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PwC *Insights* Barbados Budget

June 2018



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Reality check

At 11 a.m. on Monday, 11 June, 2018, the Right Honourable Prime Minister Mia Mottley stood to address Parliament in what would be her first budget with many wondering if her pre-election manifesto promises could be delivered against the backdrop of the economic challenges the country is facing.

It's fair to say the Prime Minister is a fan of ripping plasters off quickly! Many would say she didn't duck the difficult issues facing the country. In fact, the only thing she could be accused of misleading the country on, is that this had been labeled a 'Mini-Budget'. After almost two hours on her feet presenting, this budget was anything but 'mini'.

The economic backdrop to this budget was stark. Low foreign currency reserves, high fiscal deficit and even higher debt levels, high public sector spending and on top of that, Prime Minister Mottley also announced that the Central Bank of Barbados had calculated a

0.7% contraction of the Barbados economy in the first quarter of 2018.

That being said, the new Prime Minister has a plan, and it's an ambitious one that aims to put the country back on the road to recovery. In fact, through a focus on promoting growth, restructuring public debt and some fiscal revenue raising measures, she plans to close the fiscal deficit this year and be running a fiscal surplus in three years' time. According to the Prime Minister, this budget addresses phase 1 of a planned three phase programme of much needed reforms, the design of which will reflect strong input from the social partnership.

We understand that public debt is to be restructured and discussions with creditors have already started. This will further improve the country's fiscal position.

Below we analyse the budget by industry and sector groups.

Budgetary proposals in summary



Tourism

The Prime Minister noted that given the maturity of the tourism sector, it was an appropriate time to transition into a public-private sector arrangement for the marketing agency (Barbados Tourism Marketing Inc. or BTMI) and for the product development agency (Barbados Tourism Product Authority or BTPA). It was therefore announced that the Government would be reviewing the governance arrangements with a view to transferring lead responsibility to the private sector for ownership and management of these two entities by 1 October, 2018. The Government would however retain a minority shareholding and a golden share.

In addition to the new governance arrangements, the Prime Minister advised that the BTMI and BTPA would be funded through the introduction of an Airline Travel and Tourism Development Fee of US\$70 for passengers flying out of CARICOM and

US\$35 for travel within CARICOM. The new levy would also raise funding for LIAT and the regulation of Tourism and Civil Aviation.

In respect of the hotel sector, the Government will be increasing the VAT rate from 7.5% to 15% effective 1 January, 2020. In the interim a Room Levy ranging from US\$2.50-US\$10.00 per room per night will be implemented, as well as a 2.5% Product Levy on all Direct Tourism Services. A new 10% levy will also be applied to the shared accommodation sector (such as Air BnB and Home Away).

We believe that these measures facilitate an effective sharing of the financing for the island's tourism sector.



Health & Welfare

The Prime Minister observed that with the cost of public health care continuing to rise at an unsustainable rate given the demographics of Barbados and increased incidences of chronic non-communicable diseases, it will be necessary to undertake a study to identify the most appropriate approach to sustainable long-term financing.

In the interim a 2.5% Health Services Contribution will be established on 1 October, 2018 of which 1.5% will be paid by employers and 1% paid by employees and self-employed persons. The funds will be collected by the National Insurance Scheme (NIS) and paid directly to the Queen Elizabeth Hospital (QEH) where it is expected to cover at least 25% of the hospital's annual budget.

It was also announced that in order to improve the quality of care on the island, Government will upgrade the Accident & Emergency (A&E) department and its equipment at a cost of Bds\$11m. In addition to ease the pressure on the A&E department, two polyclinics will now operate on a 24-hour basis.

The Prime Minister also sought to cushion the impact of the budget measures for the disadvantaged by providing temporary funding of Bds\$5m for poverty alleviation and welfare initiatives.

In addition the minimum non-contributory pension will be increased from Bds\$155 to Bds\$225 per week.

designation of Master Teachers will be introduced. This designation is intended to allow the most effective teachers to be better compensated, ensuring that they remain in the classroom where they have the most impact. The designation seeks to give such teachers the option of focusing on students rather than moving to administration, which is currently the main path to higher compensation.

Cost

The Government has reaffirmed support to those seeking higher education at the University of the West Indies. As of the August/September 2018-2019 semester, tuition fees will be abolished for all undergraduate studies. Costs will also be paid for post-graduate studies by those students with undergraduate upper second class honors and above and for studies in areas of priority for national development.

This investment will increase expenditure by an estimated Bds\$22 million. In return for this significant and important investment, each student will be required to contribute a minimum of 100 hours in approved service to the country. The initiative as outlined has the potential to not only support the continued creation of a strong, skilled workforce to drive the recovery and development of the country, but also to positively impact the society at large through mentoring and other programmes.

Safety

Recent incidents involving schoolchildren have highlighted the need for safer environments in which children can be educated. In response, a scheme has been proposed, initially covering only seven schools due to financial constraints, which will seek to improve the safety at schools, on school buses and at bus stops. This will include the hiring of safety officers, social workers and guidance counselors.



Education

The Prime Minister made strong reference to the commitment of her Government to support the education of the nation's young people. The initiatives put forward seek to address the quality and cost of education available in Barbados, as well as the safety of students.

Quality

In an effort to ensure that the education system benefits from the best teachers available, a new PwC



Public Sector & Infrastructure

The Prime Minister reported that an agreement was reached with labour representatives in the public sector for a five percent across the board increase in wages and salaries for the period 1 April, 2018 to 31 March, 2019.

The Government will also be removing the expenditure of the Sanitation Service Authority (SSA) from its budget and funding the department through a new Garbage and Sewage Contribution to be levied through the Barbados Water Authority (BWA) as of 1 August, 2018. Households will pay \$1.50 per day with \$1.25 going to the SSA and \$0.25 going to the BWA. Commercial entities will contribute at a rate of 50% of their water bill (split half and half between SSA and BWA).

From 1 July, 2018 the Road Tax will be abolished and replaced with a Fuel Tax levied at a rate of Bds 40 cents per litre of petrol, Bds 40 cents per litre of diesel and Bds 5 cents per litre of kerosene. In addition, a new registration fee for purchase of new or second hand private and commercial vehicles was established.

A number of capital projects were also identified for funding:

- Fixing the South Coast and Bridgetown sewage problem with an allocated budget of Bds\$27m;
- Bds\$20m to purchase new buses and repair existing buses for the Transport Board; and Bds\$5m for repairs;
- Bds\$15m to purchasing garbage trucks and tractors for the Sanitation Service Authority;
- Bds\$10m to purchasing equipment for the Ministry of Transport, Works & Maintenance;
- Establishing a rapid roof replacement programme. This will cost a further Bds\$5m;
- Road repairs programme Bds\$25m.



International Business

The international business community may be slightly disappointed that the Prime Minister did not use the opportunity to take action in an area that has been long overdue for government attention. Although she stated passionately that she would “champion and defend the industry”, a chance was missed to state what action would be taken to support the industry against a backdrop of recent international black listings and OECD pressure. Instead, the Prime Minister deferred commenting on

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specific proposals as she is awaiting the report from the private sector task force that has been established to deal with the international business issues. On a positive note, the Prime Minister announced that Bds\$60m in additional tax revenue was expected from international business structures that had been established.



Corporate, personal and other taxes

A new personal tax rate of 40% is being introduced for assessable income above Bds \$75,000.

Corporate tax will be increased from 25% to 30%.

In order to reduce the backlog of taxes, and potentially give a much needed one-off cash injection to BRA, outstanding taxes from 2000-2017 that are immediately repaid or subject to a repayment plan may be made without interest or penalties, with taxes owing from before this time being written off.

Online transactions for the purchase of goods and services by Barbadian residents will be subject to VAT from 1 October, 2018.



Other

As promised in the party’s manifesto, the NSRL will be repealed from 1 July. Whilst this will come at a cost of Bds\$145m, the Prime Minister made the case that this levy was depressing retail activity and causing artificially high inflation. As such, it is hoped that two months after the repeal date, this will lead to a reduction in prices across the Barbados economy.

A commitment has been made to settle debts due to Sugar farmers of Bds\$14.5m over the next 3 years, Bds\$5m of which will be paid this year.

Let's talk

If you have any further questions in connection with the above or would like to explore how these budget pronouncements may impact your business or personal arrangements, please feel free to contact any member of our specialist tax team listed below or your usual PwC contact.



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