

## Highlights of the 2012 Barbados Budget



## Contents

[Brief Overview](#)

[Amendments to the  
International Business Sector](#)

[High Net Worth Individuals  
\(HNWI\)](#)

[Personal Tax Changes](#)

[Credit for Preventative Health  
Care](#)

[National Greening Levy](#)

[Other Changes](#)

[We can help](#)

### **Brief Overview**

The Honourable Christopher Sinckler, Minister of Finance and Economic Affairs, delivered the Financial Statements and Budgetary Proposals of the Government of Barbados on Tuesday, June 26, 2012.

The Minister highlighted the approach adopted to managing the economy in recessionary times and specified the additional policy interventions required, to assist the country in achieving its main objectives of maintaining stability in the economy by managing the foreign exchange function; meeting the revenue and expenditure targets set out in the Medium Term Fiscal Strategy ("MTFS"); raising the level of investment in traditional and new economic sectors to grow the economy at a faster rate; continuing the programme for national economic restructuring in strategic areas; while protecting the most vulnerable in the society from the worst effects of the economic challenges faced.

## Economic Overview

For the review period ending March 31, 2012, the fiscal balance was in deficit to the amount of \$389 million, 4.5 per cent of GDP at market prices of \$8,626 million. The deficit for the corresponding period in 2010-2011 was \$720 million, 8.8 per cent of GDP at market prices of \$8,208 million.

Current revenue was \$2,513 million, an increase of \$212 million or 9.2 per cent from the amount recorded during 2010-2011. This increase was \$23 million below the original projection for the period. Current expenditure, exclusive of amortisation of \$455 million, decreased by \$103 million or 3.5 per cent over the 2010-2011 figure to \$2,819 million.

Projected revenue for the period 2012-2013 on the accrual basis is estimated at \$2,656 million, and on a cash basis at \$2,620 million, 29.1% of GDP estimated at \$9,293 million. Current expenditure on the accrual basis, exclusive of amortisation of \$441 million is estimated at \$2,933 million and on a cash basis at \$2,890 million.

The Government is projecting a deficit of \$412 million on the cash basis excluding amortisation, representing 4.4% of GDP. On the accrual basis, a negative net operating balance of \$326 million representing 3.5% of GDP is estimated.



**Highlights of tax changes announced in the budget are summarized below:**

**Amendments to International Business & Financial Services sector – effective tax year 2012/13**

**Measure:**

To amend the tax rate on the highest band for taxable income on entities in the International Business sector for income years 2012 and 2013 as follows:

Current Tax Rate	Proposed Tax Rate 2012	Proposed Tax Rate 2013	Profits & Gains (P&G)
2.50%	2.50%	2.50%	<\$10m
2.00%	2.00%	2.00%	\$10m < P&G < \$20m
1.50%	1.50%	1.50%	\$20m < P&G < \$30m
1.00%	0.50%	0.25%	\$30m

These changes will be applicable to International Business Companies (IBCs), Societies with Restricted Liability (SRLs) and International Banks.

**Comment:**

This is one of the reactions by Government to the challenges the sector faced by entities relocating to Bermuda and appears to focus on entities having substantial taxable income well in excess of \$30m. The maximum tax savings for large tax-paying entities contemplating relocating is \$100,000 (income year 2012) and \$50,000 (income year 2013) for taxable profits of \$50m. Will this measure by itself curtail any relocation plans?



## **Foreign Currency Earnings Credit (“FCEC”)**

### **Measure:**

The range of services eligible for the FCEC will be expanded to include exploration, extraction and other mining, oil and gas activities, licensing and sub-licensing of intellectual property and shipping services.

### **Comment:**

The expansion of the range of services eligible for FCEC is to provide flexibility in corporate structures by further promoting use of Regular Barbados Companies (RBC) to carry on international business from Barbados. The RBC will be able to achieve an effective tax rate of 1.75%.

## **High Net Worth Individuals (HNWI)**

### **Measures:**

Special entry permits (SEPs) to assist HNWI and other property owners who wish to invest in Barbados.

A HNWI is an individual who has net assets exceeding \$10m. To qualify for the SEP, individuals must meet certain requirements including submitting copies of their income tax returns and audited statements of net assets to the relevant authorities. Individuals are required to meet the \$10m threshold for a minimum of five (5) years. Failure to meet the threshold will result in a withdrawal of the SEP.

### **Comment:**

The SEP is consistent with Government's plan to encourage foreign currency investment in Barbados and to address immigration issues faced by individuals and spouses.

## Personal Tax Changes

### Measure:

Effective August 1, 2012, the tax threshold will be increased from \$24,200 to \$30,000 and the effective tax rate will decrease from 20% to 17.5%.

Individual	Rates	Current	Proposed	Current	Proposed
Salary		100,000	100,000	50,000	50,000
Personal Allowance		(25,000)	(25,000)	(25,000)	(25,000)
Taxable Income		75,000	75,000	25,000	25,000
Taxable Income up to \$24,200	20.0%	4,840	-	4,840	-
Taxable Income in excess of \$24,200	35.0%	17,780	-	280	-
Taxable Income up to \$30,000	17.5%	-	5,250	-	4,375
Taxable Income in excess of \$30,000	35.0%	-	15,750	-	-
Total Taxes Payable		22,620	21,000	5,120	4,375
Annual Decrease in tax			1,620		745

### Comment:

This should increase the amount of disposable income available to individuals and reduce the tax payable by middle income earners. The maximum amount to be saved is \$1,620 for taxable amounts exceeding \$30,000.

## Credit for Preventative Health Care

### Measure:

With effect from income year 2012, taxpayers 40 years and over on a comprehensive annual medical examination are eligible for a tax credit of up to \$750.

The credit can be claimed on filing of the individual income tax return and should be accompanied by an electronic copy of a certificate verifying the procedure was done and it should be signed by a registered medical practitioner.

### Comment:

It is not clear whether this measure is available for more than one doctor visit. However, the initiative is welcomed.



## National Greening Levy

### Measure:

To meet the extensive cost associated with the treatment of garbage produced daily, the Government of Barbados has imposed a national greening levy on the salaries of Barbadian workers. The levy is as follows:

Individual Earnings	Rate	Levy
< \$25,000	0%	-
\$25,000 - \$50,000	0.10%	\$2.5 - \$5
\$50,000 - \$100,000	0.15%	\$75 - \$150
>\$100,000	0.25%	\$250

The Government expects the total levy collected per month to be 0.5% of insurable earnings, collected through the National Insurance Scheme (NIS) and remitted to the Consolidated Fund.

### Comment:

Whether or not this levy will be limited to the insurable earnings limit has not been fully addressed. It is also noted that the levy is applicable to employees in receipt of salaries.

## Other Changes

### Land Tax

#### Measure:

- Increase the rate of rebate for pensioners from 50% to 60% or as is appropriate.
- Commencing July 2, 2012 and ending July 31, 2012 (30 days), an amnesty to allow for a 100% waiver of penalty and interest dependent on the full amount of principal being paid in a one-off payment for the respective year is due. There will be no extension of the amnesty.

#### Comment:

This incentive should result in a higher level of compliance and thereby increase Government's collection of revenue. It may be assumed that at the conclusion of the amnesty, Government's enforcement measure will take effect.

### Motor Vehicle Duties

#### Measure:

- Increase the chargeable value on new vehicles from \$45,000 to \$55,000 with a review after one year.
- Lower the Excise tax by 25% with a review after one year.
- With immediate effect, the Excise tax rate of 9.31% for locally manufactured cars will be removed, applying the same rate of 20% to 120% to vendor categories of motor vehicles, whether imported or not by registered manufacturers.

#### Comment:

This should result in a decrease in the cost of mid-size vehicles. However, it is likely to increase the number of vehicles on the road and ultimately increase demand for fuel and foreign currency.

### Agriculture

#### Measure:

- The rebate for returning idle lands into production to be increased from \$500 per hectare to \$1,000 per hectare.
- \$3 million will be allocated to facilitate the re-establishment of the Tractor Cultivation Scheme to be managed by BADMC.
- Increase of rebates by 100% to farmers who utilise the Services under the scheme prescribed.
- A rebate of \$500 for each gilt that is raised to breeding stage.
- A rebate of 50% up to a maximum of \$4,000 per animal imported for the purpose of improving livestock quality.
- Over the next five years Agro businesses are to have access to \$20 million in financing from the proposed "Hotel Refurbishment, Energy Efficiency and Food Production Fund".

## **Agriculture, continued**

### **Comment:**

The agricultural sector continues to be an important sector and can play an integral role in reducing the food import bill, hence maintaining a desirable level of foreign exchange. This proposal can be expected to revive interest in the sector.

It is expected that these incentives will stimulate the productivity in the agricultural sector and ultimately contribute to a decrease in food imports.

## **Business Re-organisation**

### **Measure:**

Effective August 1, 2012, the removal of Property Transfer Tax (PTT) when shares are transferred during a corporate reorganization of a group of companies and with no change of beneficial ownership.

### **Comment:**

This measure should provide greater clarity regarding restructuring initiative especially involving entities carrying on international business.

## **Barbados Cooperative Credit Union League Limited**

### **Measure:**

The Government proposed to facilitate the creation of a separate ex ante fund for credit unions to have protective cover for their members at a basic rate no less favourable than coverage offered for depositors in commercial banks (i.e. \$25,000) .

### **Comment:**

Credit union members will at least have some measure of protection under the law.



## **Tourism**

### **Measure:**

- It has been proposed to establish a Hotel Refurbishment Fund to assist small and medium sized hotels.
- An additional \$5 million will be provided to the BTA to assist with special marketing activities.
- Land taxes on hotel accommodation to be frozen at current levels (11/12) for the next two evaluation cycles.

### **Comment :**

The major cost facing hotels is electricity. This is likely not to achieve viability in this sector.

## **Restructuring of economy through renewable energy (RE) and energy efficient products (EE)**

### **Measure:**

- Low-interest loans over an eight (8) year period administered by the Central Bank.
- Building materials and supplies exempt from duty and VAT.
- VAT at zero rate on supplies produced in Barbados .
- Increase tax holiday for 10 years for developers, manufacturers and installers of RE products.
- 150% deductible on interest paid on loans used for RE.
- 150% deductible on expenditures for product development and research.
- 150% deductible on expenditures for staff training.
- 150% deductible on expenditures for marketing products.
- No withholding tax on interest earned by financial institutions for 10 years.
- No corporation tax for a period of 10 years for venture capital funds.
- Contribution to venture capital funds deductible for a period of 10 years.
- Dividends received by shareholders except from withholding tax for a period of 10 years.
- Income earned from sale of electricity exempt from all taxes.
- Individuals to claim the funds spent on training in RE and/or EE provided by approved educational and vocational institutions.

### **Comment:**

Government appears to be making a conscientious effort to reduce the dependence on fossil fuels. This is expected to significantly reduce foreign exchange expenditure.

## **VAT**

### **Measure:**

- Rate of 17.5% to remain in place until further notice.

### **Comment:**

If the original rates were re-installed, Government would have needed an alternative deficit reduction measure. VAT, because of its broad based nature, multistage application and anti-avoidance features, tends to be more efficient at raising revenue than any other form of taxation.

## **Excise Tax**

### **Measure:**

Rate to be adjusted downwards where the price of oil on world market exceeds \$190 per barrel.

### **Comment:**

If the oil price rises in the future, the reduction of the excise tax would assist in containing the increase from being fully passed on to the consumers.

## **Capital Market Development**

### **Measure:**

To assist in the development of Junior Stock Market (JSM) by:

- Undertaking an Initial Public Offering of 30% of the shares of Grantley Adams International Airport Inc and The Barbados Port Authority and 100% of the Barbados Terminal Oil Company.
- Listing these companies on the Barbados Stock Exchange (BSE).
- Providing fiscal incentives for companies to list on the JSM in the form of tax incentives for a period of 10 years.

An income tax holiday, exemption from tax on dividends and other distributions and exemption from transfer tax on transfer of shares.

Subject to certain requirements namely, the company must have a minimum of 50 shareholders, no single shareholder should own more than 25% and no other shareholder should own more than 5% of the shares.

## Capital Market Development, continued

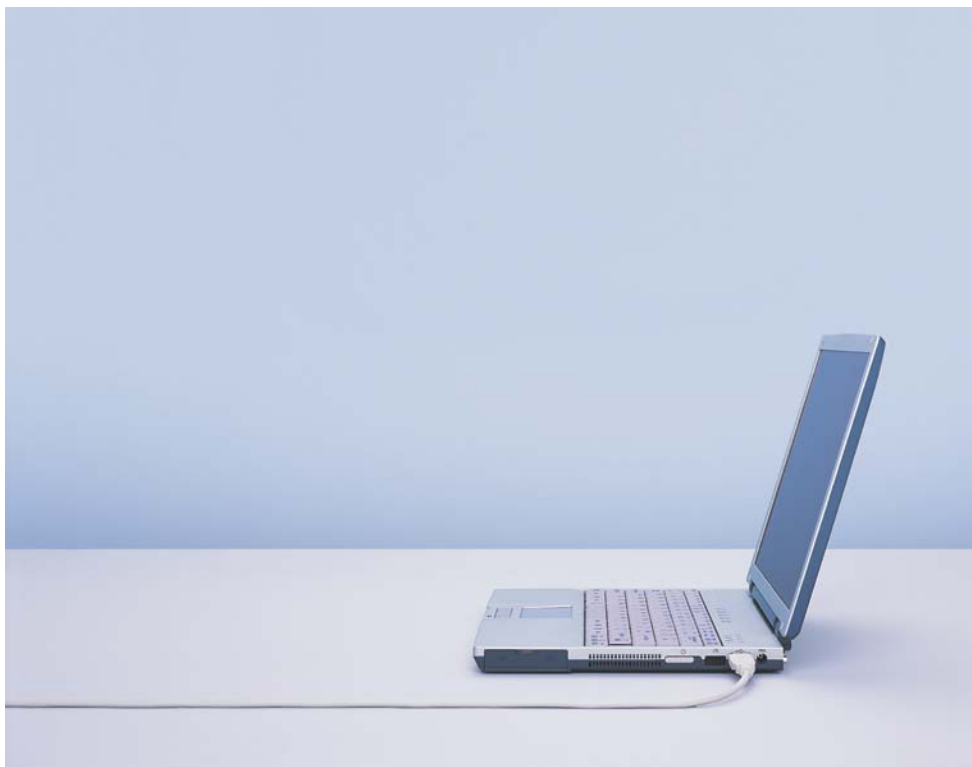
### Comment:

This appears to be an attempt by Government to raise funds and encourage investment in these entities.

It is expected that this measure would play a critical role in economic development by facilitating and encouraging the movement of capital for investment purposes and addressing the excess liquidity in the system.

Companies which may not meet the requirements to be listed on the BSE may have the opportunity to access additional capital via the JSE.

It is an opportunity for companies to raise capital in a tax efficient manner.



## We can help

Your KPMG adviser can help you assess the effect of the tax changes in this year's budget on your personal finances or business affairs, and point out ways to take advantage of their benefits or lessen their impact. We can also keep you abreast of the progress of these proposals as they make their way into law and help you bring any concerns you may have to the attention of the Ministry of Finance.

Information is current to June 26, 2012.

---

## Contact us

### Wayne Lovell

Senior Director

T: (246) 434-3928

E: [wlovell@kpmg.bb](mailto:wlovell@kpmg.bb)

### Marianne Greenidge

Senior Manager

T: (246) 434 3918

E: [mariannegreenidge@kpmg.bb](mailto:mariannegreenidge@kpmg.bb)

### Juan Wright

Manager

T: (246) 434-3913

E: [juanwright@kpmg.bb](mailto:juanwright@kpmg.bb)

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2012 KPMG, a Barbados partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in Barbados.

KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss Cooperative.

[www.kpmg.bb](http://www.kpmg.bb)