Ministry of
Finance

PRESS RELEASE

GOVERNMENT EFFORTS TO SECURE REVENUE TARGET OF 25 PERCENT OF GDP

Reform and modernization of tax policy/administration continue

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As outlined in the 2021 Fiscal Strategy Report and the FY2022/23 Budget, a key component of restoring the fiscal health of The Bahamas relies on attainment of the revenue target of 25% of GDP by the 2025/26 fiscal year while containing expenditure. The strategies which underpin both documents are outlined in the Governments "Securing the Revenue Target of 25% of GDP" paper available on the Ministry of Finance's Budget website.

The revenue enhancement strategies will be sufficient to fully finance both Recurrent and Capital Expenditure while also leading to the gradual elimination of the annual deficit over the medium-term. This fundamental component of the Government's medium-term fiscal strategy is aimed at restoration of fiscal sanity to the public finances and thus ensuring a better future for all Bahamians, in terms of jobs and standard of living. Fiscal headroom will also be provided, through which the Government can better manage unforeseen eventualities.

The revenue paper presents the details of the various revenue enhancement measures to secure the achievement of the 25% revenue target which bring into focus possible opportunities for revenue generation in the short, medium and longer terms, and are guided by the following principles:

1. to increase the predictability in the tax system;
2. to promote voluntary compliance by simplifying and reducing the compliance burden for taxpayers;
3. to align with international commitments;
4. to align with the National Environmental Policy of The Bahamas; and
5. to support low and middle income taxpayers in The Bahamas.

Emphasis is being placed on measures that will significantly improve collections of existing taxes, especially in the areas of real property tax, VAT, Customs duties and excise taxes. For example, in August 2022, the VAT withholding agent process began as a pilot with the Treasury, Ministry of Public Service, Ministry of Works and Ministry of Education being the first agents to begin this process. While preliminary data will not be available on the initial success of this initiative until September 2022, the program is designed to expedite the collection of VAT revenues and improve compliance.

As well, capacity building at Department of Inland Revenue has already resulted in the on-boarding of more than 50 persons to improve tax collection, compliance and service delivery. The Governmnet has also reestablished and strengthened the Revenue Enhancement Unit. Over the medium term, Government will seek to complete the process of institutionalizing these structures to provide regulatory certainty in domestic tax policy and tax administration.

It is also noted that, besides gaps in revenue collection, the tax debt owed to Inland Revenue in respect of Business Licence, VAT and real property tax is sizeable and measures are being pursued to collect this debt as well as mitigate accumulation of such debts in the future. In addition to recent announcements from DIR officials of the intent to utilize provisions in existing legislation to recoup taxes from evaders, preemptive measures, such as the requirement of banks to collect Real Property Taxes on mortgage holders, have already commenced.

The many proactive measures outlined in the paper are anticipated to generate significant incremental revenues in both the near and medium-term horizon. As such, the Government's annual revenue forecasts are reasonably expected to be within reach, along with the overarching 2025/26 objective of attaining a 25% revenue to GDP target.

It is also noted that recent international developments have brought the matter of a corporate income tax (CIT) to the fore. Indeed, an agreement was concluded in 2021 by 133 jurisdictions, including The Bahamas, on a reform of such taxation that features a global minimum CIT of at least 15%, determined on a jurisdiction-by-jurisdiction basis, on profits of multinationals with global turnover exceeding 750 million Euros. Such a measure could be a significant source of revenue and could avoid corporate profits of MNEs in the country being taxed elsewhere. As well, not imposing a corporate income tax could pose reputational risks on the country and jeopardize the buoyancy of future prospects for the economy.

Environmental taxes are another area that is prime for review and reform in tandem with strategies for pursuing blue carbon revenues. The core environmental objectives of The Bahamas include measures on adaptation, mitigation and public health, with plans to reduce greenhouse gas emissions by 30 % below business-as-usual levels by 2030.

Finally, the various user fees that the Government currently charges for the many services that it provides to Bahamians are deemed to be sorely inadequate relative to the costs of providing those services. A detailed examination of these fees is being undertaken to ensure that they more closely align with the costs of providing the services. This will further contribute to the attainment of the Government's core revenue target through the medium-term.

Government's reconstituted Revenue Policy Committee will continue to monitor and review the effectiveness of policy and administrative reforms in reducing revenue leakage and improving revenue yields.

An overview of the major revenue enhancement initiatives presented in the paper is set out in the Annex to the paper, including an assessment of their complexity, the timeline for their implementation, legislative requirements, along with an estimate of the potential revenue impact of each measure.

The Ministry invites and encourages the public to visit the National Budget Website (www.bahamasbudget.gov.bs) to view the various statistical reports available to the public.

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