

MINISTERIAL STATEMENT
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PRIME MINISTER
MINISTER OF FINANCE, ECONOMIC AFFAIRS AND
INVESTMENT

Mr. Speaker sir, I rise to make a statement that will give effect to a historic change in our system and rates of taxes within the corporate sector.

Mr. Speaker sir, I first need to give context to the new rates for taxes that I am about to announce.

My Government has spent the last six months rescuing the dollar, restoring our credit worthiness and resuming normal service.

The concessionary loan agreement that was signed last Sunday with the Inter-American Development Bank, was part of our Economic Recovery and Transformation Plan. If, since becoming the government, we did nothing, our reserves would have fallen to \$250 million or just 3 to 4 weeks of import cover. We were a few weeks away from devaluation. Delaying the election while knowing of the seriousness of the country's condition was the most unfortunate cut of all. For it was a deliberate attempt to shift the consequences of their torrid ten years unto Barbadians and the

new Government. This, the third of four planned low interest concessionary loans, once received will push our reserves up to over \$1billion and allows us to start to focus on the transformation of our economy.

Last week the domestic debt exchange was completed. The exchange and the higher taxes and lower spending measures being put in place have now put our debt on an affordable footing. This is not the Government's word, but that of the international credit rating agencies. Last Saturday we saw the first upgrade of what I believe will be of many to come. It is the end of a ten year slide in our credit worthiness from the top of nations to the bottom of nations.

Mr. Speaker, sir, rescuing the dollar and restoring our credit ratings were both made considerably more difficult to achieve by the last Government's decision to commit to the Organization for Economic Cooperation and Development (OECD), that we would completely overhaul our tax system by December 31st of this year.

My concern Mr. Speaker, is not simply that the last administration did this, but that they did this in the dead of night,

without debate or discourse and even worse, without any plan as to how they were going to achieve it.

Indeed, the Minister of International Business has already indicated to the country that the former Government gave commitments through the then Minister since September 2017, and then November, 2017 to the OECD that Barbados would dismantle the more than 4 decade old regime.

This left us just a few months to change over a tax system that has been developed over 40 years, mid-air, while we were at the same time restructuring our economy.

Mr. Speaker sir, this was another act that threatened to weaken the Barbados economy.

But Mr. Speaker Sir, we will turn this into an opportunity.

This pressure from the OECD may be hypocritical, it may be bullying, it may be an affront to natural justice, as countries set rules for others that they do not adhere to themselves.

But, Mr. Speaker Sir, this government is not one for hiding from difficult decisions or avoiding difficult decisions. We must play

the hand that we were dealt. We will do what we must. I must confess that these pressures also force us to think about our place in the world and where we want it to be.

Mr. Speaker, by offering lower tax rates to those companies conducting business internationally, we have over the years increased our corporation tax take by 200%. For every one dollar in corporation taxes paid by domestic companies, we received almost two dollars of corporation taxes from international companies.

However, the OECD's Base Erosion and Profit Shifting initiative means it is no longer possible for us to have a preferential regime without incurring severe sanctions. Simply put, it is no longer possible to do what we have been doing for forty years; that is, making a distinction between the taxation of companies operating internationally and those acting locally without there being severe sanctions that will affect our capacity to grow at this challenging time.

Mr. Speaker, we will honour the commitment the Government signed up to last year to the OECD. We believe Barbados' word

must count for a lot. We cannot fight the actions of the OECD in the timeline available to us. It is simply not feasible.

Accordingly, going forward, all companies will become regular Barbadian companies as the Minister of International Business has already advised the Barbadian public in the last week.

Consequently, before December 31st 2018, we will abolish the International Business Companies Act and the Societies with Restricted Liability Act. The Government will not issue any new IBC or ISRL licences.

We will also repeal the Exempt Insurance Act and all Insurance entities will now fall under an amended Insurance Act that will now provide for three classes of licences, including one for Captives which will continue to pay a licence fee and be zero taxed.

By January 1st 2019, all IBCs and ISRLs will automatically by operation of law become Regular Barbados Companies and Societies and be able to conduct business locally, regionally and internationally. Those companies with 100% foreign currency earning will receive a Foreign Currency Permit giving them the same exchange control exemptions they have benefited from

before. Those IBCs and ISRLs that qualify for grandfathering are entitled to be so grandfathered until June 30th 2021.

Barbados will be one of the first countries to converge its local and international tax rates. The real question is whether we do so by converging our tax rates up to the local level, and risk losing our international business sector and its tax revenues, or by converging our tax rates down to the international level and losing domestic tax revenues.

Do we think our future lies in turning inwards and trying to ignore the world, or by becoming globally competitive, subject to external shifts and embracing the world. Neither is a comfortable place, but to make that decision we are mindful that if we are to be a prosperous country in the future it would be because we have quadrupled or more our corporation tax take. Our judgement is that this cannot be done from domestic companies alone. It can only be done by Barbados being globally competitive.

Mr. Speaker, there is no path to prosperity that does not lie in being globally competitive; so we might as well bite the bullet and make our tax system so.

We choose today to stop running from these constant attacks on a preferential regime. We decide to make our stand as a country that embraces the world, that succeeds by offering global excellence with Barbadian values. We can do that. Let us be inspired in the example of the Right Excellent Sir Garfield Sobers, Rihanna, George Lamming, Kamau Brathwaite and many others.

Mr. Speaker, sir, we therefore opt for converging our tax rates down to those that are internationally competitive.

In developing the schedule of rates, we have consulted closely with tax experts and international and domestic companies.

In February of this year, BIBA, frustrated with the absence of a Government plan, on its own initiative, formed a Task Force. That Task Force was chaired by now Special Advisor to the Government of Barbados, Mr. Ben Arrindell. On July 31 of this year, that Task Force provided the Government a detailed and comprehensive report containing a myriad of recommendations.

Since then, the Ministry of International Business has been working closely with the Task Force and many other Government

agencies, Ministers and individuals, and engaging the OECD's Forum on Harmful Tax Practices' Secretariat.

I am conscious that our International Business Sector has been anxiously waiting to hear exactly what Barbados is doing. I want to publicly thank you for your patience and your commitment to remain with us as you play your vital part in contributing to the growth of our Nation.

International entities excluding the insurance sector

All entities (excluding IP entities) licenced before 17 October 2017 will be grandfathered and in this way all of the benefits enjoyed by these entities will remain. The tax rate applicable to these entities for taxable income in excess of \$30M will however now be 1.0% in line with the minimum rate I will now announce on convergence.

For fiscal years commencing 1 January 2019, the tax credit for foreign currency under section 12H of the Income Tax Act for qualifying overseas construction projects and professional services will be abolished.

All corporate entities in Barbados, except those referred to above that are grandfathered, will be taxed on a sliding scale as follows:

Taxable Income (BBD)	Rate %
Up to <= 1 million	5.50%
1 million < Taxable Income <= 20 million	3.00%
20 million < Taxable Income <= 30 million	2.50%
Taxable Income > 30 million	1.00%

Insurance sector

Corporate entities carrying on business in the international insurance sector will be grandfathered under the same rules.

The Insurance Act will be amended to provide for three Classes of licenses:

- Class 1 will include insurance companies insuring related party risks which will pay a licence fee and be taxed at 0%.
- Class 2 will include all other insurance companies which insure and or reinsure risk of third parties and will be taxed at a rate of 2.0% on taxable income.

- Class 3 will include brokers, managers and the like and will also be taxed at 2.0% on taxable income.

Mr. Speaker, Sir, it should be noted that the only allowances provided under the Income Tax Act that will be permitted with effect from fiscal year commencing January 1st 2019 will be

- Annual capital allowances
- Renewable energy allowances and
- Research and development

Additionally, Mr Speaker, Sir tax losses available for offset in an income year will be restricted to 50% of taxable income.

All entities may elect to take a credit in respect of taxes paid to a country other than Barbados provided that such an election does not reduce the tax payable in Barbados to a rate less than one per cent of the taxable income in any one year.

We have set this schedule of taxes to be revenue neutral. But we know that for this to be the case we must do two things. From the perspective of international corporate entities our tax rates will be attractive, they will remain among the most competitive of those countries that levy taxes. We must however maintain and improve

our competitiveness in other ways. Our regulation must be appropriate and speedy, government permissions must be granted in good time and our schools and colleges must develop highly skilled employees.

Domestic companies will welcome the opportunity to embark on new investment, research and development and training.

With these new tax rates I lay down a challenge to domestic companies that there must be benefits to the country of sharply lower corporation tax rates. Barbadians will expect these benefits be in the form of higher local investment, more enfranchisement of employees and better pay.

Mr. Speaker sir, we understand that our low corporation taxes sit uneasily with our relatively high personal income taxes. If we were not forced to act quickly to avoid sanction, we would wait until we could afford to make all the changes required in one go, but the reckless antics of the last Government require us to make the changes we must make in two steps not one.

There will be a national dialogue to discuss the principles that will underpin the further reforms of our tax system that I indicated,

when I spoke in June to this Parliament, will be made in 2019. The broad tax principles we are following are that we shall lighten taxes on work and productivity such as personal income taxes or corporate income. The burden of taxation will fall on consumption and wealth, such as VAT, petrol taxes, user fees and Land Tax. We will protect those most vulnerable through the use of the innovative Reverse Tax Credit.

The dialogue will centre around following the principle that we can better share the burden, better keep our taxes down, if we broaden the base. Mr. Speaker Sir to this end we have sought the assistance of a fiscal expert from our partners internationally.

Mr. Speaker sir, please allow me to digress momentarily to update the House on the earlier Budgetary measures. Following that principle of lowering taxes by broadening the base, we had earlier announced that all taxes that are due on a transaction will be automatically levied if that transaction is carried out on-line using new technologies we have been testing. The taxes paid will be automatically recorded in your receipt and there will be no double taxation at the port once you can show a receipt that taxes have been paid online. We will now target a December 15 start as we have completed the procurement of the entity to provide the

services to the Barbados Revenue Authority, but the relevant legislative amendment for delegation to the entity collecting the tax will be introduced very shortly into Parliament. Similarly, we will be introducing a new regime for the Betting and Gaming sector that has not paid taxes for years as a result of commitments given by the previous Government to them. We are close to resolving this issue with this sector.

Mr. Speaker, the transition to this new corporate tax system will require the restructuring of existing regimes. This restructuring will be achieved through the operation of law and a Policy Directives has been issued by the Central Bank, the Financial Services Commission, and the Ministry of International Business and I lay a copy of these here today.

I would like to thank members of the Private Sector (the accountants and other service providers) who organized themselves into a Task Force when they realised what potentially lay ahead. I also want to thank the staff at the Central Bank and the Ministry of International Business. And finally to the Minister, the Member for St. Michael North. He has applied himself assiduously to the task at hand.

May I thank all of you on behalf of the people and nation of Barbados for allowing us to see a new and brighter future. Your nation owes you a debt of gratitude.

So as I close Mr. Speaker, let me repeat – with the implementation of this new corporate tax regime we honour the commitment a previous Government has made. We defend the integrity of Barbados. We keep our promise. But we do more. We say loudly and clearly that we embrace global competitiveness, we will invest in it, we will invest in the training of a workforce with globally competitive skills.

Indeed Mr. Speaker Sir, the world is our business and our business is the world. With the help of the Barbadian people and all who call Barbados home, we shall succeed!

Global excellence with Barbadian values, that will be the Barbadian way. God bless us all and God bless our nation.

November 20, 2018.