

Fiscal Reforms and Taxation (VAT Update)

BICA's Accountants Week
Presentation

17 November 2015



Outline

- A look at high-level issues on taxation and fiscal reform in The Bahamas
- VAT Update
 - Some performance measures
 - VAT Off - Tourist shopping
- The way forward
- Conclusion



Taxation and fiscal reform



Why Taxes?

- If governments are necessary, then so are taxes.
 - Taxes fund “public” goods
 - Among the issues related to taxation are what and how much should governments do
- Bahamas:
 - Government spending is around 20% of GDP
 - The level of taxation reflects this
- This is an underserviced country in terms of the supply of public goods
 - Developed and high-income countries experience government spending in the range of 30 percent of GDP and higher
 - Increased efficiency will not be enough to close this gap for the Bahamas

“Citizens will get as much as they are willing to for pay in taxes.”



Tax Reform

- **The Bahamas' focus to date has been on eliminating budget deficits and reducing the debt burden.**
- **Public awareness of importance of institutionalizing fiscal discipline is increasing.**
- **There is increasing recognition that expansion in the supply of public infrastructure and public services has to be financially sustainable – the taxpayer must start to pay in the present tense as opposed to later.**



Taxes and Public Finance Reform

- **Setting a tolerance for the level of taxes we are prepared to pay invites intense dialogue about the mix of services that should or should not be provided.**
- **The Ministry of Finance is driving public financial management and expenditure reforms that will make it easier and more transparent for the government to engage with the public on these issues.**
 - **Program based budgeting and multi-year planning**
 - **Modernizing the financial management system (with IDB financing and technical support from agencies like the IMF, World Bank and Commonwealth Secretariat)**



Tax Reform at a High Level

- **Must, for The Bahamas, support fiscal consolidation and foster a more growth friendly environment**
 - **Should minimize distortions on business decisions to invest and expand**
- **Must increase the incentives for compliance and make it easier to comply**
- **Must reduce or minimize the of cost tax administration**
- **Must introduce greater transparency and certainty for the private sector**



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Reforms in Context

- Fiscal consolidation with three pillars
 - Permanent enhancements in revenue administration and collection
 - Expenditure discipline
 - Economic growth as the basis for sustained revenue gains



Tax Reform -- Focus

- **VAT as the centerpiece of revenue reform**
 - a modern approach to administration and interface with taxpayers
- **Customs Modernization**
 - becoming more advanced – organizational review is ongoing; procurement exercise for new IT systems has started; Marine Unit is in place; Canine Unit is being established; online submissions of declarations and payments are in effect
- **Real Property Tax Administration**
 - a modern property tax IT system is being deployed; aggressive exercise is being launched to update and expand the tax register
- **Business Licence Administration**
 - a more explicit regime of penalties is being introduced; system is being automated and integrated to the VAT platform; some online services are already in place
- **Central Revenue Administration**
 - VAT, Business License, Property Taxes, Stamp Taxes
 - More enabling legislation being drafted



VAT experience and update



Highlights of the VAT Experience

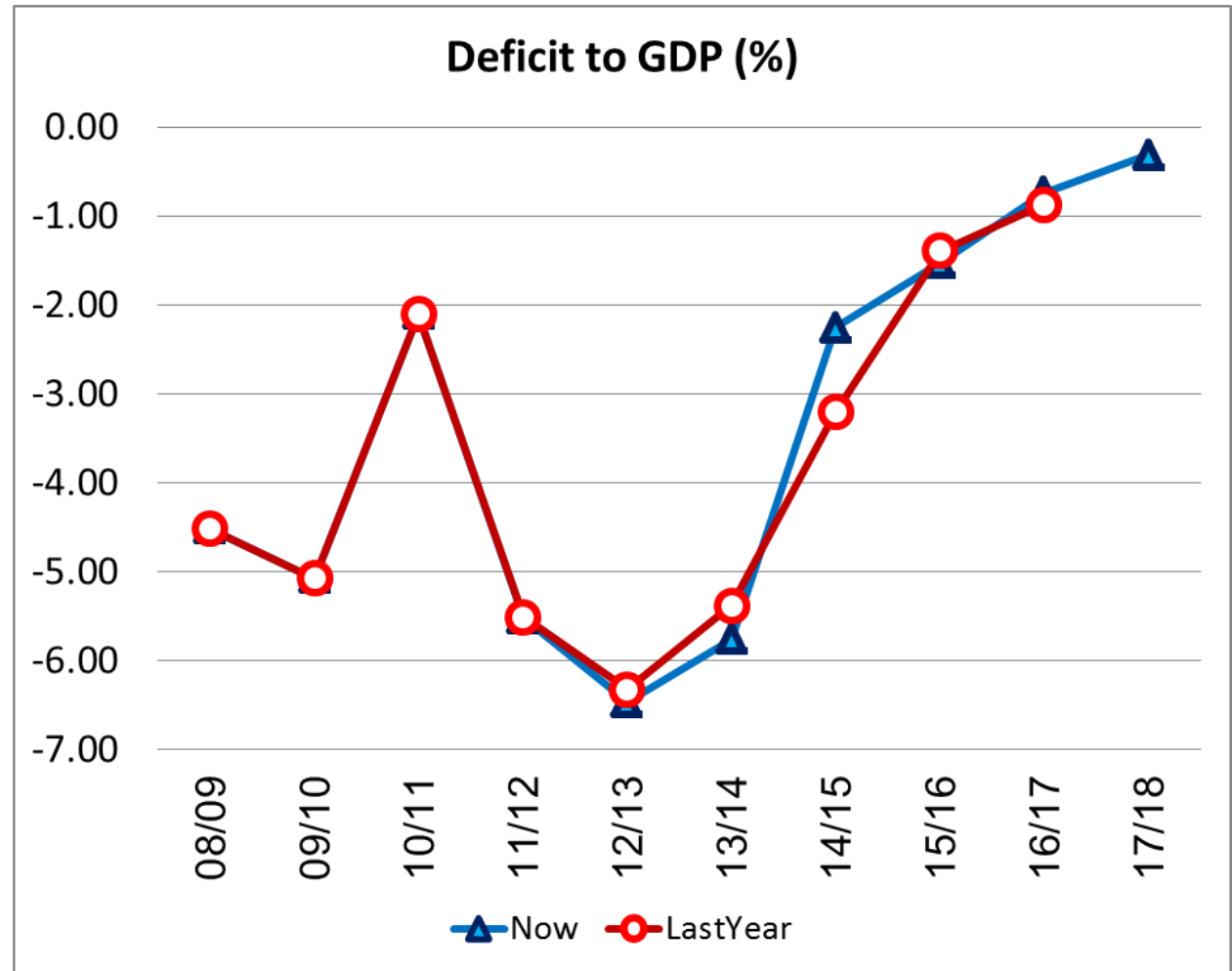
- **Currently more than 6,000 registrants; 2,700 are voluntary**
- **Collections are meeting Government expectations**
- **More than 90 percent filing of monthly VAT returns close to the deadline**
- **Taxpayer education is ongoing; a series of revisions to Guidance Notes have been published**



Highlights of the Experience with VAT

Where is the money going?

...As was budgeted, for deficit reduction.



MEDIUM-TERM FISCAL CONSOLIDATION PLAN

B\$ millions

	2013/14 Prelim Outcome	2014/15 Projected Outcome	2015/16 Projection	2016/17 Projection	2017/18 Projection
1. Recurrent Expenditure	1,707	1,844	2,098	2,127	2,171
2. Recurrent Revenue	1,470	1,770	2,047	2,153	2,195
3. Capital Expenditure	333	292	242	242	242
4. Capital Revenue	0	3	0	0	0
5. Debt Redemption	82	165	152	146	187
6. GFS Deficit = (2+4)-(1+3)+5	-488	-198	-141	-70	-31
7. GFS Deficit (as % of GDP)	-5.8	-2.3	-1.5	-0.7	-0.3

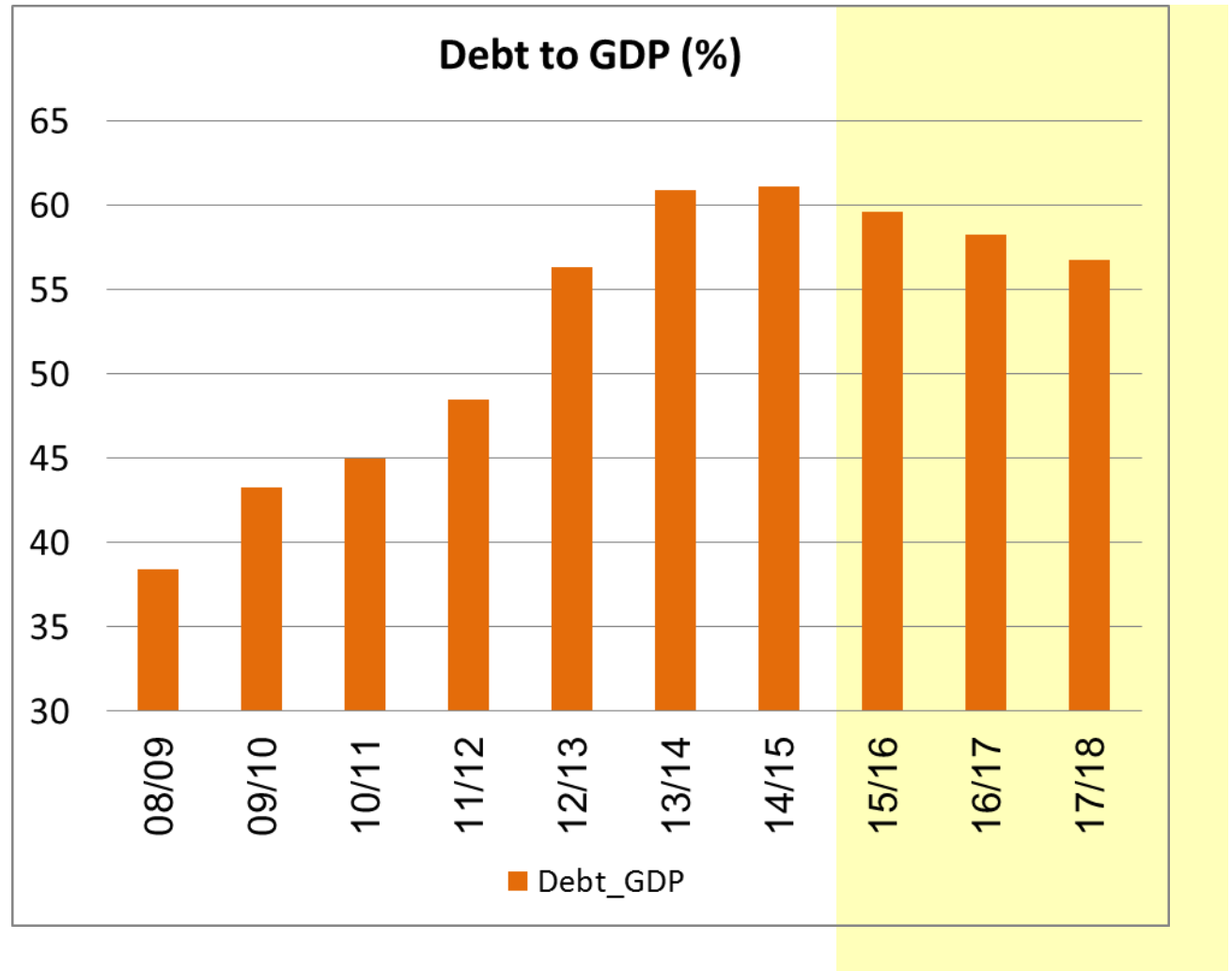
Memo Item:-

Government Debt (% of GDP)	60.9	61.1	59.6	58.2	56.8
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Where is revenue going

.... to maintain the credibility of the path for reduction in the debt burden.



Pre-January 2015

- Guidance notes
- VAT Rules
- Registration Process



Jan-June 2015

- Preparations to transition to VAT on insurance
- VAT filing and collection; follow-up with taxpayers
- Transitioning to VAT inclusive pricing displays



Post-June 2015

- VAT in effect on Real Estate
- VAT in effect on Insurance
- Added clarity on international transportation
- Automatic penalties for late filing



Legislative enhancements (since June)

- Provision for more frequent payment of VAT by smaller and medium-sized businesses (to be launched in mid-2016)
- Regular electronic filing of VAT on Business-to-Business transactions details (to begin in mid-2016)
- Financial penalties for non-compliance: late payment and late filing



Enhancements Since June 2015

- Tax compliance certificates now required to do business with the public sector
 - Must be current or in a satisfactory payment arrangement:
 - VAT
 - Property Taxes
 - Customs Duties
 - Business License
 - NIB contribution



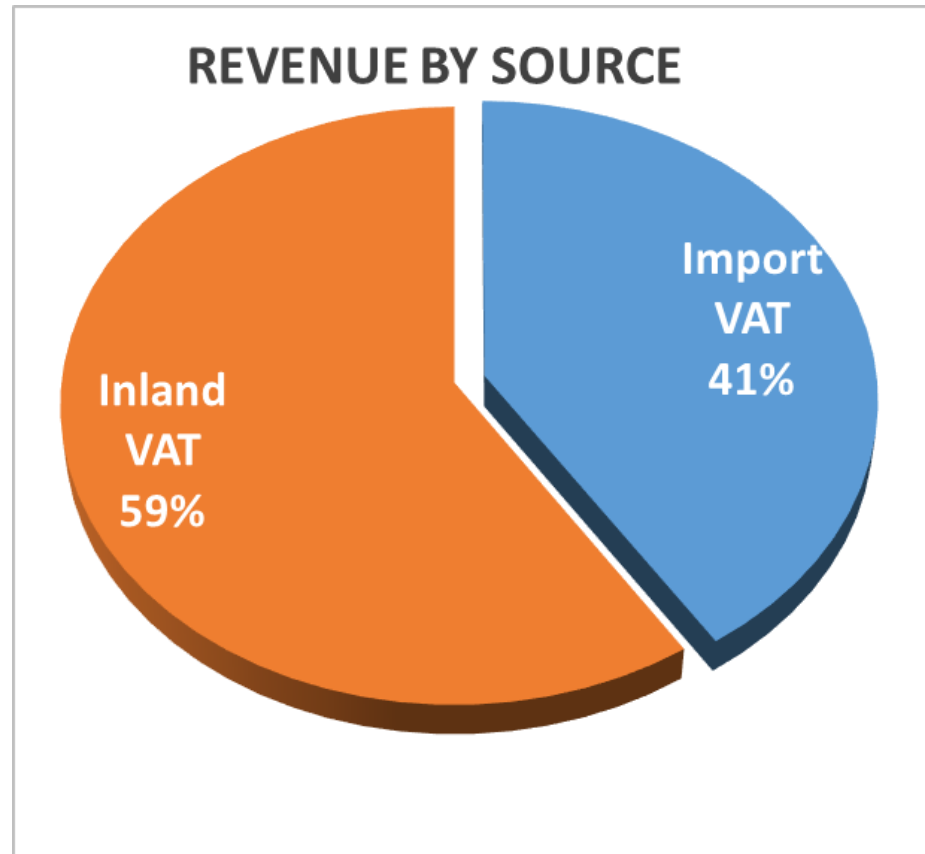
VAT Performance

- Filing and Collections
 - Strongly consistent with expectations (in terms of net gains in revenue)
 - Large tax payers have best on-time submissions
 - Smaller and medium-sized businesses have lower on-time rate
 - Voluntary registrants require more prompting



Distribution of VAT Collections

*Consistent
division
between
Customs and
Inland Revenue
collections*



VAT Collection Performance

- Total tax period assessed and collected of \$269 million during January to June 2015
 - Inland Revenue assessed and collected for January-June tax periods of \$166 million
 - Customs Revenue of \$103 million
- Because of one period lags and lags in on-time payment the total cash flow recorded by Treasury during fiscal period to June 30 was closer to \$200 million. The \$269 million reflects delayed collections of amounts after July 2015.

Note: Inland Revenue is collected with a one month lag



VAT Performance -- First 6 Months (\$Millions)

	Collections		Total
	Inland*	Customs	
VAT Due as % of Output VAT	29.9%	n/a	n/a
<u>Collections attributed to tax period</u>			
Year to date	166.1	103.1	269.2
Paid and filed on time	112.8	103.1	215.8
Fiscal Period Cash Impact (Jan-Jun)	76.7	103.1	179.7

Note: *Net of refunds.

Collections (January to September): \$416 million



Geographic Analysis – Inland Payments

Annual

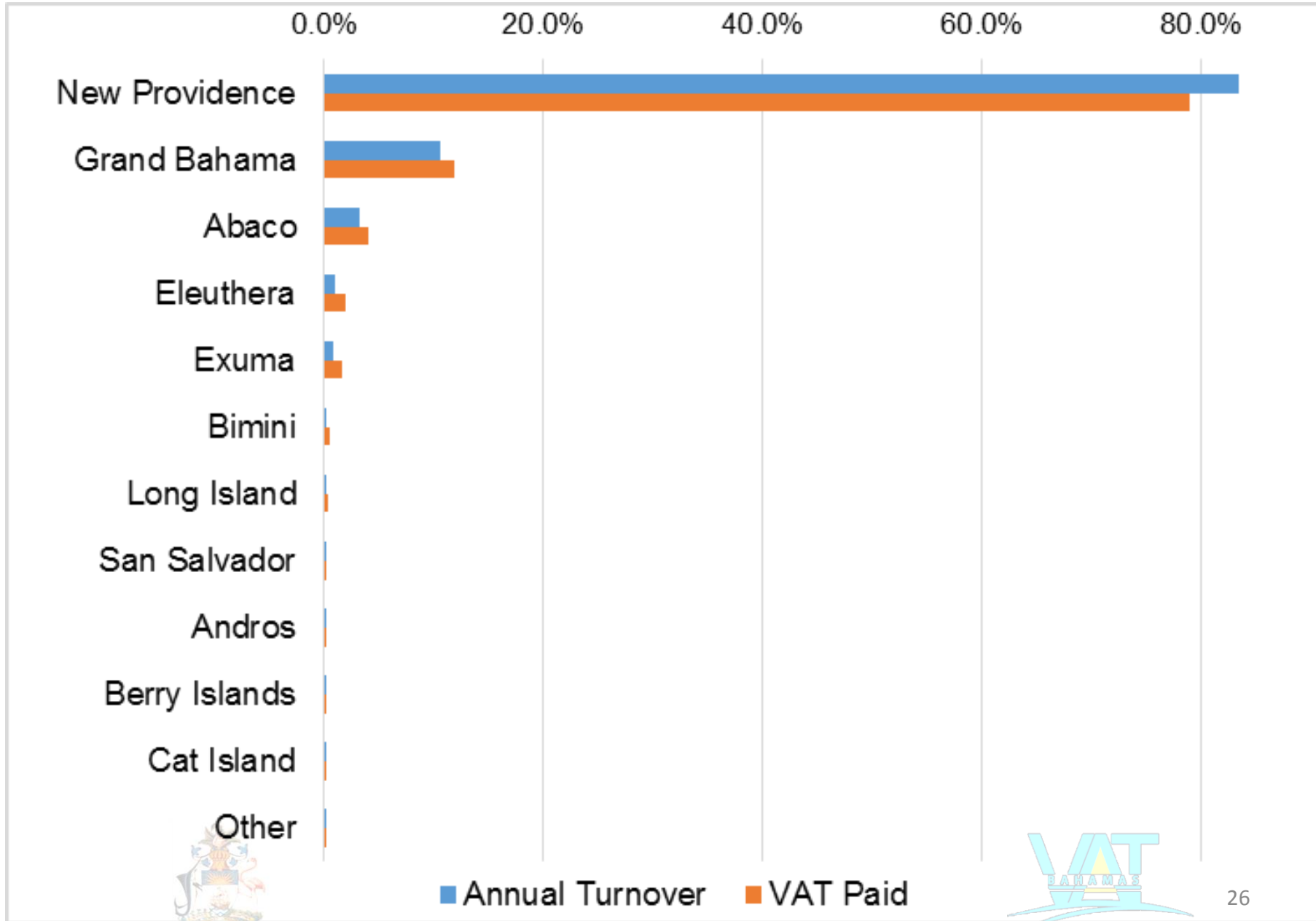
Turnover

VAT Paid

	Turnover	VAT Paid
New Providence	83.37%	79.0%
Grand Bahama	10.66%	11.9%
Abaco	3.19%	4.1%
Eleuthera	1.03%	1.9%
Exuma	0.81%	1.6%
Bimini	0.23%	0.6%
Long Island	0.17%	0.3%
San Salvador	0.13%	0.2%
Andros	0.12%	0.3%
Berry Islands	0.06%	0.1%
Cat Island	0.04%	0.1%
Other	0.20%	0.2%
Total	100.00%	100%



Source of Inland Activity (by Island)



Caution: VAT funds or replaces other tax reductions

- VAT contribution to fiscal consolidation is on a net basis
 - Reductions occurred for Customs Duties and Excise (at least \$30 million)
 - Stamp on real estate (reduced by more than \$90 million)
 - Hotel occupancy tax (\$45 million eliminated)
 - Net of these, annual revenues are expected to improve by at least \$300 million



Enforcements

- Automatic levy of penalties since August 2015 tax period
- Manual assessments made prior to August
- Intensive focus on compliance with VAT inclusive pricing display



Refunds

- The most swift facilitation has been of international financial institutions and diplomats, some charities
- Almost \$3 million paid over the first nine months of 2015
- Refunds are anticipated for charitable hurricane relief sponsors
- Requests from retail tourist establishments are being reviewed

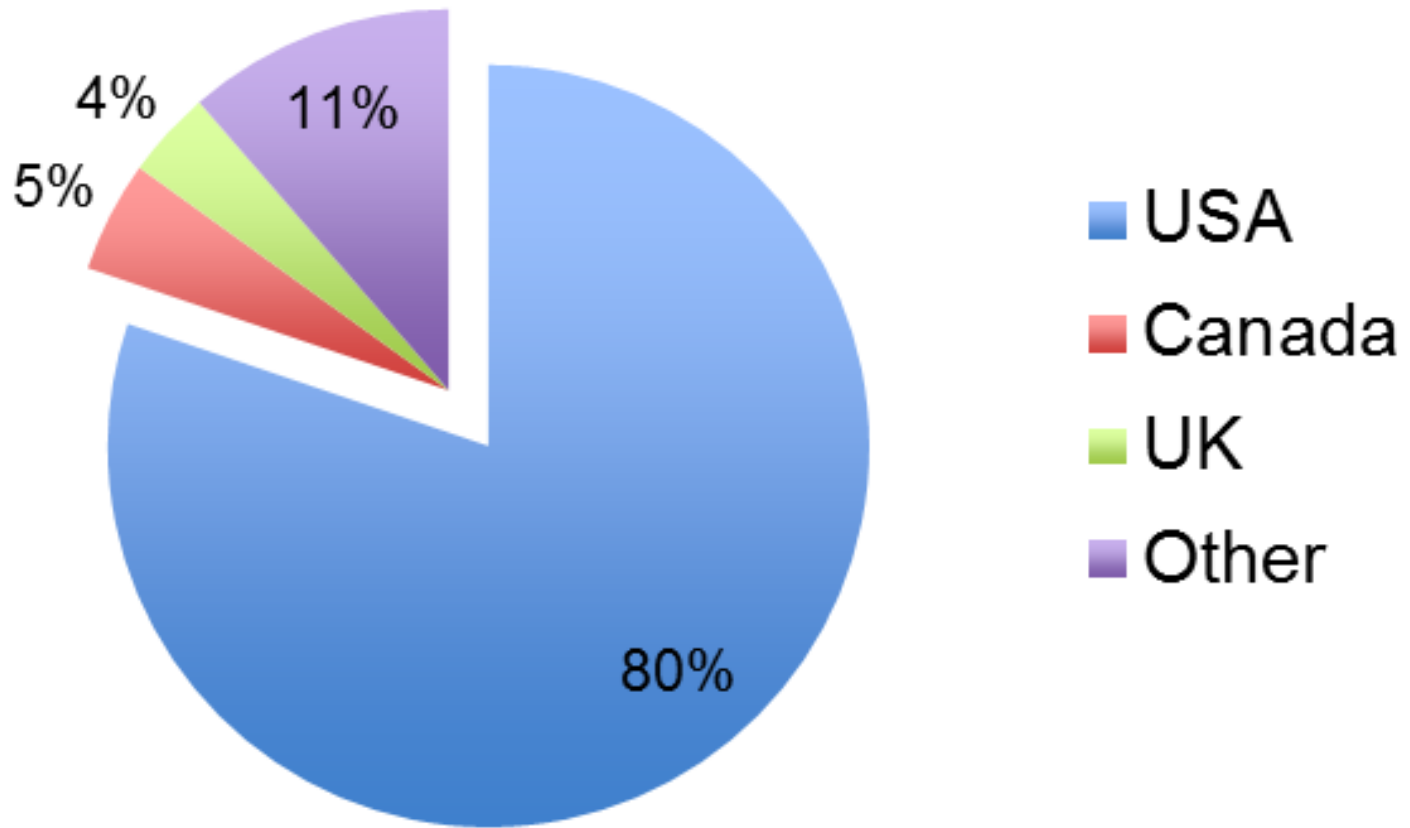


VAT Off | Tax Free Shopping

- Automated system (Global Blue) as of August 2015
- Eligibility based on invoice of \$25 or more
- Not applicable to consumables, tobacco and alcohol
- August and September (data)
 - Now 100 participants
 - Sales approaching \$9 million monthly with significant untapped participation
 - Average spend of just above \$400 per transaction
 - Largest single spend category is jewelry (over 40%)



VAT Off Spending Shares by Country



Going Forward

- Public sensitization to business license penalty regime
 - Penalties now apply for late filing of annual returns and payment of license fees
- Intensified and more formal audit process will begin in 2016
- More user-friendly VAT filing form will be introduced in 2016



The way forward



Going Forward

- Updated regulations will be released
- Revised VAT Rules on real estate will be released
- Tax compliance certificate regime will be extended to public corporations
- Taxpayers will be prepared for filing of B2B data
- Rules and regulations will be prepared for monthly payment of VAT by medium and smaller sized business



Going Forward

- Think “revenue” administration not “VAT” administration.



Conclusion



Conclusion

- Fiscal reforms are contributing to consolidation, notwithstanding the challenges of the economic environment
- Gains reflect improvements in the tax base, better enforcement and compliance, and focus on expenditure restraint
- Sustaining the momentum is critical

