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Opportunities amidst economic decline.

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Recommended Revenue Streams

As we face the current economic challenges let us not fall into the trap of failing to recognize and take advantage of the opportunities presented by the downturn.

Revenue collection is a major issue facing the government currently. It is hoped that the just concluded amnesty would have resulted in significant tax collections. However, there is a need to ensure the continued quantification and collection of the taxes due to the State.

This article seeks to enumerate a number of initiatives that can generate quick wins and increase revenue generation in the short term, while the Government continues to do what is necessary to ensure sustained revenue generation and collection.

Out Sourcing Tax Collections – The Board of Inland Revenue is currently understaffed and its scarce resources are stretched to the point where the level of its effectiveness is not optimum. While much of the BIR's activity has, of necessity, to be done in-house and the information collected in the course of its operation kept confidential, there would seem to be merit in outsourcing some aspects of its activity, pending a revamping of the Unit. One area that would seem to lend itself to outsourcing is the collection process. The outsourcing of collections is a measure that has been employed by other State owned agencies and other entities with some measure of success and is worthy of consideration for this purpose as well, with the collectors being paid based on collections.

Electronic payment – It is inconceivable that in 2016, when technology has developed to the point where it is difficult to remember a time when we survived without smart phones, smart televisions, electronic banking and on-line shopping, that we are still obliged to trek down to Trinidad House or other Revenue office and stand in long lines to pay taxes. Even for the most willing among us, this is a major inconvenience and to the unwilling presents a viable excuse for at least deferring the remittance of tax payments. It is way past time that a system is put in place to allow us to remit payments electronically. This is even more critical for overseas based taxpayers, who are now obliged to wire transfer funds into a local account and/or to a local agent for the settlement of their tax liabilities.

USD payment to BIR – GORTT should also put systems in place to allow all taxpayers to opt to settle their taxes in US$ and perhaps other internationally accepted currencies. This should assist with the ease of payment and collection of taxes as well as provide some relief of the current foreign currency availability issue. The BIR may need to work in tandem with the CBTT to publish the rate of exchange to be applied to such payments.

Tax Clearance Certificates – Consideration can be given to the expansion of the tax clearance requirement to encompass all business transactions with the State, i.e. all persons transacting business with the State and / or State agencies can be required to produce a tax clearance. This could include HDC home applicants, applicants for taxi and maxi taxi badges, GORTT landlords and tenants and the like. This will require those persons to comply with their tax obligations, thereby bringing persons who now form part of the informal sector, unto the records to ensure tax compliance, as well as provide a mechanism for the agencies that provide relief based on means, such as the HDC and now GATE, to have a check point for confirmation of the declarations made to them. However, this will only be a viable option if the system of the issue of tax clearances is efficient and reasonable.

Recommended Revenue Streams cont'd…

Data mining – The BIR currently has access to information that can significantly improve its audit and assessment capabilities. It can, for example ascertain whether property such as real estate and motor vehicles have been bought and sold within a 12 month period, which gives rise to a taxable short term capital gain. However, there is no evidence that this information is collated and used to raise assessments and increase the State's tax revenue. Property flipping was rampant in T&T up to a few years ago and there is no indication that the gains generated were subjected to tax. There should be some focus placed on activities such as this if GORTT is to maximize its revenue collection efforts.

Tax Gap Analysis – During difficult times, when a government's revenue collection from its traditional sources is challenged, the tendency is to raise existing, or introduce new, taxes. Our last major foray down that road was the introduction of value added tax in 1990. However, we would caution against a knee jerk reaction in this area, such as the reintroduction of progressive tax rates or other measures that would unnecessarily complicate the tax system and further discourage voluntary compliance. Instead GORTT should seek to determine whether a tax gap exists and if so how it could best be closed. In 2010 the gap was estimated to be between 20 - 40% of the tax capacity. Perhaps the time is right to commission another tax gap analysis, i.e. an assessment of the tax paying population to ascertain the amount of tax currently collected and the sectors within the population, if any, that should bear additional taxes to ensure there is an equitable distribution of the tax burden, without stifling the entrepreneurial spirit, discouraging economic activity or encouraging capital flight.

Go-Green Incentive – Consideration may be given to introducing an environmental tax deduction to be accessible to individuals and companies engaged in recycling (paper, plastics and glass). This will alleviate the burden on waste disposal sites (Beetham, Guanapo, Forres Park and Studley Park), lower the State's expense in waste disposal and significantly reduce our carbon footprint.

Revision of Free Zones Relief – Consideration should also be given to encouraging existing companies to expand into foreign markets by providing them the relief that is currently available under the Free Zones Act to a new entity seeking the same opportunity.

Property Tax – We again advocate the re-introduction of the property tax.

Sporting Allowance – We have just emerged from two significant international sporting events and once again seen confirmation that there is still much to be done in the area of a structured and targeted approach to the development, preparation and organization of our sportsmen for these kind of activities. There are still too many instances of last minute scrambles to secure airplane tickets and funds to cover accommodation, on the ground transportation and sustenance at such event. Perhaps, in addition to the current sporting allowance, which provides a deduction of expenses incurred to support sports persons, consideration should be given to providing an uplift on the allowance for more organized, structured programmes. This may encourage corporate and other sponsors to more fully "adopt" sports persons, much as they do with some steel bands, in a way that will not only see them contributing more funds, but perhaps also lending their managerial and organisational expertise in assisting those persons to realise their potential and get us closer to the place where its athletes have taken Jamaica.

Tax, Tourism, Sandals and the foreign direct investment (FDI) dilemma

In a time of falling oil prices and increased unemployment the government is looking for new ways to diversify the economy.

In June 2016 it was announced that there are plans to bring more foreign direct investment (FDI) to Tobago by granting permission to the owner(s) of the Sandals chain to construct and operate two Sandals resorts on the island. This project is anticipated to be a substantial revenue earner.

Such a project has the potential to generate increased jobs and foreign currency inflows and promote the country's economic growth and development, as well as put Tobago squarely on the map as a premiere tourist destination, as there is no denying the popularity and draw of the Sandals brand.

The core issue for governments in seeking to attract such projects is trying to strike the right balance between providing sufficient tax and other incentives to attract the investment without giving away the shop.

"Along with international trade, FDI has been regarded as an engine for economic growth and for integrating developing countries into the world economy."

Source: Japan Bank for International Cooperation June 2002 Study

Tax incentives offered in other Caribbean countries

The Sandals hotel chain in the Caribbean is comprised of luxurious beach front resorts which boasts high occupancy rates. It has attracted many tourists to the Caribbean and has the potential of increasing tourists' visits to our twin island state.

Other Caribbean countries like Grenada and Barbados have offered tax holidays ranging between 25 to 29 years to attract the chain to those islands. In Antigua Barbuda one of the tax concessions granted to the hotelier in 2009 was a 60-68% discount on the sales tax for the period July 2007 to 2022.

Given this history of concessions granted by those other governments, it can be expected that T&T may be required to offer similar tax concessions in order to attract the FDI for the two Tobago hotels.

A negotiation team has been put together to arrive at an agreement between the government of T&T and Sandals. Apart from the thorny issue of the site(s) to be approved for the location of the resort(s), the team will have to agree on what incentives will be granted in respect of the project.

Key Considerations

- **Infrastructure**
- **Revenue Generation**
- **Employment**
- **Transparency**
- **Social Climate**
- **Tax Concessions and administration**

Tax, Tourism, Sandals & FDIs cont'd ...

"Facing revenue shortfall, the developing countries, which are trying to attract investment and stimulate growth, are being played off each other by MNCs who demand increasing tax concessions. Economically, this competition amongst countries is a zero sum game with MNCs and mobile capital being the prime beneficiaries."

Source: Japan Bank for International Cooperation June 2002 Study

1. **Infrastructure**- Sandals is known for its large, luxurious resorts and is expected to house 750 rooms in each of the Tobago hotels. A resort of this magnitude with a renowned brand like Sandals would require a reliable and efficient supply of water, electricity, and proper road access. In addition, in order to accommodate the heavy expected inflow of tourists, the island's access by air and sea, as well as the air and sea port facilities would require significant improvement. An astute negotiator would seek to have Sandals bear the cost of some of this improvement, especially given the current state of the Government's coffers.
2. **Revenue generation** – The advent of Sandals to Tobago should improve the country's foreign exchange earning potential. Much of that should come directly from profits generated by the resort(s), payments for use of the port facilities and the like. The challenge will be to not cede too much of this, or for too long a period, through the grant of incentives, and to seek to maximise the indirect revenue generating activities such as VAT to be earned by local suppliers of goods and services. The latter can only be achieved if the resort and its guests "buy local". This too should be a focus of the negotiations.
3. **Employment creation** – In recent times with the decline of activity in the energy sector, many multinational companies operating in T&T, as well as some local companies, have reduced or suspended their operations in T&T, leading to job losses. Every effort should be made to ensure that the Sandals' chain commits to maximising the employment of local personnel both during the planning and construction phase, as well in the operation of the completed resort. The skills to be gained by persons exposed to the service ethic for which the Sandals chain is renowned can only redound to the benefit of the industry in particular and T&T in general.
4. **Transparency** – While we appreciate that agreements of this nature require some level of confidentiality, we would encourage GORTT to be as transparent as possible on the fundamentals of the arrangement, with particular emphasis on the costs GORTT has to bear and the incentives granted vis a vis the expected returns to be enjoyed by T&T.
5. **Social Climate** – While it is generally acknowledged that a Sandals guest can generally enjoy a full and rewarding experience without ever leaving the resort, this is not the approach that GORTT would wish to encourage. T&T would benefit most from such persons taking tours to various parts of the island, purchasing knick knacks at Store Bay, buying a crab and dumpling from Ms Jean, sampling the bene balls in the market and the like. This will only occur in a significant way if we can satisfy those guests that their lives and possessions will not be at risk if they venture out. We therefore need to make some headway in addressing the crime situation.
6. **Tax Concessions** – There are already significant tax incentives available to persons engaged in the tourism sector. The Tourism Development Act allows an owner/operator of an integrated resort to be granted the following incentives:

- Tax exemption for up to 7 years on the profits of the resort
- Tax exemption on gains or profits from the initial sale of villas or condominiums on the site
- Accelerated depreciation on equipment
- Capital allowance on approved capital expenditure
- Customs and excise duty exemption on the importation of building material tourism equipment
- Tax exemption on interest earned by a lender
- Withholding tax exemption on dividends.

We will await word on whether this will suffice to attract the Sandals chain

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