



VALUE ADDED TAX

SMALL ISLAND ECONOMIES: THE BARBADOS PERSPECTIVE

**Presented by:
Annette Weekes
Director, Value Added Tax
BARBADOS**



VALUE ADDED TAX

THE BARBADOS PERSPECTIVE

- Background
- Introduction
- Rates
- Statistics Before and After VAT
- Key Players
- Who Should be Registered
- Issues and Concerns
- Looking Ahead
- Equity
- Conclusion

N Caribbean Sea

Map of the Caribbean

Gulf of Mexico

Atlantic Ocean





Map of Barbados

Atlantic Ocean

Atlantic Ocean

13°15'



59°30'



Barbados Flag





Barbados - Background

- Independent since November 30, 1966
- Population approximately 267,000
- Tourism-based economy
- Westminster form of Government



VAT

- First explored the idea of introducing a VAT back in 1978.
- Value Added Tax was officially implemented in Barbados on January 1, 1997.
- Replaced 11 different taxes



Prevailing Rates

Four rates are:

- standard rate of 15%
- concessionary rate of 7.5% - holiday or vacation accommodation
- rate of 0% or zero-rated
- some goods and services are also classified as exempt



Indirect Tax Revenue Before VAT

1991	\$531.9 million
1992	\$484.6 million
1993	\$519.4 million
1994	\$562.8 million
1996	\$613.1 million
1995	\$603.1 million



Indirect Tax Revenue After VAT

1997	\$835.8 million	\$411.2 million (49.2%)
1998	\$878.6 million	\$452.8 million (51.5%)
1999	\$864.2 million	\$438.0 million (50.7%)
2000	\$909.2 million	\$501.0 million (55.1%)
2001	\$894.7 million	\$488.4 million (54.6%)
2002	\$892.8 million	\$502.4 million (56.3%)
2003	\$993.4 million	\$548.8 million (55.2%)



Key Players

- **The Comptroller of Customs** – the accounting officer; has extensive powers under the VAT Act
- **The Value Added Tax Division** – headed by a Director
- **Registrants** – individuals/corporations responsible for revenue collection
- **Consumers** – bear the full burden of the VAT



Who Should be Registered

- annual gross standard rated, concessionary-rated and zero-rated supplies are BDS\$60,000 (equivalent to US\$30,000) or more
- average monthly taxable supplies is BDS\$5,000 (equivalent to US\$2,500) or more
- promoters of public entertainment, licensee or proprietor of places of public entertainment



Relief for Non-Registrants

- Approved educational institutions
- Diplomatic missions, consulates and international organizations
- The international financial sector
- Those who export goods bought locally



Concerns

Some areas of concern:

1. Registrants

- Issuance of proper tax invoices in a timely manner
- Request for deregistration means stop filing returns
- Notification of any changes to the business
- Keep proper records and books of account
- Keep records for 7 years



Concerns con't

2. VAT Division

- Increased compliance
- Reducing arrears
- Processing refunds more timely
- Reaching audit targets
- Continual staff training
- On-going public education



Issues for Discussion

- Some issues to be considered for discussion:
- Group registration - groups of enterprises to register for VAT as a single registrant
- Potential revenue loss from implementation of FTAA
- Repercussions of increased VAT rate
- Concentration on the collection of current and arrears payments not application of fines



Looking Ahead

- Electronic filing by registrants
- Reduce arrears
- Increase compliance
- Reduce turnaround time of refunds
- Increase staff training
- Continue public education



Recommendations

An international organization made the following recommendations:

- that the standard rate of VAT be raised from the present rate of 15% to 17.5%.
- remove the VAT zero-rating food items.
- Interest rates on arrears reduced to 2-3 points above prime
- concessionary rate of 7.5% increased to 10% and then 17.5%.



Equity?

Equity:

- lowers tax rate
- broadens base

Inequity:

- economically challenged pay same rates
- shadow economy continues



Conclusion

Impact of VAT on small island economies:

- lowers overall tax rate
- broadens the base
- more efficient way of collecting revenue
- more transparent tax
- revenue exceeded estimated amounts
- tax administration often is tax policy



Effects of VAT

- Greater disposable income
- Increased savings and investments
- Increase in capital works projects
- More vibrant economy
- Improved standard of living



The End

**Value Added Tax Division
Customs and Excise Department
Ministry of Finance
Government of Barbados**

“Thank You”

