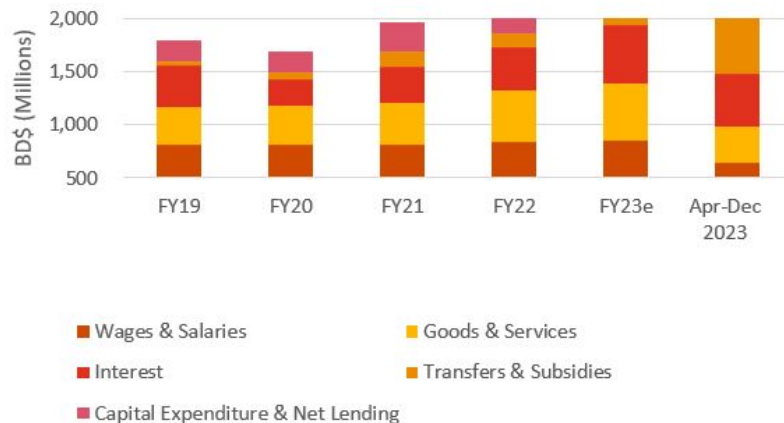
Government expenditure comprises wages and salaries, goods and services, interest, transfers and subsidies and capital expenditure and net lending. From 2019 to 2023, wages and salaries comprise the largest portion of government expenditure averaging 28 percent for 2023. The remaining expenses being grants to public institutions and goods and services accounting for 19 percent and 17 percent respectively.

Rising interest rates on international and domestic debt resulted in increased interest costs for FY2023 of \$89.1m and \$32.3m respectively. Transfers to public institutions increased by \$48.6m, while wages and salaries increased \$17.8m as a result of public sector negotiations concluded in March 2023.

Capital spending totaled \$101.8m with notable expenditures including:

- Barbados Water Authority \$20m;
- Road Rehabilitation \$17.8m; and
- the Ministry of Education \$11.2m.

### Composition of Government Expenditure



Source: Central Bank of Barbados - Review of Barbados' Economic Performance 2023

# Economic overview (continued)

## Government debt

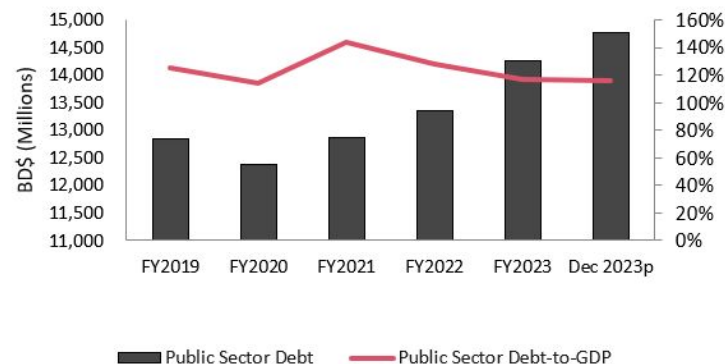
As at December 2023, public sector debt stood at \$14.8bn (115.5 percent of GDP). This is \$713m higher compared to the 2022 debt position of \$14.1bn (120.3 percent of GDP). Although the level of debt increased the ratio improved as a result of growth in the economy.

As mentioned previously, rising interest rates both internationally and domestically resulted in an increase in debt service costs of \$135.1m. Foreign interest expenses accounted for \$89m of the increase. The interest to revenue ratio increased from 15.4 % to 21.3 percent. Amortisation payments also rose by \$13.7m, with both domestic and foreign payments increasing.

The Barbados Government resumed their three-month Treasury Bill issuances, generating \$52.7m in proceeds. In addition to this, the government also received support from the sales of the BOSS+ bonds of \$198.6m and withdrew almost \$392m from Central Bank deposits.

Policy-related loans amounted to \$427m with contributions from the IMF, the Inter-American Development Bank (IADB) and the Export-Import Bank of China. These funds were used for projects related to renewable energy and road infrastructure initiatives. Additional debt funding was made by the IMF under the EFF and RSF programmes.

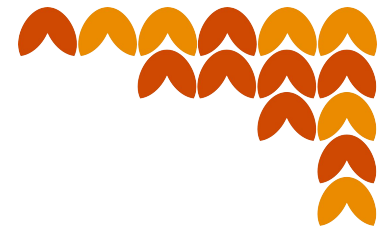
Public Sector Debt



e - Estimated

p - Provisional

Source: Central Bank of Barbados - Review of Barbados' Economic Performance 2023



# Economic overview (continued)

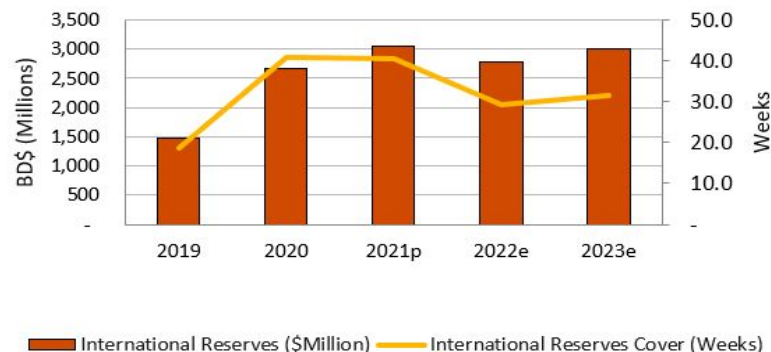
## Foreign exchange reserves

International reserves increased by \$227m to \$3bn at the end of 2023, which is equivalent to just over 31 weeks of import cover. These international reserves were propelled as a result of the increase in earnings due to improved activity within the tourism sector.

Despite the removal of the pandemic levy, the assistance of transaction-based tax revenue (from VAT and import duties) resulted in a primary surplus of \$494m.

The exchange rate peg continues to hold firmly as the Central Bank of Barbados remains committed to implementing monetary policy to sustain macroeconomic stability.

International Reserves & Weeks Cover



e - Estimated

p - Provisional

Source: Central Bank of Barbados - Review of Barbados' Economic Performance 2023

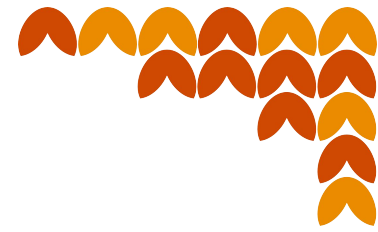


# 4

## Appendix

### Tax reforms as a result of Pillar Two



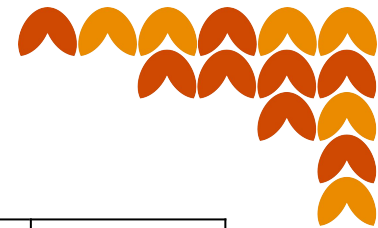


# Tax reforms as a result of Pillar Two

On 7 November 2023, the Prime Minister delivered a Ministerial Statement to the House of Assembly to address international tax developments that will impact corporate entities in Barbados. Following this address, in December 2023, two draft Bills based on the Ministerial Statement, were issued for public consultation. These Bills were subsequently revised to include some of the suggestions arising out of the public consultations. At the end of February 2024, the revised Bills were laid before the House of Assembly.

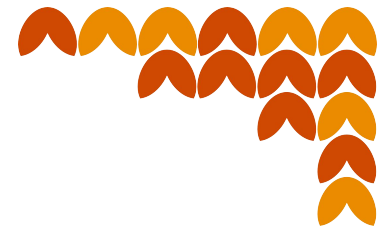
The draft legislation will give effect to various corporate tax reforms by way of an amendment to the Income Tax Act and the introduction of a new Corporation Top-Up Tax Act.

We have summarised the key measures set out in these two Bills on the following slides.



# Tax reforms as a result of Pillar Two (continued)

Key measures arising from the Bill to amend the Income Tax Act	Tax rates 2024	Tax rates 2025
Resident companies that are not members of a MNE group (from 1 January 2024).	9%	9%
Resident companies that are members of an MNE group, with annual consolidated revenue of Euro 750M or more, whose ultimate parent company or intermediary parent companies are located in a jurisdiction which has enacted top-up tax legislation that provides for in-scope MNE groups to pay at least a 15 per cent effective tax rate in each jurisdiction where such groups operate.	9%	9%
Resident companies that are members of an MNE group, with annual consolidated revenue of Euro 750M or more, whose ultimate parent company or intermediary parent companies are located in a jurisdiction which has not enacted top-up tax legislation that provides for inscope MNE groups to pay at least a 15 per cent effective tax rate in each jurisdiction where such groups operate.	5.5% - 1%	9%
Resident companies engaged in international shipping business	5.5% - 1%	5.5% - 1%
Insurance companies holding Class 1, 2 or 3 licences	0% - 2%	0% - 2%
Income earned in Barbados from certain qualifying intellectual property (subject to election)	4.5%	4.5%



# Tax reforms as a result of Pillar Two (continued)

## Key measures arising from the Bill to amend the Income Tax Act

### Group relief

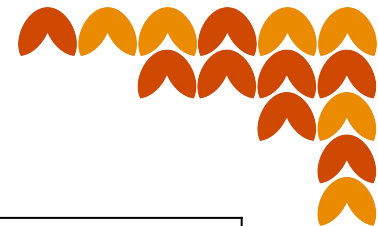
Group relief will be reintroduced from income year 2025. This will allow the current trading losses of a surrendering company to be set off, by way of relief from corporation tax, against the profits of a claimant company whether in whole or in part, if, where throughout their respective accounting periods both companies satisfy the provisions of the group test. The main criteria are as follows:

- Only be available to resident companies that are taxed at 9%;
- There will be a 75% percent subsidiary test;
- Every company seeking group relief must be resident in Barbados; and
- Relief shall not exceed 50% of the amount of tax which would have been payable had the relief not been granted.

### Loss relief

With effect from income year 2025, tax losses will only be available to be carried forward for five income years following the income year in which the loss was incurred.

# Tax reforms as a result of Pillar Two (continued)



## Key measures arising from the Bill to amend the Income Tax Act

### Job credits and Research and Development (R&D) refundable tax credits

Tax credits may be claimed by an eligible company that incurs eligible payroll expenditure after 1 January 2024. The calculation of average payroll costs will be determined on the basis of a sliding scale of 25%-100%.

An R&D tax credit of 50% on qualified expenses will be made available to any entity in Barbados which carries on qualifying R&D activities.

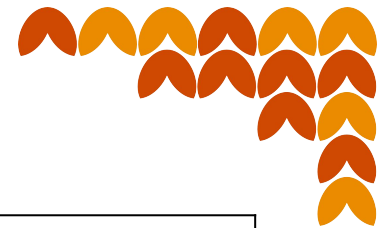
### Prepayments of corporation income tax

#### In-scope MNE Groups

- A company which is part of an in-scope MNE Group, the ultimate parent entity or intermediate parent entity of which is located in a jurisdiction that has implemented top-up tax legislation which provides for in-scope MNE groups to pay at least a 15 per cent effective tax rate in each jurisdiction where such groups operate will be required to make monthly corporation tax prepayments equal to one-twelfth of the tax payable on taxable income for the income year before the preceding income year to be paid, on or before 15 January, 2024 and thereafter no later than the 15th day of each calendar month.

#### All companies

- With effect from income year 2025, every company will be required to make monthly corporation tax prepayments as described above.

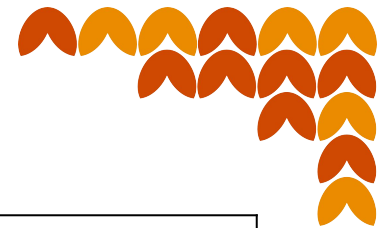


# Tax reforms as a result of Pillar Two (continued)

## Key measures arising from the Corporation Top-up Tax Bill

### Scope of tax

- Top-up tax will be imposed via a Qualified Domestic Top-Up Tax (QD TT) at 15% on constituent entities located in Barbados that are part of an MNE group with annual revenue of EUR 750m and not considered excluded entities. Excluded entities include:
  - a governmental entity;
  - an international organisation;
  - a non-profit organisation;
  - a pension fund;
  - an investment fund that is an ultimate parent entity; and
  - a real estate investment vehicle that is an ultimate parent entity.
- International shipping income and qualified ancillary international shipping income will be excluded from the computation of qualifying income or loss for the top-up tax provided that the qualifying entity demonstrates that the strategic or commercial management of all ships concerned is effectively carried on from within Barbados.
- Exemptions from top-up tax in Barbados additionally apply to:
  - MNE groups that meet the criteria for being in an “initial phase of international activity”;
  - Income year 2024 only, where the income that would otherwise have been subject to the top-up tax is not subject to the Income Inclusion Rule (IIR) or Under Taxed Profits Rule (UTPR) in any other jurisdiction.



# Tax reforms as a result of Pillar Two (continued)

## Key measures arising from the Corporation Top-up Tax Bill

### De minimis exclusion

At the election of the filing entity, the top-up tax due for the constituent entities shall be equal to zero for a fiscal year if, for such fiscal year:

- the average qualifying revenue is less than €10,000,000; and
- the average qualifying income is a loss or less than €1,000,000.

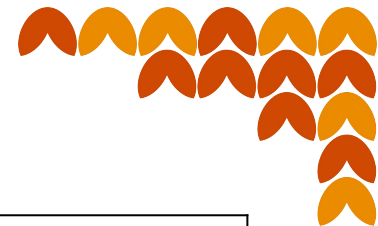
The election for the exclusion must be made annually.

### Transitional CbcR safe harbour

An election may be made such that all of the qualifying entities of the MNE Group are to be treated as not having top-up tax liability if:

- the fiscal year commences on or before 31 December 2026 and ends on or before 30 June 2028;
- a qualifying country-by-country report has been prepared in relation to Barbados for the fiscal year;
- the election has been made in respect of Barbados for each preceding fiscal year that commenced on or after 31 December 2023 in which any member of the group was a qualifying entity;
- at least one of the three tests on revenue threshold, simplified effective tax rate or routine profits levels are met.

# Tax reforms as a result of Pillar Two (continued)



## Key measures arising from the Corporation Top-up Tax Bill

### Filing obligation

- A qualifying entity must give notice to the Commissioner, in the form and manner specified by the Commissioner, that it is such an entity, not later than 12 months after the last day of the first fiscal year that it is a qualifying entity, immediately following a fiscal year for which it was not a qualifying entity.
- An entity that is a qualifying entity for a fiscal year must prepare and deliver to the Commissioner a full and true return for the fiscal year, in the form and with such content and in the manner specified by the Commissioner.

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**The New Equation** speaks to the two most fundamental needs clients and organisations are grappling with today. First is the urgency to successfully respond to, and change, in the face of the major shifts shaping the world: technological disruption, climate change, fractured geopolitics, social tension, and the continuing effects of the COVID-19 pandemic. Second is the need to build trust at a time when it is both more fragile and more complicated to earn.

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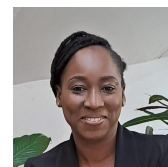
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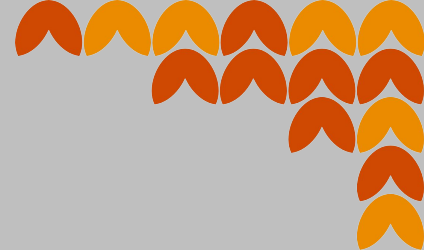
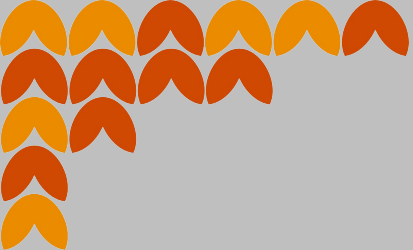


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