Tax Policy Reforms — Regional Efforts and Priorities

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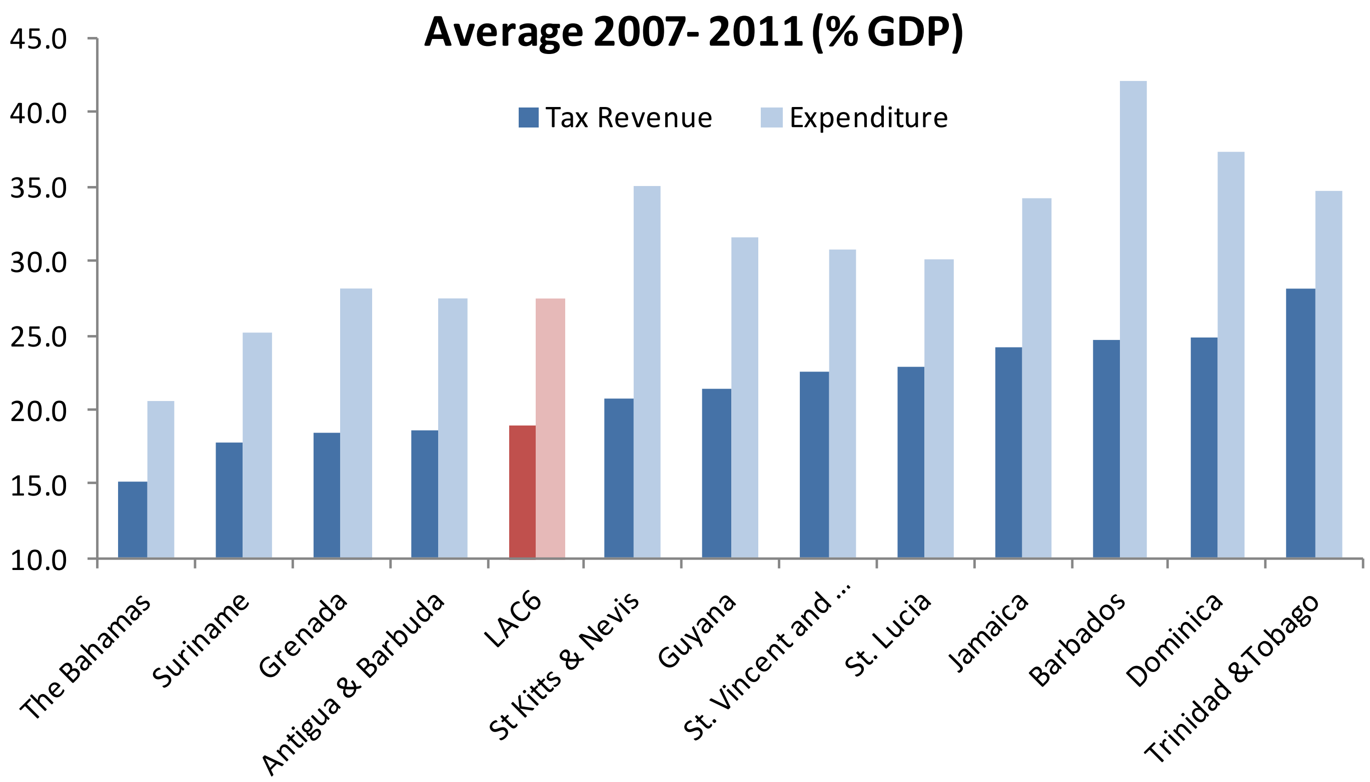
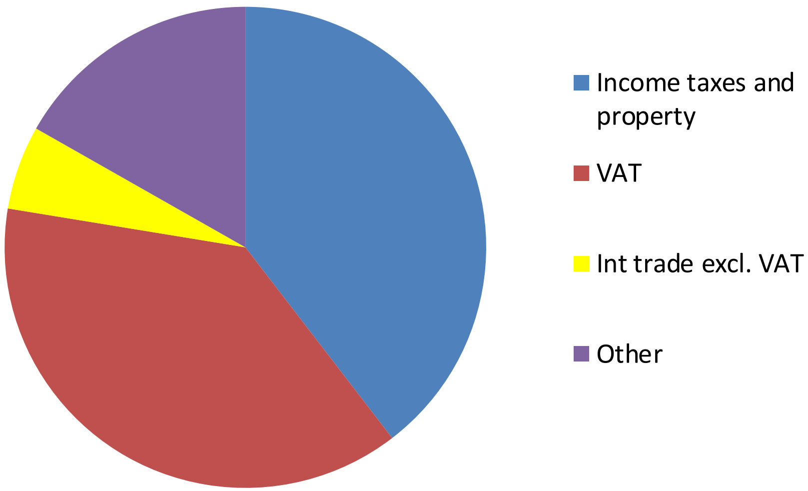
Tax revenues to GDP in the Caribbean are high by regional standards…but so are expenditures



As open economies, they depend more on international trade taxes and less on VAT...which can increase revenue volatility.

Share in total tax revenue, average, 2005-2010

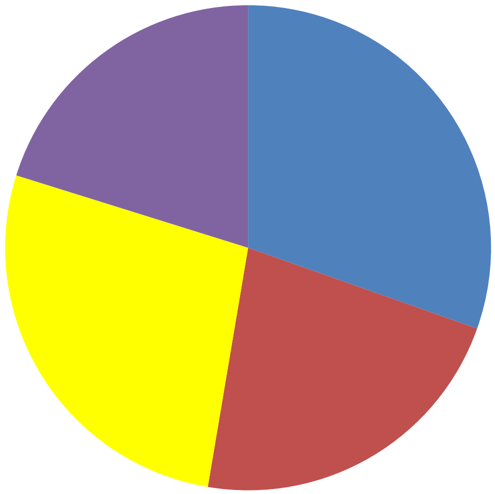
LAC-6



LAC 6 = Argentina, Brazil, Chile, Colombia, Mexico, Peru

Source: BID-CIAT database. 2012

Tourism-dependant Caribbean countries *

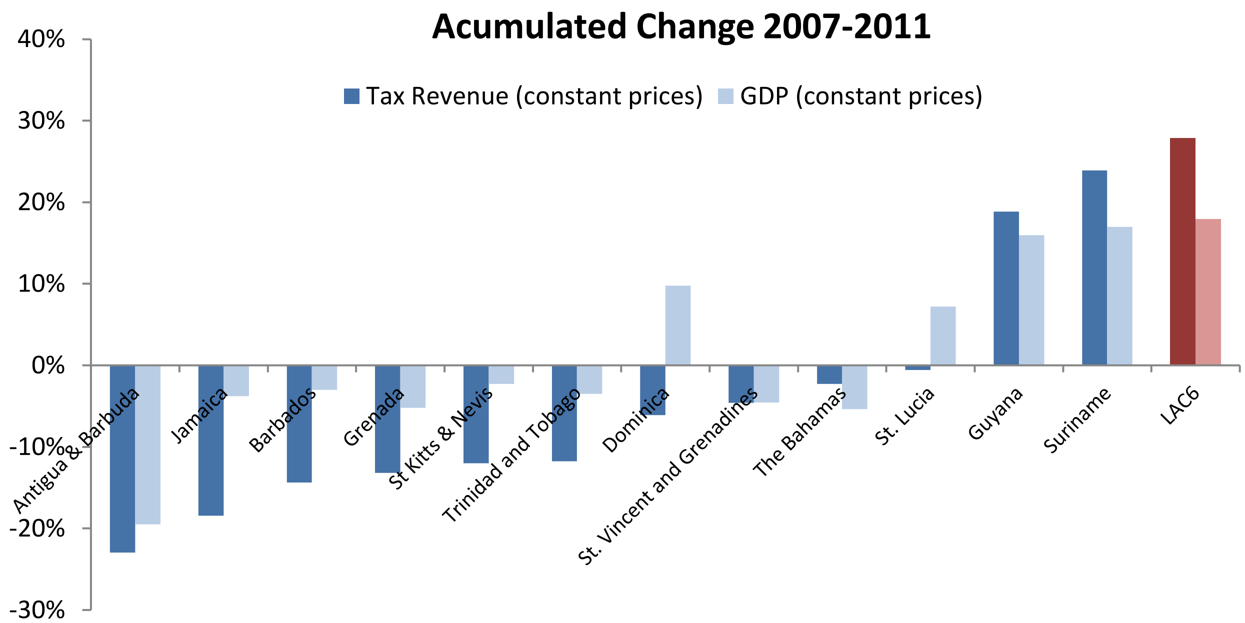


* = The Bahamas, Barbados, Belize, Jamaica

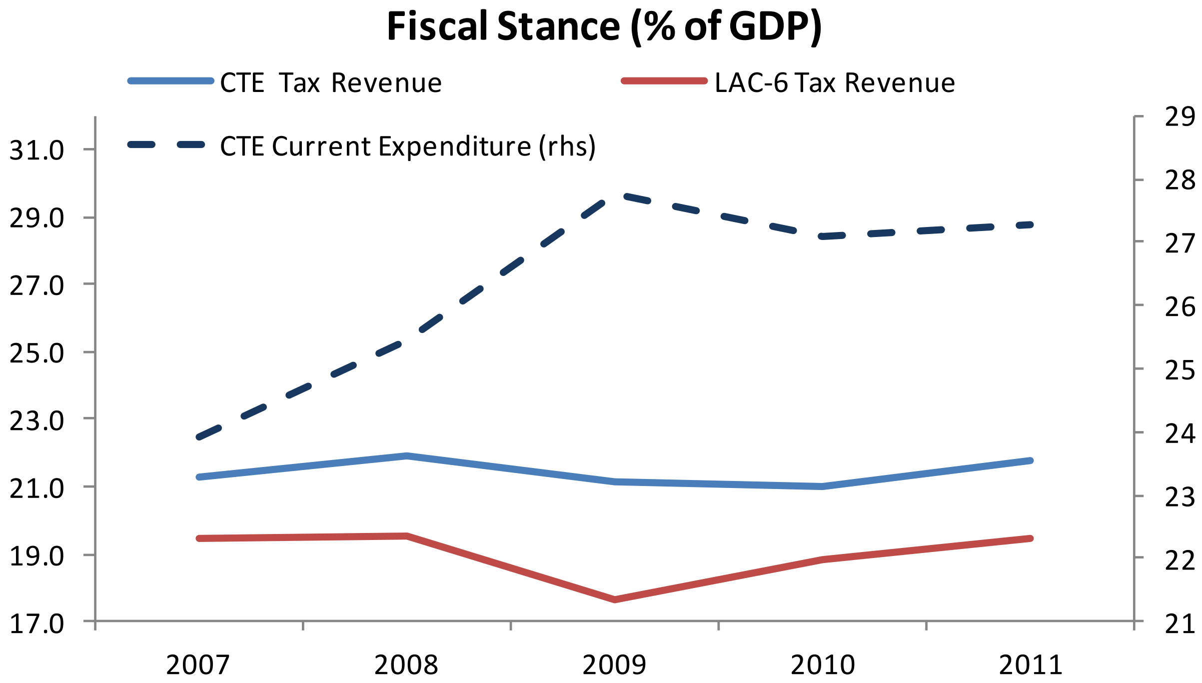
As a result, tourism exporters suffered important revenue losses since 2007 -- attributed to the impact of global recession.

Simulated cumulative loss of tax revenues resulting from recession, 2007-2011, in percentage points of (nominal) GDP.	
Guyana	0.3
Suriname	1.2
Bahamas	2.8
Trinidad and Tobago	3.6
Jamaica	3.6
Barbados	3.7

Source: IMF Article IV's, WEO and authors'calculations



Fiscal stance is pro-cyclical: with declining GDP growth 2007-11, the share of tax revenues to GDP was flat, while expenditures rose.



- Cumulative GDP of tourism-dependent Caribbean in 2007-2011 fell by 4.1% -- compared to 18% growth of LAC 6.

LAC 6 = Argentina, Chile, Colombia, Mexico, Peru.
CTE= *Caribbean Tourism Exporters*: Antigua and Barbuda, The Bahamas, Barbados , Dominica, Grenada, Jamaica, St Kitts, St. Lucia, St. Vincent and the Grenadines.

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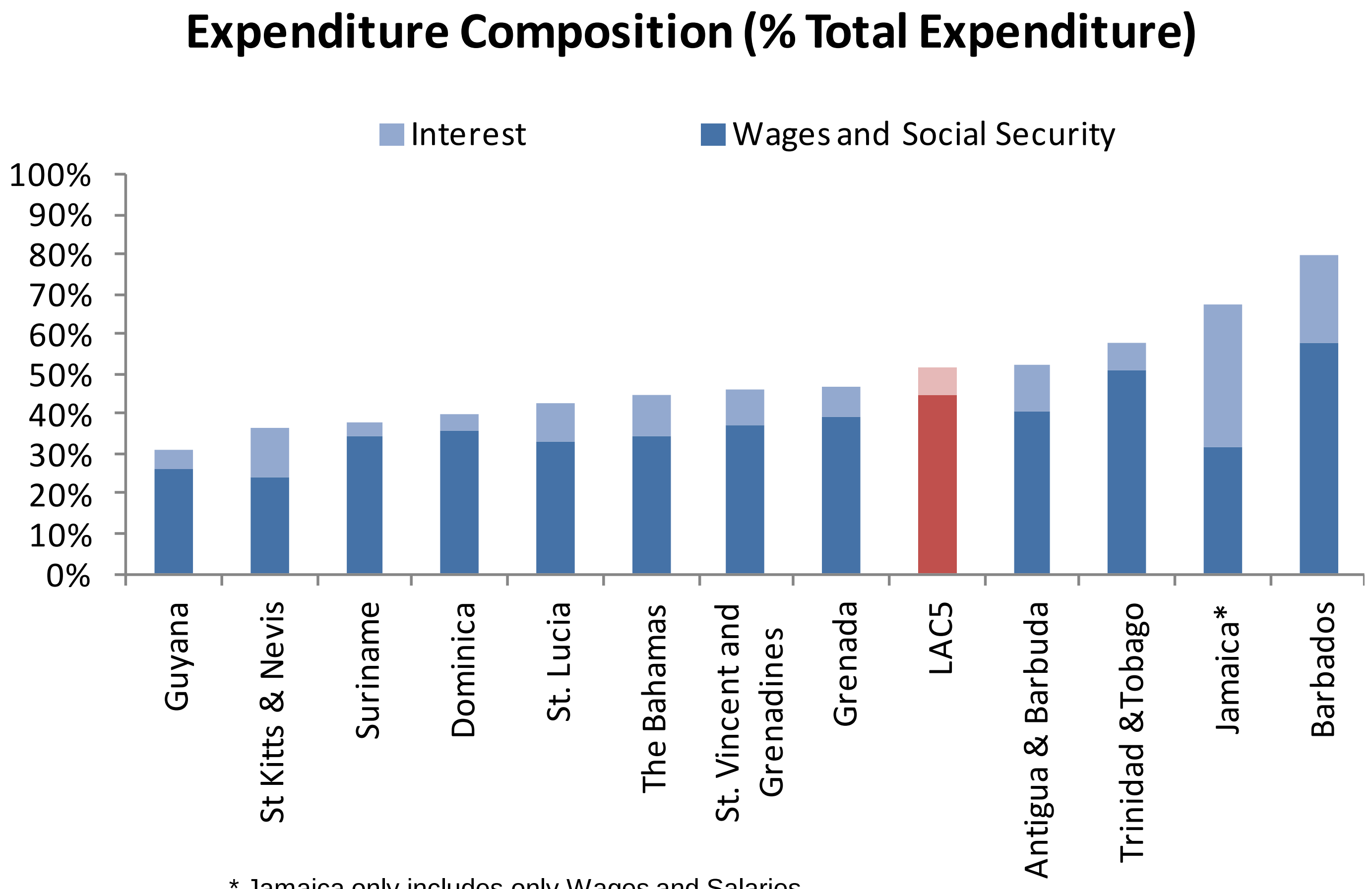
Expenditures are also rigid. Lack of flexibility leaves little room for responsive fiscal policy.



* Jamaica only includes only Wages and Salaries.
LAC5 includes Argentina, Brazil, Chile, Colombia and Peru

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In general, tax waivers and discretionary tax incentives are large

- Exemptions and waivers in the Caribbean are prevalent, large, many discretionary and not transparent.
- Those who actually pay taxes pay at a high rate.
- This forces them, in many cases, to request waivers in order to maintain their competitive edge.
- *Doing Business* and *GCR* surveys show tax distortions and high taxes as impediments to business in Caribbean .
- Corporate tax exemptions usually benefit the largest firms/sectors—possibly regressive.
- Moreover, they produce substantial revenue losses with no clear benefits

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Substantial contingent liabilities and fiscal risks can also hamper fiscal planning—and sustainability.

- Unexpected burden on public finances because they are not accounted for—differences between actual and expected fiscal outcomes.
- Several operations are conducted off-budget.
- Fiscal risks stem from exogenous shocks and explicit/implicit contingent liabilities that are obligations triggered by a discrete, but uncertain events.
- Public debt accumulation also the result of lack of FR accounting. Public enterprises not always accountable.

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Looking ahead towards reforms…

- Recent IDB study examines IFI policy advice: *“National authorities usually agree with the policy prescriptions of the IFIs in most areas but disagreed with the pace and scale of policy implementation*.”
  - but delayed action may have contributed to pro-cyclical fiscal stance
  - Authorities more willing to change tax administration than tax policy—fear of political backlash in incentives are removed.
- What to do?
  - Bahamas and TT: both have room for raising tax revenues. initiatives towards introducing/strengthening VAT and property taxes.
  - Barbados: fear that higher tax burden will reduce economic growth; but recent studies show otherwise.
  - All countries: have room for improvements in tax administration and reduction or elimination of certain exemptions. JA has begun.
- Broader coverage of excise taxes.
- Room for fiscal rules (commodity exporters).

Thank you