

# REVENews



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## TRAINING: TAX LAW & PRACTICE



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**W**ITH expectations rising high and the anticipation of what was to come overwhelming my mind, I arrived at a conference-type setting in which I was to undergo the Basic Income Tax Law & Practice Training Program.

The horseshoe-style seating arrangement kindled a sense of community, for we all were connected in a continuous chain of anxious officers who were about to undergo an intensive training on the principles and use of the Department's *Bible*, more commonly known as the Income Tax Act.

Unexpectedly, it all commenced with a few set-backs—the conference room was not in mint condition and we had to temporarily move to another location—however, when we settled into “conference mode”, we quickly progressed through the basics of the interpretation and use of the Act in everyday situations experienced by the Tax Officer.

It was a very intense period, filled with lots of interactive discussions, profound skill development, as well as a few humorous incidents strewn in between. Everyone, however, came ready to work hard most importantly, learn a lot and have a good-time during the process.

At the end of it all, under the lecturing of Mrs. Marva Amos and Ms. Sophie Harte, we all stood proudly, posing for the camera as we accepted our certificates of participation and wore our confidence as qualified practitioners of the IRD Bible on our sleeves, ready to face anyone and everyone with a concern, request or transaction.

## THE TEAM



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EDITO-

# FRIENDS & FAMILY

## OR YOU?

BY KURTWELL FELIX

**A**LL of us have dreams and aspirations, but only a few of us are prepared to take action. As you are reading this, I assume you are one of the motivated minority.

However, on the long, winding and rocky road to realising our goals, one of the biggest threats to our fragile dreams is the well meaning but misguided "advice" of our friends and family. We all know how hard it is to get motivated in the first place, you certainly don't want someone else to demotivate you.

So what can you do to manage the caring ones who will unwittingly destroy your dreams? The following tips will help you get past the worst and keep you going on your mission.

**Tip #1** – Understand them. The reason that those close to us seem to be discouraging our dreams is because of fear. They will tell you that they fear for you and that they are protecting you from failure, disappointment and humiliation. This might be true, but their worries are also for themselves.

Their fear is that you will be significantly changed. They fear that they themselves will have to change and, finally they fear that you will succeed and they will look inadequate in your eyes, their own eyes and other people's eyes. What you have to do is recognise their worries, calm them as much as you can, but remember that they are not a good reason for you to abandon your dream.

**Tip #2** – To tell or not. We often expect our friends and family to unquestioningly believe in us and give us support no matter what, but they can't always see things from our point of view. Sometimes it's better not to tell

them what you hope for until you are a little further on your journey and have gained some confidence in your own belief before you have to defend your dreams against others.

Of course, some plans will absolutely require their full support. If you're planning to give up work to go into the business of money trading for example, then maybe you need to involve the family from the beginning.

**Tip #3** – Show them your determination. Although you can sympathise with their worries, be open with them and tell them that although you appreciate their concern, you have no intention of being deterred from your path. If you have a history of compromising and allowing their needs to become yours, then your new determination may be a shock for them, but if you truly believe in your dream, now is the time to break that cycle.

You must articulate to them that this is the most important thing you have ever done and that as a result you will be a better person and that your relationship will be better. Help them to realise that the pain of change will be worth the reward for all of you.

**Tip #4** – Put them in perspective. When those close to you start to tell you why whatever you're planning won't work and why it's doomed to failure, stop for a minute and examine their credentials.

Have they ever done what you're proposing? Have they ever achieved what you're aiming for? Are they qualified to judge your plans? If not, then why would you listen to their advice?

Instead, seek out people who

“ The reason that those close to us seem to be discouraging our dreams is because of fear. “

have achieved your goal or something similar. Find an expert; a mentor who can share your vision, give you support and encouragement, without the warnings of disaster.

**Tip #5** – Don't accept their influence. Remember that the only person who can demotivate you, is you. We can only be demotivated by others if we allow it to happen. How we react to the people around us is a choice we make, not something that just happens to us.

Some friendships, partnerships marriages and relationships in general are mutually destructive and it may be that you would both be happier,, more fulfilled and more successful if you were not in each other's lives.

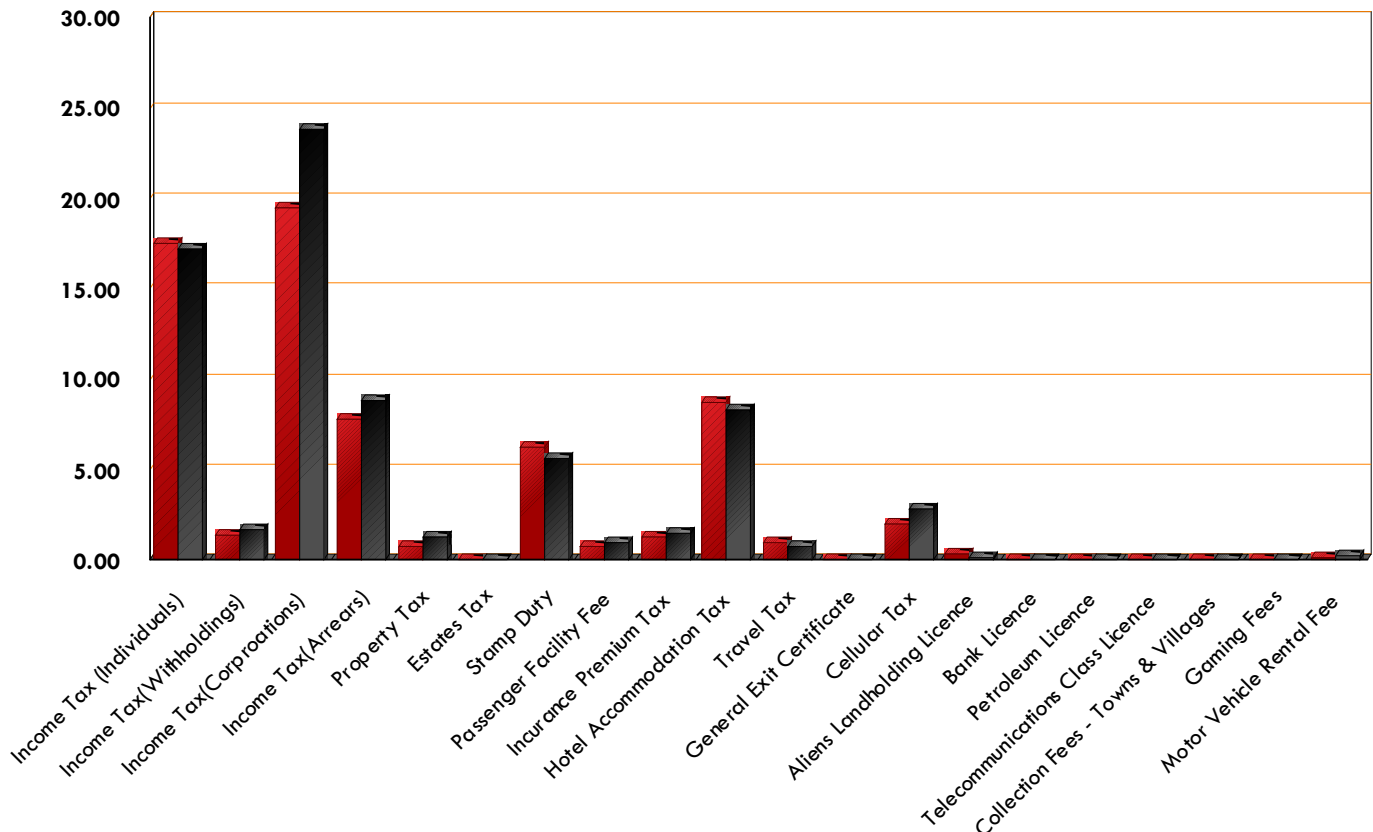
Only *you* can make that decision, but provided you make it from a position of strength, love and understanding, it *will* be the right one.

# APRIL TO JUNE 2007

BY DAVE HEADLY  
PLANNING & RESEARCH OFFICER

## Collections

EC Dollar (Millions)



■ Projected ■ Actual

## Taxes

**T**HE total revenue reported for the quarter April to June 2007 amounted to \$73,470,078. Indeed, we have exceeded our projections by an approximated \$5,977,330.

The following heads excelled in their performance:

**Income Tax (Individuals)** - the main reasons for this are the opportunities created through the activities associated with and effected by the Cricket World

Cup season, as well as a general increase in the level of compliance.

**Withholding Tax**—this increase was mainly due to the settlement of withholding tax cases who were themselves favourably impacted by Cricket World Cup activities.

**Income Tax (Corporations)** - this was due to the maintenance and increase in compliance of companies with their corporation taxes, this head did not suffer

any decreases in revenue, but has seen a steady increase over the quarter.

**Property Tax**—with the increased number of assessments posted to taxpayers, the result of an increase in property tax collections proved consequential.

**Insurance Premium Tax**—this head continues to perform very well due to full compliances and collection of taxes.

**Cellular Tax**—this pronounced

increase was due mainly to the increase in cellular taxes generated from activities associated with the Cricket World Cup season.

On a whole, the other heads *did* perform reasonably well, with only minor shortfalls and should aim at maintaining that trend.

Notwithstanding we would like to applaud *all* staff members for their collaborative efforts and steady performances during this quarter.

## AUDIT

**MISSES** Denise Dujon and Leandra Felix returned to the Section during their summer break, as is the custom of staff who are study leave. We are so happy to have them back for the summer

Ms. Regine Prospere attended the *Basic Income Tax Law & Practice* course from May 15 to May 25, 2007, thereby concretizing her knowledge of the Department's whole process of interpreting and enforcing the Tax Law.

Mss. Regine Prospere and Paulmina Desroses also attended an *Internal Customer Service* workshop, delivered by Ms. Janine Billy of *Inspirations Inc.*, at the Property Tax Valuation Office in La Clery on 19 June, 2007:

Apart from the fresh and green Ms. Prospere, Ms. Desroses had attended several Customer Service workshops during her ten-year profession as a

secretary. Ms. Desroses, understandably, opined that this would have been a refresher-type of workshop; she was, however, in for a surprise. In her own words, "expectations were surpassed." New information was given and the format was interesting, interactive and informal. The deliverance was dynamic and the presenter taught the group how to exhibit patience and mediative skills in every difficult situation, and also to have more optimism than pessimism; whatever the situation is. Emotional intelligence is the key to dealing with any situation; and both parties, in her opinion, should exercise it, whether the situation is between two line staff, or line staff and manager (middle or top).

Ms. Prospere's summary is as such: Some people may imagine themselves adequate in the field of customer service, but this belief at times may be far from reality. Janine Billy's

insight on the topic and the knowledge imparted to the enthusiastic group proved beneficial. With her skilled rhetoric, she established the theory and concept of *Customer Service*; as well as, the importance of both the *External* and *Internal Customer*—ensuring a distinction of the two was understood. Moreover, her presentation demonstrated how the customer is the most important asset to a company and the sole purpose of a business being in existence.

In an effort to reach her audience, Miss Billy engaged the group in a discussion on ways in which one can develop customer loyalty by meeting the needs and expectations of the customer. She stressed on the importance of courtesy, appreciation, not to mention, empathy. Furthermore, she emphasized on the significance of the internal customer, confirming his understanding of the customer's needs and of having a quick and orderly service in the working

arena.

To further enhance her presentation, and to indulge the group she shared some life experiences and gave examples and scenarios which one can encounter while fulfilling their duties. A group activity was arranged where the operations of the different sections at Inland Revenue were brought to the fore. For those of us who were oblivious to the sundry tasks performed at Inland Revenue, the group session proved extremely informative.

To conclude, Miss Billy's presentation covered most, if not all, aspects of customer service adequately. I must admit her well-prepared and thoroughly planned display did exceed our expectations and impacted positively on our work culture.

## OFFICE OF THE DEPUTY COMPTROLLER

**WITH** the death of the Filing Time 2007 season, it was back to business as usual over at the Office of the Deputy Comptroller: Mrs. Vincent, Ms. Willie and Ms. Simon al dealing with the Objections and Enforcement cases involving taxpayers who were not satisfied with their assessed returns and would like a re-evaluation, as well as those who were somewhat behind on their maintenance of a proper tax culture in their business.

However, down in the Vieux-Fort Office, after dealing with

the South's fair share of taxpayers coming-in to file their returns, the southern division continued the routine of multi-tasking the specialized duties of the Sections at the main office in Castries.

Commencing 01st June 2007, the Vieux-Fort Office received two alumni of the Vieux-Fort Comprehensive Post Secondary School for one month under the tenure of the Job-training Programme. They were Mss. Sherma Meluce and Sarah St. Marie. Along with the aforementioned, Ms. Melicia Flavien came-in under a

Government Summer Work Programme for two months. We wish them all success in their career endeavours in the future and hope that they make optimal use of the skills they have attained from working at the Vieux-Fort Office.

Apart from the day to day activities, the entire staff attended an Internal Customer Service course aimed at improving working relations of staff at the Department i.e. the internal customer, in order to fulfill more efficiently the Department's objectives in servicing the taxpayer optimally.

We had the opportunity to vocalize all that we thought were lacking and needed to be improved in the Department, as well as interact with the staff up North, whom we rarely see. It was truly a refreshing experience on our outlook both of our Department and of our colleagues.

## ADMINISTRATION

**T**HE period April to May 2007 went by very quietly in the Administration Section.

The Department had just gotten past the Filing Time frenzy and was now in a mode of recuperation.

Everyone came to work and did their jobs without the major disruptions of taxpayers running up and down, flashing their return forms and pleading for help in filling them out.

Refunds attended to the normal requests and issued the cheques. Customer Service

attended to the taxpayers' enquiries, complaints, pleas for assistance and other needs, and the rest of the Admin Section got on with the general running of the Department administration-wise.

Another reason for the quietude present in the Section was because some of the Department's new staff were attending the *Basic Income Tax Law & Practice* course, where the staff was introduced to the proper use and interpretation of the Income Tax Act, otherwise known as the Department's "Bible."

The staff attending the course were: Jed Charles, Kurtwell Felix, Crystal Joseph, Heather Joseph and Cheryl Philip.

Later during the quarter, all staff had to attend another session labeled the *Internal Customer Service* course. This course had as its attendees: Jed Charles, Priscilla Dwarkasingh, Mary Faisal, Kurtwell Felix, Jean Gaston, Lisa Goodman, Shakeena Jean, Crystal Joseph, Heather Joseph, Garima Mitchell, Barbara Monroe and Cheryl Philip.

It was an interesting period for

those attending the workshops/sessions/courses, as it provided a change in atmosphere and presented a forum in which staff had to work together through the use of exercises.

This, in turn, ended-up with staff having a deeper and a better appreciation of each other's tasks as a member of staff of the Department. The exercises also helped those to home-in on their informal skills and develop those skills needed in the effective execution of the Department's objectives and policies.

## TRAINING

BY CHERYL PHILIP  
HUMAN RESOURCE OFFICER

**D**URING the quarter of April, May and June 2007, the Department invested a lot of time in improving both the personal skills of the newer staff of the Department in terms of use of the Department's Income Tax Act with the *Income Tax Law and Practice* workshop, as well as the *Internal Customer Service* course, which gave a refreshing viewpoint of one's colleagues at the office as customers themselves, requiring professional and timely service from you in order to fulfill the bigger picture of the Department's objectives in providing efficient and quality service to the taxpayer.

Other members of staff went to specific conferences and workshops during the period as

well:

On the 4th April, Terrence Ferguson and Marlene Leon attended the *15th Annual Oracle Conference* in Trinidad & Tobago.

On the 15th-17th May, Peggy Ann Soudatt, ACIR Administration, attended the *Regional Managers Training & Development Programme STEP4—Taxpayer/Customer Service* programme in Antigua. The programme was organised by the Office of Technical Assistance (COTA) in collaboration with the U.S. Treasury Department Office of Technical Assistance (USOTA).

On the 12th June Priscilla Dwarkasingh and Lesley Ann Modeste attended a workshop organised by the Ministry of the Public Services titled "Cost Effectiveness & CRISP

Execution in the Public Service" And finally, on the 25th-29th June Giselle Jn. Baptiste attended a workshop: Operations of SIGTAS—organised by Oracle Corporation Caribbean Agent-Illuminat (T&T) Ltd.

It is hoped that everything learnt will be usefully administered in order to raise the standard of functioning for the Department.



## 10th ANNUAL REVENUE GAMES

The Inland Revenue Sports Club has begun a series of fund-raising activities for the hosting of the 10th Annual Revenue Sports Games. It began right here in St. Lucia ten years ago with most of our regional Revenue departments coming for a fun weekend of sporting and fun activities which has continued with a different host country every year after that.

It offered an opportunity for our regional colleagues to build bridges and develop lasting friendships which will surely prove vital in the near future as the CSME gradually takes effect.

Staff members, please join-in the activities and offer your support in any which way you can to see this tenth year of Revenue Games a success.

# THE TAX HAVEN

## A DEFINITION

COURTESY  
[www.lectlaw.com](http://www.lectlaw.com)

**W**E all know about countries as tax havens, especially in the Caribbean, where lots of foreign investors run in order to escape high tax rates in their country of origin. Different jurisdictions tend to be havens for different types of taxes, and for different categories of people and/or companies. Lets touch lightly on its definition, as well as identify a few Caribbean tax havens:

*The Organisation for Economic Co-operation and Development (OECD)* indicates three main factors in defining a tax haven:

- 1.No or only nominal taxes. Tax havens impose no or only nominal taxes (generally or in special circumstances) and offer themselves, or are perceived to offer themselves, as a place to be used by non-residents to escape tax in their country of residence.
- 2.Lack of effective exchange of information. Tax havens typically have laws or administrative practices under which businesses and individuals can benefit from strict secrecy rules and other protections against scrutiny by tax authorities. This prevents the effective exchange of information about taxpayers who are benefiting from the low tax jurisdiction.
- 3.Lack of transparency. A lack of transparency in the operation of the legislative, legal or administrative provisions is another factor used to identify tax havens. The OECD is concerned that laws should be applied openly and consistently,

and that information needed by tax authorities to determine a taxpayer's situation is available. Lack of transparency in one country can make it difficult, if not impossible, for other tax authorities to apply their laws effectively and fairly. 'Secret rulings', negotiated tax rates, or other practices that fail to apply the law openly and consistently are examples of a lack of transparency. Inadequate regulatory supervision or a government's lack of legal access to financial records are contributing factors.

However the OECD realized that its definition caught certain characteristics of its members' tax systems (most developed countries have low or zero taxes for certain favoured groups). Its later work has therefore focused on the singular aspect of *information exchange*. This is generally thought to be an inadequate definition of a tax haven, but is politically expedient because it includes the small tax havens (with little power in the international political arena) but exempts the powerful countries with tax haven aspects such as the USA and UK.

In deciding whether or not a jurisdiction is a tax haven, the first factor to look at is whether there are no or nominal taxes. If this is the case, the other two factors – whether or not there is a lack of effective exchange of information and transparency – must be analysed. Having no or nominal taxes is not sufficient,

by itself, to characterise a jurisdiction as a tax haven. The OECD recognises that every jurisdiction has a right to determine whether to impose direct taxes and, if so, to determine the appropriate tax rate.

**Caribbean Tax Havens:**

### ANGUILLA

This British Dependent Territory has modern legislation - The Companies Ordinance of 1994. Most names are available, however you can not use "Bank", "Trust", "Investment" or names that suggest the patronage of the Royal Family without authorization. Names must end in "Ltd.", "Corporation", "Corp.", "Incorporated", "Inc.", "SA", "GmbH" or similar designations. Incorporations can be completed within 24 hours and shelf corporations are available.

It is permissible to have bearer and no-par-value shares as well as to operate with one director, who may also be the secretary, and who may reside outside of Anguilla. While meetings may be held anywhere, a Registered office and agent must be in Anguilla, but no information concerning shareholders or directors needs to be disclosed. The minute book, resolutions, seal and shareholder register must be kept at the registered office.

A government fee of \$250 is due upon incorporation - assuming capitalization of \$50,000 or less - and while no annual return is required an annual fee in the amount of \$250 must be paid, assuming all shares are no-par-value. Anguilla does not have any exchange controls or double tax treaties.

ANTIGUA

In the 1970s and 80s many of the British Dependent Territories were happy to accept applications for banking licenses with a minimum of paperwork and fuss - resulting in significant scandals and criminal activity. In reaction, the UK imposed increased standards on the territories which are now unwilling to receive applications from anybody other than existing international recognized banks. Therefore, jurisdictions such as the British Virgin Islands, the Turks and Caicos Islands, Cayman Islands, etc., are worthy of consideration mainly for major financial institutions.

Antigua, an independent Caribbean island Commonwealth member, is an exception and is currently welcoming applications for banking licenses. The licenses require a paid in capital of US\$1,000,000, but no requirements regarding capital reserves or loan ratios are imposed, and the physical presence that a management company can provide is all that is needed.

Antigua therefore represents a possibility to obtain a banking license without the considerable costs which would be experienced in most other competitive jurisdictions. While capital requirements are higher than that of some of the Pacific rim Islands, but the license granted is broader.

### BAHAMAS

The Bahamas, 700 islands with most of the inhabitants residing in Nassau and Freeport, are located 50 miles off the east coast of Florida and are an increasingly popular tourist destination.

An independent member of the British Commonwealth and a major financial center in its own right, it has modern and flexible legislation that allows the operation of companies formed under the International Business Act of 1989 in the way most desired by the beneficial owner. Government fees are only \$100 capital duty and \$100 annual fee for a minimally capitalized company and it is possible to form companies within 48 hours. Bearer and no-par-value share are permitted and one director, who may also be the secretary, may run the corporation from any location. A registered office and agent in the Bahamas must maintain minimal records, copies of the register of members and directors together with an impression of the seal. There is no public register, no annual return or accounts needs to be filed, no exchange controls which apply to International Business Companies and it has no double tax treaties.

The Bahamas welcomes applications for unrestricted and restricted banking licenses and both types must maintain reserves in cash, or near cash, equal to 20-25% of deposits. There is a minimum US\$1,000,000 capitalization for an unrestricted license. This type of license can be obtained by private individuals, but only if they are able to show that they have a substantial net worth. Unrestricted licenses are more readily granted to financial institutions.

A restricted license enables the holder to provide banking and/or trust services only to a specified class of associated individuals or companies who would normally be named in the license or in a schedule attached to the license. The minimum paid up capital is only US\$100,000 and fees for obtaining a restricted license are in the order of US\$35,000.

#### **BARBADOS**

Barbados has modern and

flexible legislation which allows for cost effective and speedy incorporation and operation of companies formed under the International Business Companies Act of 1982. Government fees are \$390 capital duty and \$100 annual fee for a minimal authorized capital company. Bearer shares are not permitted and one director, who can also be the secretary, may operate the company from any location. The public register of companies discourages company names with terms such as "International" or "Global" and names can not include "Imperial", "Bank" or "Insurance" without licenses. Audited accounts need to be filed if total assets or revenue exceed \$500,000. There are no exchange controls and Barbados has double tax treaties with the USA, UK, Canada, Norway, Sweden, Denmark and Switzerland. A registered office and agent must keep records, shelf companies are not available and details of shareholders are submitted to the Ministry of Finance.

#### **BELIZE**

Belize, formerly known as British Honduras, is an English speaking Commonwealth country on the sweltering Caribbean coast of Central America between Mexico and Guatemala. It has a Westminster style constitutional arrangement, free elections and peaceful transfers of power. A British garrison acts as a symbolic deterrent to Guatemala's long held territorial claims.

The country is relatively poor and under-populated (est. 212,000 in an area about the size of Wales or New Hampshire), but offers significant opportunities in the tourism, agriculture, marine culture and finance sectors, at least according to some experts. Its government operates an "Economic Citizenship Program" intended to stimulate inward investment and harness managerial and entrepreneurial skills.

Belize has modern and flexible legislation which allows for very cost effective and speedy incorporation and operation of companies formed under the

International Business Companies Act of 1990. Government fees are only \$100 capital duty and \$100 annual fee for a minimal authorized capital company. Bearer and no-par-value shares are permitted and one director, who can also be the secretary, may operate the company from any location.

There is no public register, no accounts or annual returns need to be filed, no exchange controls are applicable to International Business Companies and there are no double tax treaties. A registered office and agent must keep minimal records such as copies of the register of members (minimum one shareholder) and directors with an impression of the seal. Shelf companies are available and company names may not include "Imperial", "Bank" or "Insurance" without licenses.

#### **BERMUDA**

Bermuda is a highly respected jurisdiction with tax neutrality and no exchange control for non-resident undertakings. It has an established stock exchange, political stability, modern business laws, a good judiciary and a very well developed professional infrastructure including a very respected captive insurance industry. With easy access by sea and air it's one of the favorite tax havens and destination resorts for the British and American establishment. It is also expensive.

Annual government fees are \$1,680 and there are no double tax treaties. Companies formed as exempt under the Companies Act of 1981 enjoy substantial advantages, including: No capital duty; No restriction on where meetings are held; Bermuda directors are not required; No restriction on location of meetings; No annual return or filing, and; No exchange controls. However, there is public disclosure of directors, officers and shareholders, but not accounts. Identity of the beneficial owners must be disclosed to the authorities prior to incorporation

and the granting of tax exempt status. There are no double tax treaties.

Bermuda is recommended for substantial public business enterprises, especially insurance activity or companies which wish to list their shares.

#### **BRITISH VIRGIN ISLANDS (BVI)**

The BVIs consist of 50 Islands located in the Caribbean approximately 50 miles east of Puerto Rico and has benefited greatly from extensive promotion by attorneys who moved their base of operation there from Panama during the Noriega regime.

The International Business Companies Act of 1984 is very flexible and permits the operation of companies with a minimum of fuss and cost. There is an annual tax of \$300, provided the capital does not exceed \$50,000, no-par-value and bearer shares are permitted and the company can be managed by one director without a secretary from any location. A registered office and agent are required. The only information on public file is the memorandum and articles, registered office and agent. There are no exchange controls or double tax treaties. Registration can be completed in one day and shelf companies are available.

#### **CAYMAN ISLANDS**

The Cayman Islands are a group of three islands in the Western Caribbean and one of the most well established of the Caribbean jurisdictions with a very sophisticated legal and banking infrastructure. It has recently made legislative changes to provide for greater flexibility, but is still expensive in comparison with other Caribbean jurisdictions.

It will be interesting to note how similar our own Tax policies may develop in the future with other CARICOM countries as we slowly move towards a single economy. With the introduction

# INCOME TAX LAW & PRACTICE COURSE



**I**T is always a positive thing when management of any entity takes the time and effort to formally train its staff in the particular cultures and processes of its offices.

In interviewing one of the ACIRs of the Department, it was reiterated the high degree of importance training held for the members of staff, as it allowed persons the opportunity to formalize all the

acquired on-the-job knowledge into a more profound grasp of the fundamentals of Tax Law. Additionally, it was opined that training also equipped persons with the requisite know-how to perform their roles and duties in a more efficient and effective manner.

The ACIR was thus truly satisfied with the level of participation taken by staff in studying the use the Tax Act of

St. Lucia and its relevance. Management was also applauded for having “taken the initiative in training the staff in the area of Tax Law, as this serves the basis on which the Department’s mandate is achieved.

“Training in the *Basic Income Tax Law & Practice* enhanced the tax officer’s ability to effectively interpret and apply Tax Law to the many situations

that tax officer is expected to encounter during their career.” It was related that the enhanced ability of officers to interpret Tax Law will serve as a base for ensuring that all taxpayers are treated fairly and appropriately.

We, in turn, feel that this ACIR has *nothing* to worry about and *everything* to feel confident in!

# V.A.T. IN THE CARIBBEAN AN ANALYSIS

BY HAYDEN BOYCE,  
[www.bahamasb2b.com](http://www.bahamasb2b.com)

**B**AHAMIANs [as well as the rest of the Caribbean] are craving simplified information about the VAT.

Even when this is provided there will always be the question of whether VAT will be the appropriate form of taxation for The Bahamas.

The truth is that countries sometimes have necessity imposed upon them, either because their economies require restructuring in a manner with which the principles of a VAT seem commensurate or because they are forced to do so by external influences.

Alan Tate, an International Monetary Fund (IMF) official and a foremost writer on indirect taxation noted that countries adopt a VAT because they are dissatisfied with their existing tax structure.

He also stated that this dissatisfaction falls into one, or possibly all of four categories:

“ VAT being a tax on goods and services will have a broader base, falling on goods and services that had hitherto not been taxed.”

- (1) the existing sales taxes are unsatisfactory;
- (2) a customs union requires discriminatory border taxes to be abolished;
- (3) a reduction in other taxation is sought;
- (4) the evolution of the tax system has not kept pace with the development of the economy.

Apart from the dilemma posed by the pending Free Trade Area of the Americas (FTAA), fiscal problems have been afflicting many economies, especially small developing states, with a consequential effect on public financing.

This state of affairs has led several countries around the world to restructure their tax systems.

In fact, the European Union (EU) requires that all of its members institute a VAT system. It is also anticipated that the FTAA will not be tolerant of tax systems that allow imposition of customs import duties.

Therefore, the gradual process of import tariff reductions will be accelerated to complete abolition in the near future; perhaps as soon as 2005.

As more of The Bahamas' trading partners move over to this form of indirect taxation the pressure on this country to change will gain momentum. Perhaps this time is rapidly approaching.

A review of the history of the implementation of VAT in the

Caribbean and elsewhere reveals that most countries which went this route did economic impact studies to determine whether pertinent economic indicators were favourable to its imposition.

Using Barbados, Trinidad and Tobago and Jamaica as examples, some of the considerations uppermost in the minds of authorities included: the likely impact on the industry sectors; the likely impact on the price of basic food items; the likely impact on tourism; the level of Gross Domestic Product (GDP); the amount of revenue needed; the standard rate necessary to achieve the revenue needed; the number and types of goods to be zero-rated and the services that should be exempted.

They also did reviews of the existing tax system to determine what taxes should be abolished or reduced in favour of the VAT and whether there would still be a shortfall.

In the case of The Bahamas, it is not likely that a VAT with an acceptable standard rate of about 15 per cent to 17 per cent would compensate for the removal of import duties and other consumer taxes if imposed only on goods, whether imported or locally produced.

However, as was stated in last week's column, VAT being a tax on goods and services will have a broader base, falling on goods and services that had hitherto not been taxed. It is this broad base that makes VAT so effective as a revenue earner.

Being a broad-based tax, it can be applied at a low rate and yet have a high yield. It can therefore be used to simplify a tax system by

rolling the several and different rates of consumption taxes and other indirect taxes into a single tax.

Again, it is important to note that only business persons of the size and capability to adhere to good record-keeping should be in the VAT system.

Such persons are chosen on the basis of the size of their annual sales.

In Trinidad and Tobago, person making annual gross sales of \$100,000, in Jamaica persons making \$144,000 in annual gross sales and in Barbados persons making \$60,000 in annual gross sales are registered for the VAT system.

However, the law may set conditions under which persons operating below the threshold level can be registered.

There will naturally be fears that people and businesses in The Bahamas may try to avoid paying VAT.

It is important to note that VAT, once efficiently managed, is difficult to evade because it is self-policing. In order for a registrant to satisfy a claim for input tax, he or she must have relevant invoices.

Because The Bahamas is heavily dependent on tourism and its ancillary services, at a time when global competition in the tourism industry is so acute, there is need to carefully monitor the impact of cost on the industry.

In most tourism destinations like Barbados and The Bahamas the principal concerns are with accommodation and food.

(continued overleaf)

*(continued from overleaf)*

There is some thinking that once

the cost of accommodation is kept at acceptable levels, other costs can be allowed to follow market forces.

Indeed, some countries have employed this approach and have either introduced a special rate on accommodation in hotels and guest houses. In any event, it is accepted that hotel accommodation should be taxed.

This approach, however, is affected by the recent phenomenon of all-inclusiveness which can include not only accommodation and food but also ancillary services like marine entertainment.

The Bahamas should be forewarned that governments' insistence on segregation of costs is usually met by stubborn resistance from the private sector.

The presence of casinos also plays an important role in tourism in The Bahamas. This is the type of industry that does not lend itself easily to a VAT and to some extent it should be exempted, with the regular licence fees or similar impositions forming part of the revenue structure.

In any event, an economic review of the current tax and revenue structure should be geared towards avoiding a reduction of revenue from this and similar concerns like eco-tourism.

In almost all countries, The Bahamas being no exception, certain goods like petroleum products, tobacco products and alcoholic beverages have traditionally been high-level providers of revenue.

Most countries introducing VAT have adopted measures within the VAT system to

maintain this high level of revenue.

In any system involving a VAT there are at least four options available to government.

These are: the application of the standard rate, application of a special rate, exemption of the service and zero-rating of goods and services.

The standard rate is normally the highest rate and is applied to those goods and services from which it is considered appropriate to raise maximum revenue. Consumer durables and luxuries like television sets and jewelry fall into this category.

The special rate is normally applied to goods and services which it is believed should contribute to the revenue but whose continued viability could be seriously impaired by application of a high rate of taxation.

It is generally accepted that hotel accommodation should carry a tax but in most instances the standard rate of tax is considered too high for the health of the industry.

In Barbados where the standard rate is 15 percent, a special rate of 7.5 percent or half of the standard rate is applied.

In Trinidad and Tobago where the standard VAT rate is also 15 percent, hotel accommodation is not affected by VAT but is taxed at a lower rate under a different tax regime.

There are some goods and services that because of their significance as basic to the health, peace and infrastructure of the society, it would be unproductive to risk a price rise by virtue of taxation.

Medicines and most basic food items like milk, rice, potatoes and vegetables pay zero percent.

Taxing goods at the rate of zero percent creates a distinct

**“Government will also have to ensure that the cost of developing, staffing, equipping and managing the system does not get out of hand.”**

advantage over any other treatment. Absolutely no tax stays with the business offering goods and/or services for sale because the business is in the system and is allowed to submit returns and to claim all input tax paid. This would ensure that tax paid on things like electricity, telephones, capital goods and so on, is refunded.

Where it is difficult or impossible to determine value added or where it is not deemed necessary to refund the minimum collateral tax impacting transactions of the services, they are placed in a category known as "exempt". Financial services and medical services usually fall in this category.

In the case of exempt services, the business is not permitted to register for exemptions and even if it is also engaged in the sale of taxable goods and/or services, it normally gets no credit for exemptions except in special circumstances to be decided by the authorities such as the Customs Department on a case-by-case basis.

If The Bahamas introduces a VAT, the principal challenges to the business community here will be in record-keeping.

VAT requires precise and extensive record keeping and invoicing. This may mean expenditure by several business houses, especially the smaller ones, to bring their record keeping capacity up to an acceptable level. Some people

see this as a good thing for business generally.

VAT is known as an accountant's dream. On the assumption that The Bahamas adopts a VAT, you will perhaps see a proliferation of accountants here as there is in Barbados.

Government will also have to ensure that the cost of developing, staffing, equipping and managing the system does not get out of hand.

Most government, especially in developing countries, would want to keep costs of managing the system below two percent of revenue.

Some Caribbean governments have adopted measures like tax credits through their Inland Revenue Department to persons with incomes below a certain level. Charitable and sporting organisations have also been given exempt consideration.

These are just general observations based on a critical analysis of VAT in the rest of the Caribbean.

It is against this background that I truly believe that despite the present concern, fears and opposition to its introduction, a VAT would be a wonderful thing for the Bahamas.

# TAKING RESPONSIBILITY THE BIGGEST FREEDOM

BY ANONYMOUS

**L**ET'S go for a bus ride, shall we?

You've actually been traveling in this bus for quite some time already. This bus is called your life.

It has a destination plate on the front.

You have simply never read it before, as you're not accustomed to being on the outside of your bus.

You choose who's driving, while you're hanging around and enjoying the ride. Some choose their mother or father (or both) to drive their bus; others nominate a social, political or spiritual figure to drive their bus, whilst others choose a significant other. In fact, most people I know nominate another to drive THEIR bus.

The driver may change over the years or as a result of different events.

For a while, you may even nominate your physician or therapist to be the driver of your bus, perhaps even your lawyer or accountant.

In most instances, you choose experienced drivers. They know how to shift the gears, use the blinkers and operate the radio.

Since you don't know your destination, they'll take you where they think you ought to be going. It will ultimately be their choice of destination.

And while your designated driver drives, you can enjoy the ride. Walking from the first row to the last one, living happily (or not) in your little bus, called life.

Since you have nothing of significance to do, you may get a little bored. Most people do.

Some fall asleep, hoping to fall into an interesting dream. Some fill the emptiness with anything they can find in the mini-bar of the bus. Others still, turn on the little blue box at the rear of the bus, staring at the moving pictures, describing other people and their bus journeys.

It's not until many years and as many miles down the road that the realization dawns upon them, "Hey, I'm missing my journey". I see it everyday. Some wake up 5 or 10 years too late only to discover that while their spouse drove their bus, they missed their children's early years. Others wake up with a bang, usually around their forties to realize that while their boss was driving their bus, they forgot what youth, playfulness and joy were.

Most people are afraid to drive their own bus.

They believe that they're not capable. Not good enough. They were conditioned to believe that others know better. Some think that they have no choice. They were born with a driver and that's life. For many it's comforting to know, that there's always someone else to blame for any bump in the road or a turn that leads to a dead-end.

However, there are also consequences and costs for not driving your bus... You feel powerlessness as a direct result of not having control over your life.

You are traveling in a direction that in reality has nothing to do with where you really wish to be... your destination. Usually your driver chooses the

radio station he or she likes. And this constant background music might not be to your liking. And most of all, traveling as a passenger in your own bus is infinitely boring and unfulfilling.

So, how about taking the steering wheel in your own hands.

Give your driver a 15-second-notice and then throw him or her off your bus. See what happens.

When you sit in front, you'll see the road ahead of you. You're not that busy with all that surround you from the sides. You don't spend valuable time, looking back through the rear window.

Everything is new, fresh and exciting.

The bumps on the way are still there, but this time you choose how to handle them. You can even choose your favorite radio station.

I can hear some of you screaming from the back, "God is my shepherd, God is my designated driver!" Well folks, here's a newsflash: if God is your shepherd, then his job is to navigate, not to drive! Make friends with

“Most people are afraid to drive their own bus. They believe that they're not capable.”

God, Spirit, the Universe, your Higher-Self - whatever you want to name it. Invite him (her) to sit next to you and ask him what's your destination. He knows it. Then, along the way, you can ask him what's the best turn here and there... and listen carefully. When you get the answer - it is still YOU who choose to follow the directions, or turn the other way.

Remember, the destination is only an excuse for the journey. So, enjoy the ride.

PS. Wanna know what is written on the destination plate of YOUR bus?

It says... freedom!



# Taxin' Ur Brain

## SUDOKU

**SUDOKU** is very easy to play. First you have to fill in all the empty boxes with numbers ranging from 1 to 9. However, each number can appear only **ONCE** in a row and only **ONCE** in a column and only **ONCE** in each group of nine (9) boxes within the grid.

Good luck!

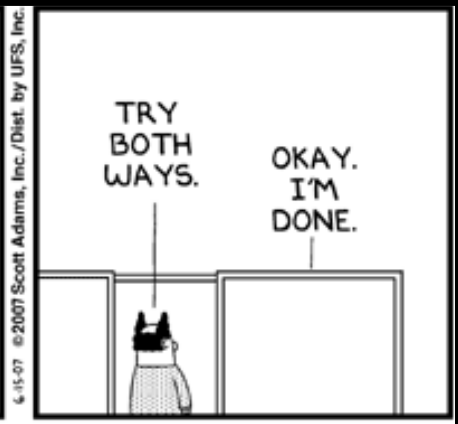
	4	6			8			
3		7		9		2	5	
	5				7	6	9	8
6	2	3			4			
4								5
			9			4	2	3
1	6	2	8				4	
	3	8		2		7		6
			6			3	2	

## OFFICE LAUGH



"Now, I can't wait to open your suitcase"

# CHUCKLES



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