"A new tax regime introduced in the Bahamas"

Before January 1 there were no direct taxes levied on the trading of goods and services in The Bahamas. In times past, consumers were only required to pay customs duty on goods imported into The Bahamas. For the past year and a half though, the government of the Commonwealth of The Bahamas attempted to engage its citizenry in a debate over the implementation of a new tax regime as part of efforts to reduce the country's national debt and secure funding for key infrastructural developments in the future. The government's solution: Value Added Tax which according to government officials was selected above all others because it's less susceptible to economic fluctuations.

During parliamentary debates on the new regime, government officials sought to make their case for the new system pointing to the obvious need for tax reform in the Bahamas. According to officials, funds collected from VAT will be used to spur economic growth, improve essential services, modernize infrastructure, reduce unemployment and bring relief to the poor while creating a more equitable and transparent tax environment in which all business sectors are equally taxed. VAT implementation is also a way for the government to further its social agenda while positioning the country for accession to the World Trade Organization (WTO), which will further lower trade barriers, resulting in reduced prices of imported goods and services.

On the evening of August 20th, 2014 the Bill was passed by the House of Assembly, easily transitioning through the Senate and was signed into law amid announced plans for a robust and comprehensive education campaign to prepare the public for the changes. The run-up to VAT implementation however, was plagued with delays, an arguably lackluster education campaign and a strong push back from the local business community. On January 1, 2015 though, the new laws took effect with VAT introduced at a rate of 7.5%. That implementation process has not been without its share of challenges as the government and the public at large work to adjust.

What is Value Added Tax?

As defined by the Government of The Bahamas, Value Added Tax, better known as (VAT) "is an indirect tax which is considered broadly based consumption tax charged on the value added to goods and services. It applies to almost all goods and services that are imported, bought and sold for use or consumption. Conversely goods exported supplied to customers abroad are exempted or zero-rated."

Simply put, VAT is a domestic consumption tax applied at all stages of production, in essence making each business entity a government tax collector. The introduction has already had widespread implications for commerce and the way of life in the Bahamas.

According to the government's website "every person or business making local purchases or importing goods or services into The Bahamas will be required to pay VAT. VAT will be paid on goods such as clothing, furniture, household appliances and on services such as legal and accounting services, and property/casualty insurance premiums. Basic breadbasket items will be exempt from VAT and as well, VAT will not be paid on medical services nor educational services. Only businesses that make annual sales of $100,000 and above will register and charge VAT. These businesses are known as VAT Registrants. Once registered, they will be given a VAT Registration Certificate and a VAT Registration

Number." While not mandatory for smaller companies, establishments which do not meet the one hundred thousand dollar threshold have also been encouraged to register for VAT making it possible for them to offset any increases in operating costs.

VAT as a tax system brings with it a number of key administrative changes including the introduction of a National Revenue Collections Agency which will be responsible for administering the tax and overseeing the collection of the funds derived therefrom. It will also dictate stricter accounting rules for business owners who will, unlike the consumer, be able to reclaim any expenses incurred as a result of becoming VAT compliant.

The VAT effect: Social and Economic Implications

The argument over the potential success and or failure of VAT as a tax structure for the Bahamas have come down to two very significant issues. First, its social implications. As a consumer tax, VAT is expected to increase the cost of living as well as the cost of doing business. In an economic environment which has proven problematic in recent years, this issue in particular struck a nerve with scores of business owners who have, in the run up to VAT and since its implementation, lamented the changes. Ahead of the January 1 implementation, countless business owners in New Providence made the difficult decision to close their doors, rather than attempt to navigate the new terrain. Despite the government's goal of economic growth and a reduction in unemployment, early anecdotal evidence has also suggested that many businesses halted plans for expansions and new hires while other companies attempted to cut back on their overhead expenses by reducing their staff compliments – a reality recently confirmed by the 1.4% increase in national unemployment since May of 2014.

Economic Implications for Grand Bahama Island are also notable as it presents a number of complexities as it relates to harmonizing VAT with the free trade city known as Freeport while the island's extremities of East and West Grand Bahama Island – which fall outside of the free trade area and do not receive the same tax concessions under the standing Hawksbill Creek Agreement – are required to adhere to the VAT laws as is. Freeport's status as a Free Trade Zone allow for businesses operating within the city limits to import items associated with their business duty free. As expected, the business community on that island firmly opposed the implementation of VAT even going so far as to initiate legal action against the government although little has come out of those proceedings thus far.

On the social front, concerns persist about the creation of an even more welfare dependent society where the less fortunate and even middle class citizens and residents are forced to take greater advantage of social services to supply daily necessities. As a counteractive measure, the government has increased its subsidies to the Ministry and Department of Social Services to accommodate the anticipated influx of persons needing assistance from the state.

Implementation, Adjustment & the Way Forward

As expected, the January 1 implementation of VAT came and went bringing with it a myriad of new challenges ranging from an apparent lack of strong consumer protection laws to infractions in the law's application and outright non-compliance; all of which are part of the government's focus in a post VAT environment.

There are currently over 5,000 Bahamian businesses registered to collect VAT, and VAT Department representatives have begun the process of spot inspections for the local business community to ensure compliance.

Even as officials work out compliance details however, Government officials say they have accepted that there is in fact a learning curve. That said, VAT registrants have until February 28, 2015 to be fully compliant with the law. In the coming weeks, the VAT Department will be conducting workshops with businesses to train them on compliance, as well as provide guidance on how to submit their returns. The Department will also be releasing a series of videos that provide step-by-step instructions on how to file returns.

The first quarter of 2015, in a post VAT Bahamas will be telling. Only time will tell whether or not the government's plans to spur economic growth via this new regime will be successful. In the interim, business analysts, economists, business owners and consumers alike are all carefully monitoring the changes brought about by this very significant effort at tax reform.

Halsbury Chambers