



A GUIDE TO
THE
**PEOPLE'S
BUDGET**
2018/2019
THE BUDGET



CONTENTS

- Fiscal Summary • About This Guide • State of Financial Affairs
- Budget Breakdown • Spending Priorities • Targeted Tax Incentives
- Getting The Fiscal House In Order • New Revenue Measures
- Targeted Tax Relief • Reducing & Managing The Cost of Government
- Holding Government Accountable

FISCAL SUMMARY

The Government's financial summary or **fiscal balance** is the difference between total revenue and total expenditure. In other words, the amount of money collected by the government in taxes less the amount of money spent on government services and initiatives.

“In this Budget, we are giving Bahamians the unfiltered truth about the state of public finances. It might not be what any of us want to hear, but it is the reality, and we are addressing these matters with a level of transparency and fiscal responsibility that no other government has done before.”

*The Hon. K. Peter Turnquest,
Deputy Prime Minister & Minister of Finance*

When the Government's revenue is greater than its spending it is known as a **fiscal surplus**. When the Government spends more money than it earns it is called a **fiscal deficit**.

DETAILS	2017/2018 (\$MIL)	2018/2019 (\$MIL)
Recurrent Revenue	2,150	2,649
Capital Revenue	2	2
Total Revenue	2,152	2,651
Recurrent Expenditure	2,243	2,589
Capital Expenditure	230	299
Total Expenditure	2,473	2,888
Fiscal Balance	-321	-237

**Minor differences are due to rounding.*



In the budget, 24 of the 53 sections of the budget excluding interest payments, saw reductions in their budget allocations and three were given an increase under 1.5 per cent. Still, there was an increase in overall expenditure due to: higher interest payments of \$89 million, and the provisions made for addressing outstanding arrears and under-budgeted commitments.

In the budget, recurrent revenue represents 20% of GDP, an improvement in the revenue yield of \$500 million. The VAT increase generates \$400 million in new revenue. Other revenue measures combined (improved collections, gaming tax, immigration and port fees increase, and other user fee increases and structural reforms) provided the balance of the increase.

In the budget, the \$237 million deficit represents 1.8 per cent of GDP. This means the deficit will come in at the anticipated mandated fiscal responsibility target for FY2018/19. It will also be \$73 million lower than the estimated deficit for FY2017/18.

3-YEAR FISCAL CONSOLIDATION PLAN

What is Fiscal Consolidation? This is the Government's plan to reduce the amount of money it borrows and that it owes. It's plan to reduce its deficit, or live within its means, in other words. The Government's three-year fiscal consolidation plan includes actions to restrain expenditure, enhance revenues and reduce government debt levels.

THE FISCAL PLAN

PROJECTED DEBT OUTCOME

Year 1 FY2018/19

57% of GDP

- Fiscal deficit reduced to \$237 million (1.8 per cent of GDP)
- Right-budgeting for known commitments (\$76 Mil)
- Finance priority policy initiatives (Socio-Economic Development Agenda)
- Implement tax relief measures
- Adopt fiscal responsibility best practices

Year 2 FY2019/20

54% of GDP

- Fiscal deficit reduced to \$85 million (0.6 per cent of GDP)
- Begin Customs and Excise Duty Reductions

Year 3 FY2019/20

52% of GDP

- Fiscal Surplus of \$10 million achieved
- Further material cuts in Customs/Excise duties (Total reductions: \$100 Million)

AT A GLANCE

- **Projected Recurrent Revenue:** \$2,648 million
- **Top 3 Revenue Sources:** VAT (40%), Trade Taxes - Customs Duty and Excise Taxes (24%), Stamp Taxes (6%)
- **Planned Recurrent Expenditure:** \$2,589 million
- **Largest Expense Categories:** Grants, Other Fixed Charges and Special Financial Transactions, Wages and Allowances, and Other Contractual Services.
- **Projected GFS Deficit:** \$237 million

OFFICIAL BUDGET DOCUMENTS

LOOK LIKE THIS

In other words, they contain hundreds of financial pages that may have complex technical information.

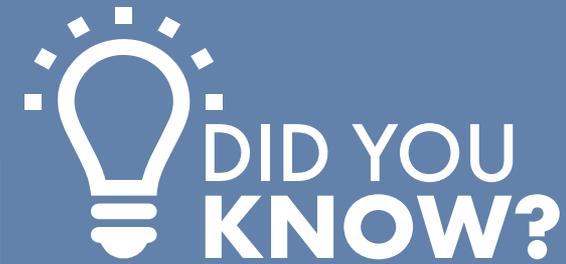
HEAD 19 FEES AND SERVICE CHARGES

ITEM NO.	TITLE OF ITEM	PROVISIONAL ACTUAL REVENUE	REVENUE (PROVISIONAL)	APPROVED FORECAST REVENUE	FORECASTED REVENUE	PRELIMINARY FORECASTED REVENUE	PRELIMINARY FORECASTED REVENUE
		2016/2017 \$	JULY - MARCH 2017/2018 \$	2017/2018 \$	2018/2019 \$	2019/2020 \$	2020/2021 \$
9192220	Customs Warehouse Fees	11,405	10,830	16,563	14,276	14,990	15,589
9192221	Storage Fees	352,829	320,741	325,000	453,571	476,249	495,299
9192232	Customs Service Charge	6,277,613	4,472,562	6,581,963	6,514,335	6,840,052	7,113,654
9192240	Container Movement - Customs	3,554,094	2,648,722	3,600,000	3,808,389	3,998,808	4,158,761
		106,887	104,816	218,726	126,827	133,169	138,496
		1,363,332	546,493	1,200,000	949,717	997,202	1,037,091
		633,842	300,695	494,041	472,879	496,523	516,384
		1,016,480	864,531	1,000,000	1,044,680	1,096,914	1,140,790
		163	0	0	0	0	0
		143,963	215,989	144,592	299,704	314,689	327,276
	net or less	201,848	214,385	180,517	307,233	322,595	335,499
	20 feet	1,152,328	1,080,879	1,053,250	1,344,763	1,412,002	1,468,482
	Vessels	1,107,720	505,264	1,088,176	930,288	976,803	1,015,875
	Vessels	3,526,844	1,924,175	3,423,185	3,169,841	3,328,333	3,461,466
		26,758,660	19,443,949	26,668,756	28,815,217	30,255,978	31,466,217
		10,812,033	7,809,161	10,054,655	10,763,345	11,301,513	11,753,573
		57,749,493	41,003,679	56,649,424	59,759,247	62,747,211	65,257,099

RECURRENT EXPENDITURE BY BLOCK

TITLE OF ITEM	PROVISIONAL EXPENDITURE ACTUAL (PROVISIONAL)		APPROVED ESTIMATES	PRELIMINARY FORECAST ESTIMATES		PRELIMINARY FORECAST ESTIMATES	
	2016/2017	JULY - MARCH 2017/2018		2018/2019	2019/2020		2020/2021
	\$	\$		\$	\$		\$
01 Personal Emoluments	683,126,455	515,399,780	741,758,593	738,475,517	757,477,810	790,941,410	
02 Allowances	42,908,937	30,821,835	48,203,772	54,727,624	54,823,101	54,863,072	
10 Travel and Subsistence	7,620,168	6,254,720	8,661,471	8,882,408	8,954,771	9,090,610	
20 Transportation of Things	1,024,955	650,910	1,137,200	985,615	1,119,115	1,104,115	
30 Rent, Communication & Utilities	185,882,259	71,459,647	130,262,891	155,814,081	158,192,090	159,581,566	
40 Printing and Reproduction	2,648,581	1,856,656	2,795,500	1,751,036	1,751,534	3,746,056	
50 Other Contractual Services/Family Island Dev.	214,296,665	142,292,324	198,986,555	231,729,695	229,864,665	239,049,650	
60 Supplies and Materials	11,481,284	6,959,900	12,903,100	17,284,149	17,438,978	20,539,859	
70 Acquisition, Construction & Improvement of Capital Assets	17,033,565	1,342,035	6,202,000	10,898,325	10,878,325	15,278,325	
80 Repairs, Maintenance & Upkeep of Capital Assets	13,948,189	4,223,413	9,937,244	15,618,538	15,528,733	21,850,829	
90 Grants, Fixed Charges & Special Financial Transactions	1,289,440,558	766,060,150	1,082,220,455	1,399,516,581	1,343,965,197	1,290,599,657	

Download all budget documents at: www.bahamas.gov.bs.



Governments all over the world generate money from taxes. They use that money to provide services to citizens, to develop local communities, and to stimulate economic growth. The Budget explains all of the government's **tax initiatives** and its **spending plans**. It also provides a snapshot of **past financial performance** and the Government's **current financial position**.

The Budget Guide is a simpler, less technical version of the Budget that is inspired by the international best practice of publishing "Citizen's Budgets".

The Budget Guide is not intended to replace the detailed budget communications. It supplements the technical documents, presenting key information in easy to understand language. It can be used as a reference document for citizens to hold the Government accountable.

What does 'fiscal' mean?

The word fiscal is used a lot when talking about the budget: fiscal year, fiscal policy, fiscal plan, fiscal consolidation. It simply refers to financial matters of the government, including taxes, debt and policies governing public finances.

BUDGET OBJECTIVES

The Rhyme & Reason

The Government made its budget decisions to achieve a range of **fiscal consolidation objectives** and to advance a **socio-economic vision**.

- 1 Safeguard against future governments living beyond their means, racking up millions in unpaid bills, and piling more debt on future generations.
- 2 Restore the country's financial health.
- 3 Clear up millions in unpaid bills to small and large government vendors once and for all.
- 4 Increase the Government's revenue to sustainable levels that meet its financial needs through a variety of new tax measures.
- 5 Meet fiscal targets in a structured way, eventually balancing the budget and reducing debt levels.
- 6 Invest heavily in underserved communities and vulnerable populations to spread the benefits of inclusive growth.
- 7 Cushion the impact on poorer families and vulnerable Bahamians as the country goes through a period of shared sacrifice and fiscal adjustment.
- 8 Improve the competitiveness of the Bahamian workforce, to provide greater opportunities for better work.
- 9 Foster a culture of entrepreneurship and innovation so Bahamians are more empowered to create their own jobs.
- 10 Demonstrate leadership in adopting green technology, and encourage Bahamians to do the same.

Learn more in *The Budget Guide*.

State of FINANCIAL AFFAIRS

The country is facing extraordinary and challenging circumstances, due to the state of public finances, which could undermine the stability of the Bahamian economy over time.

\$7.2 B

Unsustainable Debt Level

\$381M

High interest payments on debt

\$360M

Sizeable unpaid bills accumulated

\$76M

Previously under-budgeted commitments

These fiscal realities have been signaled by Bahamian economists, international agencies and credit rating entities as worrisome trends that must be corrected.

If left unaddressed, they have the potential to:

- Trigger further credit downgrades
- Increase borrowing costs for the country
- Significantly decrease the Bahamian standard of living
- Make the economy less competitive and attractive to investors
- Subdue economic growth
- Threaten the country's economic stability

We know from the experience of others that out-of-control fiscal management can snowball into a full-blown economic crisis.

To address the state of fiscal affairs, the Government took the decision to raise additional revenue through increased taxation and enhanced revenue collection measures.

The Government's rationale for this policy direction is to provide the resources to fund all of its old financial commitments which, for the first time, have been disclosed in the budget communications.

“Facing the situation that we have, we could have presented a misleading budget as other governments have done, with under-budgeted allocations and hidden obligations. We could have borrowed more and kicked the can down the road. Playing this game would only delay the inevitable day of reckoning and make a bad situation worse.”

The Hon. K. Peter Turnquest,
Deputy Prime Minister & Minister of Finance

THE NATIONAL DEBT

High debt levels threaten the country's economic stability.

Debt levels have been continuously climbing for the past ten years. Between 2008 and 2017, debt levels increased by 160 per cent. More money spent on servicing or paying off the debt means fewer resources for other purposes, such as education, health care, and other important government services and special development projects.

At \$1.09 billion, Debt service is 8.3% of GDP

(Debt Service = Total Interest + Principal Payments)

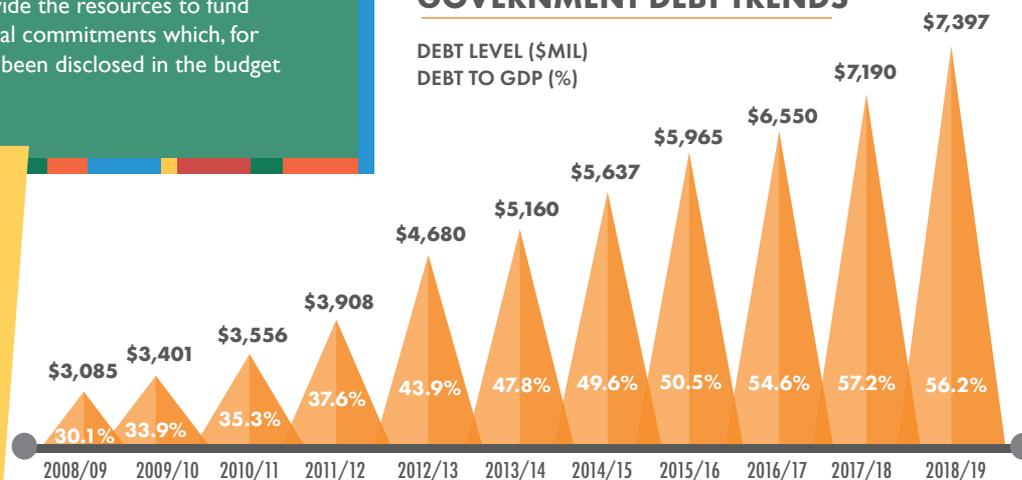
14% of revenue goes towards interest payments, which is equal to 14 cents out of every dollar earned.

2018/19 BORROWING

- **New Borrowing Authorization (loans, etc.):** \$183 million
- **Draw Down on Existing Loans:** \$54 million
- **Existing Debt Coming Due FY2018/19:** \$709 million. The Government plans to borrow this amount to repay the debt. Refinancing debt is customary and will not increase the Government's overall debt levels.

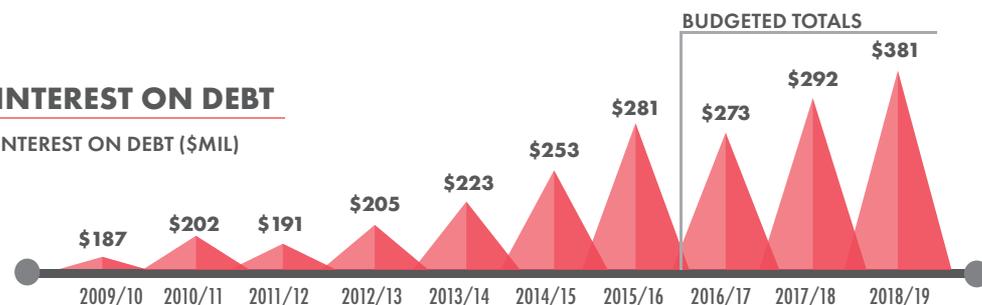
GOVERNMENT DEBT TRENDS

DEBT LEVEL (\$MIL)
DEBT TO GDP (%)



INTEREST ON DEBT

INTEREST ON DEBT (\$MIL)



WHERE IS THE MONEY COMING FROM?

TAX REVENUE CHART

DETAILS	2018/2019 (\$MIL)
Value Added Tax (VAT)	1,062
Trade Taxes	644
Stamp Taxes	172
Tourism Taxes	147
Property Taxes	132
Business License Fees	102
Domestic Gaming Tax	70
Customs Department Fees	60
Dept. of Immigration Fees	74
Motor Vehicle Fees	50
Port Department Fees	17
Other Taxes	118
Total	2,648

Top 5 Sources of Revenue



SPENDING BY MINISTRY/DEPARTMENT

DETAILS	2018/2019 (\$MIL)
Ministry of Finance	\$360.7
Ministry of Health	\$293.9
Min. of Public Service & National Insurance	\$289.9
Department of Education	\$205.6
Royal Bahamas Police Force	\$127.9
Ministry of Tourism & Aviation	\$120.1
Treasury Department	\$100.9
Ministry of Education	\$92.7
Royal Bahamas Defence Force	\$59.9
Ministry of Public Works	\$48.7
Dept of Environmental Health Services	\$44.8
Department of Social Services	\$39.8
Ministry of Foreign Affairs	\$35.5
Department of Immigration	\$35.5
Customs Department	\$34.4
Ministry of Youth, Sports & Culture	\$28.2
Min. of The Environment & Health Services	\$26.8
Office of The Prime Minister	\$26.8
Dept. of Correctional Services	\$26.7
Dept. of Local Government	\$26.4
Ministry of Agriculture & Marine Resources	\$19.3
Department of Inland Revenue	\$19.0
Attorney General's Office	\$18.5
Department of Public Works	\$17.9
Department of Information Tech	\$17.7
Office of The Judicial (Courts)	\$14.5
Ministry for Grand Bahama	\$12.5
Min. of Social Services & Urban Development	\$11.6
Ministry of Transport & Local	\$9.6
Port Department	\$8.5
Ministry of National Security	\$7.5
Cabinet Office	\$7.4
Post Office Department	\$7.1
Ministry of Labour	\$6.5
Department of Agriculture	\$6.4
Department of Road Traffic	\$5.3
Department of Land & Surveys	\$3.7
Department of Statistics	\$3.6
Registrar General's Department	\$3.6
Department of Meteorology	\$3.0
Department of Marine Resources	\$2.8
Dept. of The Auditor General	\$2.8
Department of Housing	\$2.6
Department of Labour	\$2.5
Ministry of Financial Services	\$2.4
Court of Appeal	\$2.3
House of Assembly	\$2.2
Bahamas Information Services	\$2.0
Government Printing Department	\$1.7
Parliamentary Registration Department	\$1.4
Governor General & Staff	\$1.1
Department of Physical Planning	\$1.0
Department of Archives	\$0.7
The Senate	\$0.3

HOW IS THE MONEY GOING TO BE SPENT?

SPENDING BY MAJOR CATEGORIES

Grants, Fixed Charges & Other Special Transactions	53%
\$1,399 Million	
Personal Emolument & Allowances	30%
\$793 Million	
Other Contractual Services	9%
\$232 Million	
Rent	6%
\$156 Million	
Other	2%
\$55 Million	
Total	
\$2,636 Million	

\$620 MIL

Grants and Fixed Charges

Includes UN & CARICOM membership fees, contributions to children's homes, the Bahamas Crisis Center; school boards; the Bahamas National Trust, the University of the West Indies, and hundreds of others important institutions, & other special transactions like the sinking fund.

\$398 MIL

State Owned Enterprises (SOEs)

Subventions to 23 SOEs account for 15 per cent of the government's total expenditure.

\$381 MIL

Interest on debt payments

14 per cent of total expenditure.

Central Government's Wage Bill

The largest individual recurrent expenditure

Year	Wage Bill (\$M)	% Change
2009/10	586	
2010/11	587	0.1%
2011/12	614	4.6%
2012/13	641	4.4%
2013/14	659	2.8%
2014/15	664	0.7%
2015/16	689	3.8%
2016/17	756	9.7%
2017/18	790	4.5%
2018/19	793	0.4%

SPENDING PRIORITIES

ADVANCING A SOCIO-ECONOMIC AGENDA

The Budget provides for spending on new programs targeted to advance a socio-economic vision of inclusive growth, social progress, economic development, public sector reform and modernisation, economic diversification, and environmental sustainability.

Inclusive Growth

Serving underserved communities



\$5 MIL

OVER THE HILL COMMUNITY DEVELOPMENT PARTNERSHIP INITIATIVE

Activities to strengthen e-learning, improve solid waste management increase the availability of water, to manage and maintain public parks, and stimulate investment for participants in the affordable housing programme.



\$2 MIL

AFFORDABLE HOUSING PROGRAM

Implementing land subsidies and tax waivers worth \$120,000 per family for participants in the affordable housing programme.



\$15 MIL

FAMILY ISLAND AIRPORTS REDEVELOPMENT

Ongoing rehabilitation of Family Island airports, vital gateways for local and international transport between the islands.



\$1 MIL

PRIME MINISTER'S CULTURAL GRANT AWARDS

Small grants ranging from \$1,000 to \$25,000 to support Bahamian artists involved in projects that promote the culture of The Bahamas.

Social Progress & Economic Development

Investing in workforce development and entrepreneurship



\$2.6 MIL

FULL-SCHOLARSHIPS FOR BTVI STUDENTS

Free tuition through scholarships for full-time degree and certification students, so more Bahamians can increase their competitiveness, earn better wages and create their own jobs. BTVI facilities will also be upgraded.



\$5 MIL

SMALL BUSINESS DEVELOPMENT INITIATIVE

Includes direct financing for micro, small and medium enterprises in the form of micro-loans, small loans and government guarantees between \$5000 and \$250,000, as well as other business development and management support services.

Economic Diversification

Creating a roadmap for economic development



\$500 K

DIVERSIFICATION THROUGH THE DIGITAL & BLUE ECONOMIES

Three-year technical cooperation project with the Inter-American Development Bank focused on promoting economic diversification through the digital economy (information technology) and the blue economy (marine resources).

Environmental Sustainability

Building eco-friendly infrastructure



\$5 MIL

LED STREET LIGHT REPLACEMENT PROJECT

Initial funding for a four-year LED street light project projected to generate 500k per month in longterm savings.



\$5 MIL

FAMILY ISLAND SOLAR FARM PILOT PROJECT

First major BPL solar farm in the Family Islands this fiscal year. Prototype for solar power generation around the country.

Public Sector Reform And Modernisation Growth

Enhancing public sector service delivery



\$4 MIL

PUBLIC SECTOR YOUNG PROFESSIONAL RECRUITMENT INITIATIVE

Build the professional capacity of the Public Service by recruiting young professionals to replace the ongoing number of retiring professionals.



\$8 MIL

DIGITAL BAHAMAS INITIATIVE

Foster the country's competitiveness by enhancing the digital infrastructure of the public service and reducing the cost of conducting business with the Government.



\$1 MIL

FREEDOM OF INFORMATION (FOI)

Initiate training in the Public Service and establish the systems needed to implement the FOI Act, 2017.

TARGETED TAX INCENTIVES

ADVANCING A SOCIO-ECONOMIC AGENDA

The Government introduced a collection of tax incentives to advance its socio-economic vision. The objective is to improve the quality of life for Bahamians by reducing retail shopping costs, making new cars more affordable and adopting green technology.



Economic Empowerment Zones

INCLUSIVE GROWTH

Proposed legislation will establish concessions on of real property tax, customs duties, excise duties, business license fees and stamp tax for designated Economic Empowerment Zones, beginning with the historic "Over the Hill" community.



Building an Airplane Registry

ECONOMIC DIVERSIFICATION

The Government's plan to create an airplane registry industry is based on a policy of promoting entrepreneurship, economic diversification and job creation. Duty-free entry on airplanes and helicopters is an important part of building this industry.



Other Concessions Extended

- **For five years:** The First-time Homeowners stamp tax exemption
- **For two years:** The Duty exemption on materials used for the renovation, repair and upgrade of dilapidated buildings
- **For one year:** The City of Nassau Revitalization Act.
- **For one year:** The Family Island Development Encouragement Act

STIMULATING RETAIL CLOTHING & MANUFACTURING INDUSTRY

SMALL BUSINESS DEVELOPMENT

New duty concessions will help to reduce the retail cost of clothing and shoes to consumers, and empower small manufacturers of apparel, including tailors and seamstresses.



Duty free entry for clothing and shoe imports upon application by importers and retailers.



Duty removed from sewing supplies and notions, including: fabric, thread, zippers & buttons.



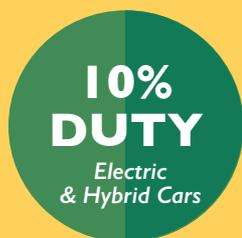
Duty free entry for garment processing and manufacturing equipment

PROMOTING GREEN ENERGY

ENVIRONMENTAL SUSTAINABILITY

At the new duty rates, energy efficient vehicles and brand new small vehicles will be much more affordable.

- Duty-free entry on solar kits, upon application
- 10 per cent on electric motorcycles
- 10 per cent on rechargeable batteries, other than conventional car batteries.



*Valued at \$50k & under



*Engine sizes up to 1,500cc



DID YOU KNOW?

You don't have to wait to eat better. There is already a list of healthy food items that are duty free!

The Government eliminated customs duty on several healthy food options last year and added three new items* in the new budget.

Duty Free Healthy Foods

- Almonds, Walnuts, Pecans, Peanuts & All Nuts
- Honey • Veggie meat substitutes • Pasta
- Coconut Oil • Sesame Oil • Soybean Oil
- Tuna, Mackerel, Salmon & All Canned Fish
- Spelt Flour, Coconut Flour, Cassava Flour & All Flour
- *Tofu • *Whole and Fillet Salmon
- *Frozen Fish Fillets

GETTING THE FISCAL HOUSE IN ORDER

The Budget addresses a number of financial pressures, including the buildup of unpaid bills, other contractual obligations and the rising interest payments on government debt. The Government's objective is to put the past practices of fiscal indiscipline behind and to draw a line in the sand. Additional revenue generated from new tax measures will help to achieve these objectives.

HOW WILL NEW REVENUES BE SPENT?

\$76 MILLION

Adequate budgeting for known commitments that were previously under-budgeted across the breadth and scope of government expenditures.

\$19 MILLION

New recurrent expenditure policy initiatives

\$89 MILLION

Additional interest payments

\$172 MILLION

Partial payment of the arrears in the coming year

Other Outstanding Commitments

Hundreds of other Bahamian businesses such as contractors, caterers and lunch vendors, among others.

What is right-budgeting? When the amount of money included in the budget is too little to cover the cost of government commitments, corrective action is needed. This is known as right-budgeting: The practice of properly budgeting for all of the government's contractual commitments.

RIGHT BUDGETING
IN ACTION

- A \$4 million government food program only had a budget of \$2.5 million.
- A \$6 million commitment for immigration related software and hardware to support the Passport Office was never specifically budgeted for.
- \$9 million in commitments for hardware and software support contracts to maintain the critical core IT functions of the Bahamas Government were never specifically budgeted.

OVERDUE PAYMENTS TO BE SETTLED

Vendors	2018/19 Payments (\$MIL)
Cruise Lines Operators	17
Settlement For Contingent Liability- BOB	17
National Drug Plan Arrears	14
Rent Arrears	14
B.E.C. Arrears Action Plan	12
VAT Refund Arrears	11
B.T.C. Arrears	10
Prov. For Resolve Interest Payment - BOB	9
Development Contracts (Canadian Bank Note)	6
Public Private Partnership (Arawak Homes)	6
Water	4
Capital Outstanding Commitments	2
Mortgage Relief Programme	0
Other Outstanding Commitments	50
TOTAL	172

3-YEAR PAYMENT PLAN

The Government developed a three-year payment plan to settle its \$360 million in arrears. As these bills are settled, the Government plans to reduce customs duty and excise taxes on the order of \$100 million, bringing down the cost of imported goods. This plan is in alignment with the country's efforts to participate in the World Trade Organisation (WTO) framework.

YEAR 1

- Clear \$172M in arrears
- Right-budgeting for known commitments

YEAR 2

- Clear \$106M in arrears
- Begin customs and excise duty reductions

YEAR 3

- Clear residual arrears of approximately \$75M
- Increase significant cuts in customs and excise duties

PREVENTING FURTHER BUILDUPS

1 FISCAL RESPONSIBILITY

The implementation of fiscal responsibility legislation will create a legally-binding framework to prevent runaway government spending from occurring again. The law will cap government spending so that it cannot grow faster than the economy's overall growth rate.

2 STRUCTURAL REFORM

The Government's planned upgrade to its financial processes and accounting system, including the planned move from cash-based to accrual-based accounting, will provide the means to better track government spending on an ongoing basis.

NEW REVENUE MEASURES

A Package of Reforms

The Government made the policy decision to increase VAT to 12 per cent, based on a sober assessment of the country's financial position and its ability to achieve fiscal balance and economic sustainability. The VAT increase is part of an overall tax reform strategy that includes increased taxation as well as enhanced revenue collection measures.

- Reassessing user fees and services that have not been adjusted for years.
- Considering other fees that adequately cover the cost of operations.
- Exploring areas that can yield additional revenue such as real property tax on foreign-owned vacant land and licensing fees on large commercial vehicles.



VAT TAX: +\$400M

Effective July 1, 2018, Value Added Tax will be charged at 12% on goods and services. The target VAT exemptions will take effect on August 1 to allow businesses to adjust their systems.



GAMING TAX: +\$33.5M

The Budget introduces a new tiered tax structure for the domestic gaming industry. Consistent with international norms, the Government's policy is that domestic gaming industries should provide a greater return to the state, while still permitting a fair return to the licensed operators.



IMMIGRATION FEES: +\$21M

New immigration fees will ensure that the revenue generated is better able to cover operating costs.



PORT FEES: +\$8M

New port fees will now meet international standards and better cover operational costs.



REVENUE ENHANCEMENT UNIT: +\$80M

The Government has mandated the Revenue Enhancement Unit to maximise collections from existing revenue. An amendment is being proposed to the Financial Administration and Audit Act to provide the authority to the Ministry of Finance to form an inter-departmental unit that will be responsible for enhancing revenue across the major areas of taxation.

As part of our three-year plan we intend to reduce taxes. When Bahamians go to a store they see the VAT on their bill. That is the relatively small tax for goods. The big, big taxes are hidden. The item someone is buying may have a 45 per cent customs duty, or 65 per cent. That's the hidden tax that makes things so expensive in The Bahamas.

Before, governments could raise those taxes as much as they felt like. The people would not complain or protest because those taxes were not on their bills. They were hidden. We want to encourage shopping at home. We want that money to stay here and not go abroad.

Dr. The Hon. Hubert A. Minnis,
Prime Minister

Regional comparisons show that **The Bahamas** will continue to have the **lowest VAT rate** in the Caribbean.

Barbados	17.5%
St. Kitts and Nevis	17%
Jamaica	16.5%
Antigua and Barbuda	15%
Caribbean Average	15%
St. Lucia	12.5%
Trinidad and Tobago	12.5%
The Bahamas	12%

*below the regional average

REGIONAL TAX COMPARISON

VAT COLLECTIONS

YEAR	REVENUE (\$)
2014/15 Actual	219,680,224
2015/16 Actual	628,051,966
2016/17 Actual	638,173,864
2017/18 Budgeted	663,561,987
2018/19 Budgeted	1,061,911,862

TARGETED TAX RELIEF

Many of the Government's tax relief measures are intended to cushion the impact of tax reform measures on the poorest households. The Budget also reduces the cost of other goods and services through tax relief.

FOR INDIVIDUALS

- Personal travel exemption increased from \$300 to \$500 per person twice a year
- **VAT eliminated from:**
 1. Breadbasket items
 2. Prescription and over-the-counter medication
 3. Residential electricity bills kept at or under \$200 per month
 4. Residential water bills kept at or under \$50 per billing cycle
 5. Residential property insurance
- **Duty concessions:**
 1. **Duty eliminated from** art supplies, upon application
 2. **Duty eliminated from** grocery items, including whole salmon, frozen fish fillets, bread spreads, potato products, tofu and prepared and preserved tomatoes.
 3. **Duty reduced** to 25% on fabric softener

FOR BUSINESSES

- Business license **concessional rate** of 0.75 per cent granted to smaller hotels (in line with existing rate for large hotels)
- Business license **waiver** for schools registered with the Ministry of Education
- **VAT Free** fundraising activities held by charitable organizations
- **Duty eliminated** for church buses less than eight years (increased from 3 year-old requirement to make it more affordable and include more churches)
- **Duty free entry** for goods used in the commercial printing industry



PERSONAL TRAVEL EXEMPTION INCREASED FROM \$300 TO \$500 PER PERSON TWICE A YEAR

“We recognise that any tax increase will have a particularly strong impact on poorer Bahamians. Hence the move, within the context of the budget, to remove the VAT on breadbasket items and other major consumption costs like electricity and other utilities.”

*The Hon. K. Peter Turnquest,
Deputy Prime Minister & Minister of Finance*

VAT Removed from the Breadbasket

Returning Savings to the Pockets of the Most Vulnerable

“Growing up on grits and steam mackrel or fire engine is a part of life. For some, eating bread and mayonnaise was a necessity for survival. We do not want Bahamians to be financially constrained to eat from the current breakbasket but that is a reality for some and it is nothing to scorn. With the VAT reductions on the longstanding breadbasket, the most vulnerable, will find relief.”

*The Hon. K. Peter Turnquest,
Deputy Prime Minister & Minister of Finance*

After a period of public education, the government plans to reshape the breakbasket to include more healthy options, and lower the cost of adopting a more holistic lifestyle. The Ministry of Health is currently engaged in an active consultative process intended to sensitize Bahamians about healthy food choices.

VAT FREE GROCERIES

- Butter
- Cooking Oil
- Mayonnaise
- Grits
- Cheese
- Corned Beef
- Tuna
- Mackerel
- Mustard
- Sardines
- Other canned fish
- Evaporated Milk
- Margarine
- Rice
- Flour
- Bread
- Tomato Paste
- Fresh Milk
- Baby Cereal
- Baby Formula
- Soup
- Broths
- Baby Food
- Powdered Detergents
- Condensed Milk
- Soaps

Reducing & Managing THE COST OF GOVERNMENT

23 SOEs
account for 15% of total expenditure.

61% of SOEs
saw reductions in their allocations or no change.

SINKING FUND *Paying down the debt*

A sinking fund is a special interest-bearing investment fund that is formed by periodically setting aside money for the gradual repayment of a debt.

Instead of continuing to refinance existing debt obligations, which prolongs interest payments, the money set aside in a sinking fund helps to pay down on the debt.

The Government has two existing sinking funds to retire debt. The budget sets aside \$46 million, which includes \$6 million in contributions to the existing sinking funds, and \$40 million to invest in a new sinking fund to pay off a significant portion of the \$750 million it borrowed in FY2017/18 when that debt becomes due in 2028.

DIGITAL BAHAMAS *Modernising government and improving efficiency*

The Budget provides \$8 million for the “Digital Bahamas” initiative, designed to transfer more government services online, to streamline government processes and to improve the ease of doing business in a variety of ways.

PUBLIC FINANCIAL MANAGEMENT REFORM *Fostering transparency and accountability*

The Government launched an IDB-funded project to upgrade its financial processes and accounting systems, including a planned move from cash-based to accrual-based accounting. The Budget allocates \$5 million to improve the hardware and software platforms for accountancy so the Government is able to keep comprehensive records, produce more timely information, and better track all government spending on an ongoing basis.

RATIONALISING STATE-OWNED ENTERPRISES

Improving efficiency and reducing costs over time

In the Budget, state-owned agencies (SOEs) account for 15% of government expenditure. The total allocation to SOEs only decreased by three per cent. To improve efficiency and reduce the cost over time, the Government has directed each SOE to review its operating model and to develop a three to five year plan that could include a mix of revenue enhancement initiatives as well as measures to reduce expenditures bringing them in-line with industry benchmarks.

MAJOR INCREASES

Increases for the Bahamas Public Parks and Beaches Authority, the Gaming Board, and the Bahamas Civil Aviation Authority were made in keeping with the Government’s right-budgeting policy which reverses the practice of underbudgeting for known commitments. Right-budgeting was also applied to the Department of Public Health and the Public Hospital Authority. However, the Government will also increase allocations for health agencies to improve the delivery of health care throughout the country and increase the allocation to BTVI to fund a scholarship initiative.

What is a state-owned enterprise (SOE)?

A state-owned enterprise (SOE), also known as a government-owned corporation, is a legal entity that is created by the Government in order to partake in commercial activities on the Government’s behalf. It can be either wholly or partially owned by a government and is typically earmarked to participate in commercial activities. They are separate from government agencies established to pursue purely nonfinancial objectives.

State-Owned Enterprise

2018/19
(\$MIL)

The Clifton Heritage Authority	2.3
The Antiquities, Monuments & Museums Corporation	2.5
Broadcasting Corporation of The Bahamas	8.0
Water & Sewerage Corporation	25.0
Operation - College of The Bahamas	31.6
Bahamas Technical & Vocational Institute	8.1
National Sports Authority	3.0
National Art Gallery	1.6
Bah Agricultural/Food Safety Authority	0.7
Bahamas Agricultural & Industrial Corporation	4.0
School of Agriculture & Marine	7.0
Operation - Public Hospital Authority	216.0
Operation - Department of Public Health	6.5
National Health Insurance Authority	20.0
Operation - The Gaming Board	6.3
Bahamas Civil Aviation Authority	18.5
Airport Authority Operational	6.2
Bahamasair Holding Ltd.	13.4
Nassau Flight Services	1.8
Hotel Corporation of The Bahamas	0.6
National Training Agencies	1.0
Bahamas Public Parks & Beaches Authority	13.9
Straw Market Authority	0.5

TOTAL

398.3

HOLDING THE GOVERNMENT ACCOUNTABLE

5 Things You Need To Know

Things will be different after the Fiscal Responsibility Bill, 2018 is passed. If the government is irresponsible with public finances it will not simply be against standards of good governance, it will also be against the law.



Fiscal Balance

The law will force the Government to live within its means. The Government has three years to reduce its deficit. From FY2020/21 onwards, the deficit can be no more than 0.5 per cent of GDP.



Debt Limit

The law will limit government debt to a maximum of 50 per cent of GDP.



Spending Cap

The law will cap government spending so that it cannot grow faster than the economy's overall growth rate. The average long-run growth in nominal GDP is currently 3 per cent which takes into account the historical and projected path.



Fiscal Responsibility Council

Civil society will be given legal powers of oversight through a Fiscal Responsibility Council. Five professionals with specific expertise in law, business, economics, accounting, and finance will be independently selected by non-governmental stakeholders.



Transparency

The Government will have to produce new fiscal reports throughout the year for public and Parliamentary scrutiny. These include a Fiscal Strategy Report, Fiscal Adjustment Plan, and a Pre-election Economic and Fiscal Update

What the Law Says About Good Governance

The Fiscal Responsibility Bill, 2018 is a forward-looking piece of legislation intended to reshape the culture of public accountability, by enabling more Parliamentary and public scrutiny of the fiscal performance of the Government. The law establishes six general principles of responsible fiscal management that the Government must live by.

6 General Principles for Responsible Fiscal Management

- 1 Accountability:** The Prime Minister, the Minister, all other Ministers and the heads of local governments are accountable to Parliament with respect to managing fiscal policies.
- 2 Inter-generational Equity:** The management of fiscal policies of the Government shall take into account the impact on the welfare of the current population and future generations.
- 3 Responsibility:** The management of public assets and liabilities, including natural resources and fiscal risks shall be conducted to maintain fiscal and environmental sustainability.
- 4 Stability:** Fiscal policy shall be conducted in a manner that does not cause destabilizing changes in the macroeconomic and fiscal indicators.
- 5 Transparency:** The roles and responsibilities of all government officials with respect to the management of fiscal policy are clearly established and defined; timely financial and non-financial information is made available so as to permit effective public scrutiny, and public officials and public office holders do not withhold financial or other performance information without lawful cause.
- 6 Inclusive Growth:** Economic growth benefits the whole population.