



2016 Budget Commentary

Tax Services

August 16, 2016

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Contents

| | | |
|----|---------------------|----|
| 1. | Executive Summary | 3 |
| 2. | Economic Overview | 5 |
| 3. | Budget Commentary | 6 |
| 4. | Contact Information | 14 |

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Executive Summary

■ The Minister of Finance and Economic Affairs, the Honourable Christopher Sinckler delivered the much anticipated Government’s Financial Statement and Budgetary Proposals on Tuesday, August 16, 2016. The following are extracts of the Minister’s presentation. The Minister declared that two key realities have emerged:

- The Barbados economy has finally started to turn around with growth resuming, unemployment declining, and potential investment expanding.
- While some setbacks have occurred in our fiscal consolidation processes it cannot be denied that the economy has made significant progress from the worst positions we were in.

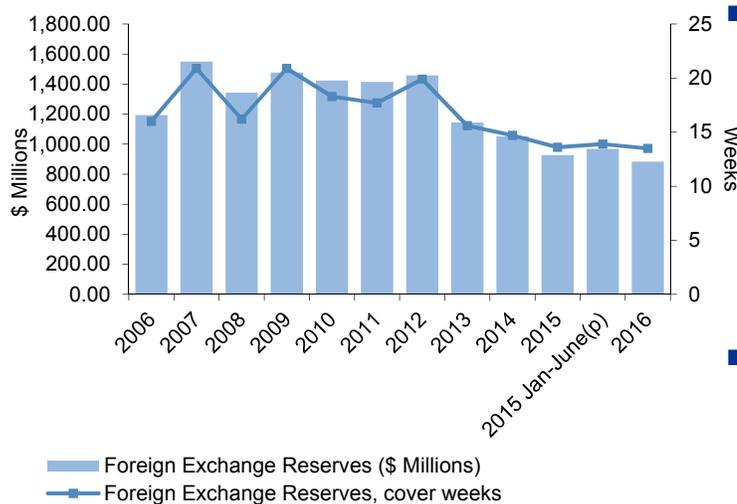
■ The Minister noted that there was still significant work to be done to forge a faster rate of economic growth, supported by a more secured foreign exchange reserve position and by a fiscal deficit at a rate lower than that of GDP expansion to reverse debt growth while ensuring that government can sustain the provision of an acceptable quality of social services.

■ The Minister stated that Government had established the following priorities for the planning period 2016 – 2018:

1. Improving the foreign reserves position through continued disciplined fiscal policy and enhancement measures for higher earnings of foreign exchange;
2. Accelerating GDP growth to reach at least 2.5 percent by the end of 2017;
3. Further reducing the fiscal deficit by addressing both expenditures and revenues so that by 2018 the deficit will be no higher than the rate of growth of the economy
4. Through the attainment of actions 2 and 3, stabilizing the national debt by 2018 and thereafter reducing it; and
5. Preserving access to key social services provided at the highest quality and financed in a sustainable and credible manner.

■ The Minister reported that the Barbadian economy continues to be restructured and diversified by incentivizing and financing the growth of new sectors such as alternative energy and cultural industries.

Foreign Exchange Reserves and Cover



■ In his view, the current reserves position in Barbados is more than adequate for the country’s needs. This is supported by the Central Bank’s second quarter review of the Barbados economy which showed that for the first six months of this year the economy utilized approximately \$3,083 million of foreign exchange while recording inflows of \$3,040 million notwithstanding the delays in the start-up of major private and some public sector projects.

■ For small, vulnerable and highly open economies like Barbados, the most important economic variable is that of the capacity to earn, save and ultimately retain foreign exchange.

Executive Summary

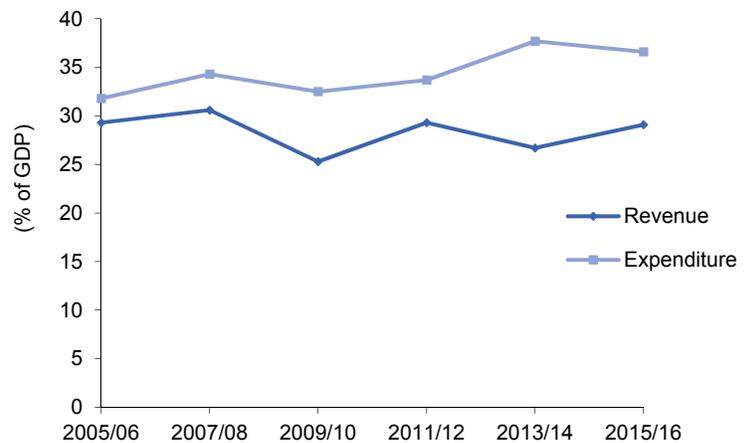
■ Principal concerns at this stage as described by the Minister:

- debt levels are way too high and still climbing;
- the fiscal deficit is still too large and must be better controlled;
- as a result of the two variables above, growth levels are being seriously restricted as the fiscal space cannot be found to assist in further unleashing growth; and
- because of a combination of all three of the above, the social development system is increasingly being compromised as the cost of sustaining it becomes more challenging.

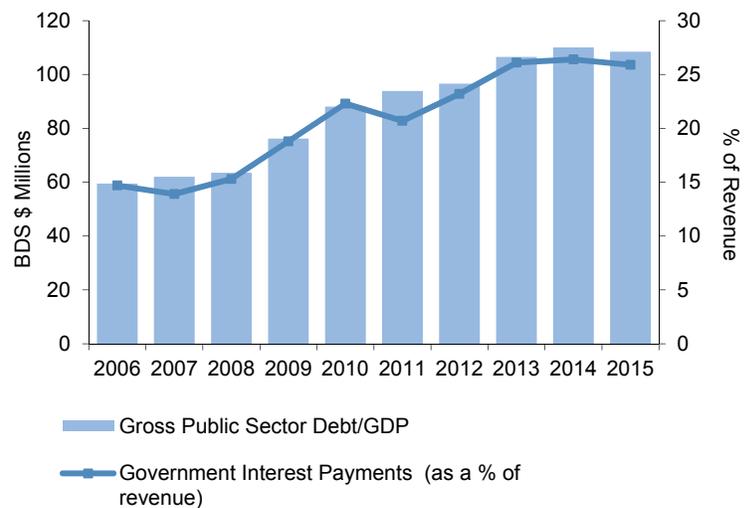
■ The fiscal deficit at the end of fiscal year 2013/14 was near 12% of GDP. By the end of fiscal year 2014/15 the deficit was reduced on a cash basis to 5.8%. However, the gains being made were lessened by the servicing of major debt service payments relating to Barbados Agriculture Management Company and Barbados Water Authority, resulting in a deficit of 6.9% on a cash basis in 2015/2016.

■ Based on information from the Accountant General, current revenue for the period April 1 to June 30th, 2016 was \$602.6 million, an increase of \$32.5 million or 5.7% more than the amount recorded for the corresponding period during 2015. The amount was \$15.2 million less than originally projected. Total expenditure for April to June 2016 was \$1,038.3 million compared to \$1,006.6 million in the corresponding period for 2015. The original projection for the period was \$1,050.8 million.

Revenue and Expenditure as a % of GDP



Gross Government Debt/GDP and Government Interest Payments (as a % of Revenue)



Economic Overview

- Now that the foundation for returning the Barbados economy to a sustainable growth path has been established, and consistent with the Medium Term Fiscal Strategy, the Government plans to push forward its medium term economic agenda. Below is a comparison of the medium term objectives included in the 2015 and 2016 budgetary proposals.

| 2015 medium term objectives | 2016 medium term objectives |
|--|---|
| Achieve continued stabilization and growth of the International Reserves | Improving the foreign reserves through continued fiscal policy and enhancement measures for higher earnings of foreign exchange |
| Reinvigorate and deepen economic growth to a minimum annual average of between 2.5 to 3.5% of GDP | Accelerating GDP growth to reach at least 2.5% by the end of 2017 |
| Reduce the fiscal deficit to be at least no greater than the rate of GDP growth by the end of fiscal 2017, and nearly balanced budget by 2020 | Further reduce the fiscal deficit by addressing both expenditures and revenues so that by 2018 the deficit will be no higher than the rate of growth of the economy |
| Achieve a primary surplus of at least 4% by the end of fiscal 2018 and thereafter annually of about 5% | |
| Establish and achieve a medium term debt anchor that uses the above outcomes to stabilize debt growth by 2018 and start the process of reducing the debt to GDP ratio to a target below 100% in the next five years. | Through the activities of 2 and 3 above stabilizing the national debt by 2018 and thereafter reducing it |
| | Preserving access to key social services provided at the highest quality and financed in a sustainable and credible manner. |

| Economic Dashboard | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2015 Jan-June(p) | 2016 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|-------|------------------|-------|
| Economic indicators | | | | | | | | | | | | |
| Real Growth (%) | 5.7 | 1.7 | 0.4 | (4.0) | 0.3 | 0.8 | 0.3 | (0.1) | 0.2 | 0.9 | 0.0 | 1.3 |
| Inflation (%) | 7.3 | 4.0 | 8.1 | 3.6 | 5.8 | 9.4 | 4.5 | 1.8 | 1.8 | (1.1) | 1.0 | (1.4) |
| Foreign Exchange Reserves (\$ Millions) | 1,194.1 | 1,549.9 | 1,343.3 | 1,477.4 | 1,423.7 | 1,414.8 | 1,457.7 | 1,144.1 | 1,052.4 | 926.8 | 968.3 | 883.8 |
| Foreign Exchange Reserves, cover weeks | 16.0 | 20.9 | 16.2 | 20.9 | 18.3 | 17.7 | 19.9 | 15.6 | 14.7 | 13.6 | 13.9 | 13.5 |
| Summary of Government Operations | | | | | | | | | | | | |
| Revenue as a % of GDP | 29.8 | 31.5 | 28.3 | 25.3 | 25.6 | 29.3 | 28.4 | 26.7 | 28.8 | 29.1 | n/a | n/a |
| Expenditure as a % of GDP | 32.9 | 35.4 | 33.1 | 32.5 | 34.3 | 33.7 | 36.9 | 37.7 | 35.7 | 36.6 | n/a | n/a |
| Fiscal Deficit as a % of GDP | (2.7) | (3.4) | (4.8) | (7.2) | (8.7) | (4.4) | (8.5) | (11.0) | (6.9) | (7.4) | n/a | n/a |
| Public Debt | | | | | | | | | | | | |
| Gross Public Sector Debt/GDP | 59.5 | 62.0 | 63.5 | 76.2 | 88.1 | 93.9 | 96.6 | 106.5 | 110.1 | 108.5 | 108.6 | 106.8 |
| Government Interest Payments (as a % of revenue) | 14.7 | 13.9 | 15.3 | 18.8 | 22.3 | 20.7 | 23.2 | 26.1 | 26.4 | 25.9 | n/a | n/a |
| | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| Source: Central Bank of Barbados Analysis of Barbados Current Economic Performance March 2016 | | | | | | | | | | | | |
| Source: Review of the economic performance to the First Quarter of 2016 | | | | | | | | | | | | |
| Note: p - provisional | | | | | | | | | | | | |
| Note: n/a - not available | | | | | | | | | | | | |

Budget Commentary



Positive



Neutral



Negative

| Item | Commentary | Impact on Tax Payer |
|---|---|---|
| Tax Amnesty | <p>Key changes announced in the Budget</p> <ul style="list-style-type: none"> A tax amnesty on VAT, Income Tax and Land Tax. During the period September 15, 2016 to February 15, 2017 there will be a waiver of all penalties, interest and other charges incurred up to September 14, 2016, provided the taxpayer settles the outstanding principal on or before February 15, 2017. <p>Impact of proposal</p> <ul style="list-style-type: none"> Waiver of payments of penalties, interest and other charges, where the taxpayer settles the outstanding principal on or before February 15, 2017. The measure is intended to assist the Barbados Revenue Authority with its tax collection efforts. <p>Who is affected</p> <ul style="list-style-type: none"> Entities and individuals who are in arrears. <p>Timing</p> <ul style="list-style-type: none"> September 15, 2016 to February 15, 2017. <p>Our view</p> <ul style="list-style-type: none"> Based on the experience with previous amnesty, this measure should achieve favourable results. |  |
| Registered Retirement Plan (RRP): Annuity Contracts | <p>Key changes announced in the Budget</p> <ul style="list-style-type: none"> Individuals can withdraw up to 15% of the total value of savings accumulated in RRP Annuity Contracts subject to withholding tax of 16.5%. <p>Impact of proposal</p> <ul style="list-style-type: none"> It appears that this is only applicable to in RRP Annuity Contracts. <p>Who is affected</p> <ul style="list-style-type: none"> Individuals with Registered Retirement Plans (RRP): Annuity Contracts. <p>Timing</p> <ul style="list-style-type: none"> To be announced. <p>Our view</p> <ul style="list-style-type: none"> It appears that the withholding tax is a final tax which could result in tax savings to higher marginal tax payers. |  |

Budget Commentary



Positive



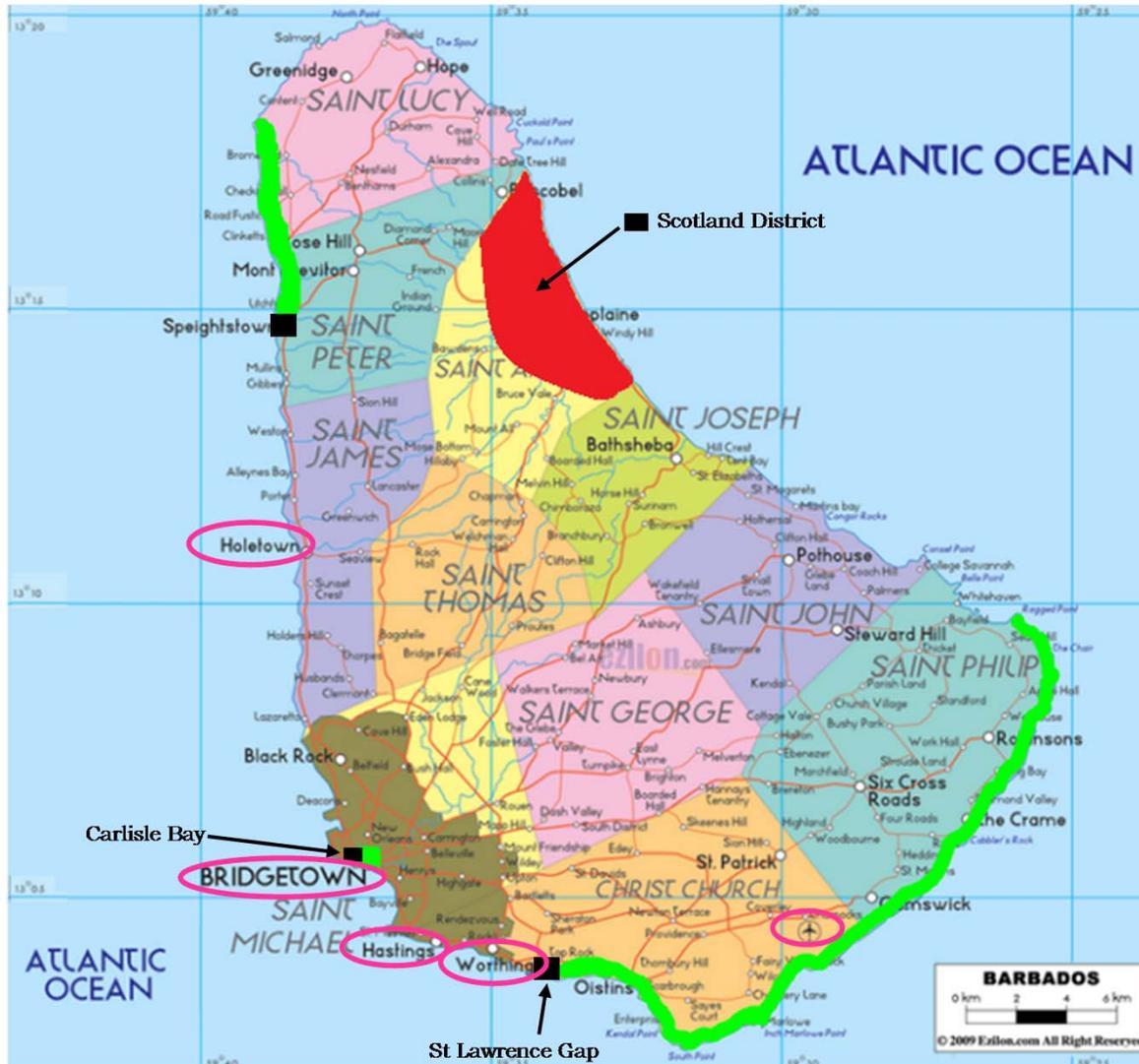
Neutral



Negative

| Item | Commentary | Impact on Tax Payer |
|-------------------------------|--|---|
| Special Development Areas Act | <p>Key changes announced in the Budget</p> <ul style="list-style-type: none"> ■ The Act will be amended to include: <ul style="list-style-type: none"> – Northern Barbados: from Speightstown, St. Peter to Harrison Point, St. Lucy; – South-eastern Barbados: from St. Lawrence Gap, Christ Church to Ragged Point, St. Philip; and – To encompass the City of Bridgetown as defined by the Chief Town Planner in the Physical Development Plan of Barbados. <p>Impact of proposal</p> <ul style="list-style-type: none"> ■ Should stimulate development in non-traditional areas. <p>Who is affected</p> <ul style="list-style-type: none"> ■ Investors <p>Timing</p> <ul style="list-style-type: none"> ■ No effective date provided. Legislative amendments required. <p>Our view</p> <ul style="list-style-type: none"> ■ This measure should offer greater flexibility to investors and encourage development not specifically linked to tourism. |  |
| Tourism Development Act | <p>Key changes announced in the Budget</p> <ul style="list-style-type: none"> ■ The Act will be amended to permit eligible property owners in the sector to access concessions for multi-year refurbishment and renovation projects. In the meantime a temporary administrative solution is to be implemented. <p>Impact of proposal</p> <ul style="list-style-type: none"> ■ The Act will improve the timeliness with which concessions are granted to operators or owners of tourism products. <p>Who is affected</p> <ul style="list-style-type: none"> ■ Individuals registered as owners or operators of tourism products. <p>Timing</p> <ul style="list-style-type: none"> ■ To be facilitated immediately. <p>Our view</p> <ul style="list-style-type: none"> ■ The amendment should remove some of the challenges associated with the refurbishments/upgrades of the tourism product. |  |

Special Development and Duty Free Areas



- Proposed Duty Free Areas
- Existing Tourism Development Areas
- Extended Special Development Areas

Budget Commentary



Positive



Neutral



Negative

| Item | Commentary | Impact on Tax Payer |
|--------------------|--|---|
| Tourism - Yachting | <p>Key changes announced in the Budget</p> <ul style="list-style-type: none"> The imposition of duty on yachts remaining in Barbados' waters for more than six months will be removed and replaced with an annual licence fee of BBD\$2,000 per boat. <p>Impact of proposal</p> <ul style="list-style-type: none"> This measure will assist owners of yachts. <p>Who is affected</p> <ul style="list-style-type: none"> Owners of yachts. <p>Timing</p> <ul style="list-style-type: none"> No effective date provided. <p>Our view</p> <ul style="list-style-type: none"> This measure will assist in developing the yachting sector in Barbados providing local workers in the marine industry the opportunity to carry out annual maintenance on the vessels and earn foreign exchange. |  |
| Tax on Bank Assets | <p>Key changes announced in the Budget</p> <ul style="list-style-type: none"> An increase in the Bank Asset Tax from of 0.2% to 0.35%. <p>Impact of proposal</p> <ul style="list-style-type: none"> Increased cost of business for commercial banks and an increased revenue for the Government. <p>Who is affected</p> <ul style="list-style-type: none"> Commercial banks and most likely customers. <p>Timing</p> <ul style="list-style-type: none"> Effective immediately with the assessment for the assets commencing April 1, 2016. <p>Our view</p> <ul style="list-style-type: none"> It appears that the measure relates only to commercial banks as per the provision of the Banks (Tax on Assets) Act, 2013-20. It is unclear whether the measure relates also to the Tax on Assets Act which applies to trust and finance companies, merchant banks, credit unions and insurance companies with assets over \$40 million. |  |

Budget Commentary



Positive



Neutral



Negative

| Item | Commentary | Impact on Tax Payer |
|-------------------------------------|---|---|
| National Social Responsibility Levy | <p>Key changes announced in the Budget</p> <ul style="list-style-type: none"> A levy will be introduced at a rate of 2% on the customs value of all imports with the exception of goods for the manufacturing, agriculture and tourism sectors, and will also apply to domestic output. This measure will assist with offsetting the costs of financing public health care, and servicing of a loan intended to provide the Sanitation Services Authority (SSA) with a new fleet of trucks and to procure parts for the existing fleet. This is a precursor to a contemplated national health insurance fund. <p>Impact of proposal</p> <ul style="list-style-type: none"> Increased cost of doing business and negative impact on purchasing power of consumers. <p>Who is affected</p> <ul style="list-style-type: none"> Consumers and businesses immediately and ultimately employees and employers. <p>Timing</p> <ul style="list-style-type: none"> Effective September 1, 2016. <p>Our view</p> <ul style="list-style-type: none"> While this measure is most likely to be unpopular, its imposition may be justified to address important social objectives. |  |
| Duty Free Zone | <p>Key changes announced in the Budget</p> <ul style="list-style-type: none"> The creation of duty free shopping zones in Barbados to enable Barbadians and visitors alike to make purchases in foreign currency only. Possible areas include City of Bridgetown, Holetown, Hastings/Worthing and the two main ports of entry <p>Impact of proposal</p> <ul style="list-style-type: none"> It is likely to result in increased duty free shopping and a reduction in the loss of foreign currency <p>Who is affected</p> <ul style="list-style-type: none"> Visitors and locals. <p>Timing</p> <ul style="list-style-type: none"> A Duty Free Bridgetown by December 2016. Other areas – timing not yet determined. <p>Our view</p> <ul style="list-style-type: none"> This should increase commercial activity in these zones but may cause a decline in commercial activity outside the duty free zones. |  |

Budget Commentary



Positive



Neutral



Negative

| Item | Commentary | Impact on Tax Payer |
|------------------|---|---|
| Old Age Pensions | <p>Key changes announced in the Budget</p> <ul style="list-style-type: none"> ■ Non-contributory - To be increased by \$10 per week or \$40 per month. ■ Contributory - NIS Department to resume increases for contributory pensions to keep pensions in line with inflation. <p>Impact of proposal</p> <ul style="list-style-type: none"> ■ Some relief to the pensioners. <p>Who is affected</p> <ul style="list-style-type: none"> ■ Old age pensioners. <p>Timing</p> <ul style="list-style-type: none"> ■ Effective October 1, 2016 for non-contributory. ■ No set timeframe for contributory. <p>Our view</p> <ul style="list-style-type: none"> ■ This measure is timely and welcomed. |  |

Budget Commentary

| Item | Commentary | Impact on Tax Payer |
|--|---|---------------------|
| Mid-Term Financial and Economic Review Process | <p>Key changes announced in the Budget</p> <ul style="list-style-type: none"> ■ The Ministry of Finance will undertake annually a comprehensive review of all ministry and departmental performance against priorities set and approved by Parliament. <p>Impact of proposal</p> <ul style="list-style-type: none"> ■ Improved monitoring of Government resources. <p>Who is affected</p> <ul style="list-style-type: none"> ■ Government departments. <p>Timing</p> <ul style="list-style-type: none"> ■ Effective income year 2016. <p>Our view</p> <ul style="list-style-type: none"> ■ It is expected that this process should result in early identification of challenges and a more proactive response to expenditure management | |
| Small business fund | <p>Key changes announced in the Budget</p> <ul style="list-style-type: none"> ■ Creation of a special fund of \$50 million with resources from the Industrial Credit Fund for grants and soft loans to fund existing small and medium sized businesses and business start-ups. <p>Impact of proposal</p> <ul style="list-style-type: none"> ■ Generate economic activity for eligible enterprises. <p>Who is affected</p> <ul style="list-style-type: none"> ■ Micro, small and medium sized enterprises. <p>Timing</p> <ul style="list-style-type: none"> ■ No effective date provided. <p>Our view</p> <ul style="list-style-type: none"> ■ It may lead to better access to funding. However the criteria for eligibility have not been outlined. | |

Budget Commentary

| Item | Commentary | Impact on Tax Payer |
|---|--|---------------------|
| <p>Manufacturing Export Competitiveness</p> | <p>Key changes announced in the Budget</p> <ul style="list-style-type: none"> ■ A new regime to provide fiscal incentives to be granted to local producers is in the final stages of being crafted. <p>Impact of proposal</p> <ul style="list-style-type: none"> ■ Increased competitiveness of the local manufacturing sector. <p>Who is affected</p> <ul style="list-style-type: none"> ■ Approved manufacturers of export products. <p>Timing</p> <ul style="list-style-type: none"> ■ No effective date provided. <p>Our view</p> <ul style="list-style-type: none"> ■ The new legislation will ensure that Barbados will be compliant with the standards or requirements of the World Trade Organization. This regime which will permit incentives and subsidies to be granted to “approved” manufacturers of export products from Barbados is a critical element in maintaining the island’s export competitiveness. | |



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