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Bahamian Tax Policy: Strategic Considerations



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Contrary to popular perception, the tax rate in The Bahamas is comparable to, if not higher than that of most developed nations. In a 2016 study, the World Bank reported that the effective tax rate in The Bahamas is 33.8 per cent.

At present, tax revenues are principally derived from a Value Added Tax (VAT) – first implemented in 2015 – and import duties. However, both the government and some major stakeholders are coming to the conclusion that it isn't feasible to rely on import duties as a major revenue source for the long term. Other existing assessments, including property taxes, stamp duties and other smaller taxes aren't especially efficient, nor do they significantly broaden the overall tax base. It is, however, quite clearly understood that any new initiatives must be carefully calibrated to maximise stakeholder support, and it will be essential to identify

opportunities to refine the tax system in a manner which allows both the domestic and international sectors of the Bahamian economy to benefit.

The successful implementation of VAT in The Bahamas has garnered positive feedback on several important levels, which is expected to facilitate further changes to reduce reliance on antiquated revenue sources. An IMF Working Paper produced in April 2017 recognised that, notwithstanding the very recent implementation of VAT, The Bahamas already had the fourth highest on-time filing rate within the Caribbean, and its VAT productivity actually exceeded that of the average, not only within the Caribbean but also across OECD countries. Anecdotally, there is evidence that the implementation of a VAT regime has also enhanced international clients' perceptions of the country as a stable jurisdiction which

adheres to global norms.

However, international best practices around tax policy and information sharing continue to evolve. This presents a strategic challenge for the country, and for the financial services sector, one of the pillars of the Bahamian economy. Industry participants recognise that carefully planned, sweeping changes to the tax system may impact The Bahamas' competitiveness vis-à-vis other international financial centres, and the long-term success of the financial services sector will depend on The Bahamas' careful handling of an evolving tax system. Ongoing pressure for transparency and transnational disclosure make a wholly tax-free environment for financial services much less attractive than previously, while increasing the risk of negative impacts on the industry.

Benchmarking exercises are essential precursors to any discussions around additional changes to the domestic tax regime. Internal reviews have been underway for some time, and more recently, an external study was undertaken to assess strategic options for tax strategies which will maintain The Bahamas' reputation for compliance and adherence to best practices without sacrificing competitive positioning.

For instance, The Bahamas has been active in negotiating bilateral tax information exchange agreements (TIEAs) with more than 30 countries spanning the globe; from Europe (Great Britain, Germany, France, the Netherlands, Norway), to the Americas (Canada, Mexico, the United States and Argentina), to Asia (Japan, Korea, India) and

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elsewhere (Australia, New Zealand and South Africa). However, in the absence of income and corporate taxes, The Bahamas has not been able to establish a robust network of double taxation treaties (DTTs), unlike certain other international financial centres. With the right conditions, however, preliminary assessments suggest that The Bahamas can create a web of DTTs which would substantively enhance its competitive position.

To that end, one obvious strategic move in the further development of domestic tax policy could be the implementation of a corporate income tax in The Bahamas. There are advantages to local businesses of a more nuanced approach to corporate tax. Presently, business license fees are based solely on turnover rather than a net measurement. Among other things, the current system doesn't properly incentivise capital investment or adequately reward business growth, whereas a carefully crafted corporate tax could do both.

For the financial services sector, there are highly nuanced considerations that must be taken into account when considering such a shift. In addition to ensuring that investors operating across jurisdictions aren't taxed twice through the establishment of a DTT network, the strategic use of incentives in key areas may mitigate risks arising from the implementation of a corporate tax and limit the risk of deterring inward investment from outside the country. Incentives would also help The Bahamas to balance its economic development priorities while adhering to international standards.

Additionally, implementation of a corporate tax may also assist The Bahamas in its efforts to evidence compliance with transnational measures tackling base erosion and profit shifting – in addition to its recent entry into the Inclusive Framework on Base Erosion and Profit Shifting established by the OECD and G20 members.

Assuming that the results of benchmarking

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efforts and internal assessments result in a favourable view of a corporate tax, the next hurdle will be establishing rate levels which are high enough to provide adequate revenues to the government while at the same time not so high as to create disincentives for domestic business and, separately, the financial services industry. Equally, a rate which is too low may well be disregarded by the OECD and other bodies seeking enhanced tax transparency and limitations on opportunities for tax avoidance, and thus would not serve the intended purpose.

More broadly, however, it is essential to recognise that tax policy cannot be reviewed and assessed in isolation from the overall business environment within The Bahamas. To that end, the government, The Bahamas Financial Services Board and various private sector committees have been working closely on initiatives which will enhance the business environment and stimulate economic activity. Notable in this regard are efforts to improve the ease of doing business in The Bahamas. Wide ranging assessments are underway, not only to identify and smooth roadblocks that frustrate new and existing business, but also to affirmatively act to put legislation in place which supports enhanced economic activity. A significant development in this regard is legislation intended to facilitate diversification of the local economy by

establishing commercial enterprise zones and the liberalisation of the granting of work permits to new enterprises which qualify for specified commercial enterprise certificates. Additionally, efforts continue to ensure that the regulatory environment is consistent with international best practices, and, to cite but one example, an extensive overhaul of the legislation and regulations surrounding the investment funds regime in The Bahamas is underway. Finally, the recent establishment of the University of The Bahamas (from the College of The Bahamas) evidences the country's commitment to ensuring an adequate supply of properly educated human capital necessary for economic expansion and development.

These are transformative times for international financial centres, and tax policy is just one element among many that must be juggled in order to keep up with the constantly evolving international environment. The successful introduction of VAT is heartening but remains just one element in a much larger picture, and the Bahamian government is acutely aware that it must consider the impact of its tax policies on overall economic growth and resilience. The importance of the financial services sector warrants very close attention to factors which will facilitate its growth and enhance its competitiveness, not just regionally, but globally as well. ■



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