Does VAT suit the modern Bahamas?

“What is Value Added Tax? Why are we implementing it in the Bahamas? Why are we using this form of tax over sales or income tax? Value Added Tax is too complex so we should not implement it.” The above is a series of questions that the Bahamian population has been asking. It seems as though no one, except the government, is in favor of this tax. Persons from various sectors in the Bahamian society have articulated myriads of disadvantages of this tax. These include persons from the financial sector, the business community and the general public. With so much controversy about this topic, I must ask the question: “If so many people are in opposition to VAT, then why is the Government still proceeding with it?” This question was answered by Prime Minister Christie who recently commented: “Government is not for the faint hearted. At the end of the day we have to make decisions.” Obviously the government will always do its best to make decisions that will help and not hinder the country. Indeed, the Value Added Tax debate has been an unfair and unbalanced one in that it has only been looked at from a negative perspective. However, upon careful consideration one will come to the conclusion that Value Added Tax is the most suitable form of taxation for the modern Bahamian economy.

Value Added Tax or VAT for short is a consumption tax charged at every stage of the production and distribution process. VAT is needed because the Bahamas is in the process of joining a number of international agreements, including the World Trade Organization, which eschews customs because it is a barrier to free trade. Thus, the Bahamas must minimize the rates of custom duties which will therefore cause the revenue earned from this tax to plummet. Custom duties are our largest tax and the depletion of this tax will prompt the need for an alternative tax source. This is the precise reason that we need VAT; to compensate for the loss of customs revenue.
In the Bahamas, as with any country, there is an issue with tax evasion and tax fraud. Many people use this as an argument against VAT. While this is a legitimate concern, the weakness of the tax administration should not surpass the benefits of introducing VAT. Absolutely no tax is impervious to evasion as there will always be those persons adept enough to outsmart it. Instead of focusing on the shortcomings of the current tax system, we need to focus on strengthening and improving it. There is still time before the implementation of VAT. We need to create a culture of compliance where every Bahamian citizen contributes to the treasury by paying his fair contribution. This is true of businesses and citizens alike.

Many people lambast VAT because it is complex and requires much recording and accounting. However, if the Bahamas is to develop into an industrial nation and begin exporting, then this is something that the Bahamian people must become accustomed to. In its report on VAT implementation, the International Monetary Fund (IMF) recognized that: "To reduce the risks to VAT introduction, and to ensure that the tax operates as an efficient and productive revenue source, the base should be chosen as widely as possible, the rate structure kept simple, and the exemptions minimized." Consequently, the Bahamas will already have the broad tax base to transition into industrialization which will in turn add to the economy.

Currently, the Bahamas is highly dependent on tourism and banking. However, the Government has taken many initiatives to revive and expand agriculture which can be the foundation for manufacturing. This happens in most countries that levy VAT. Agriculture is a primary industry. At the moment there is no major agricultural industry. Since these foods will be produced in the Bahamas, VAT will be applied at each stage. Thus, the Government will further encourage production in order to generate more revenue. Furthermore, the Bahamas will be able to export surplus goods and the government will receive a VAT tax on this as well.
Furthermore, the government constantly has a higher expenditure compared to revenue. Hence, the government necessitates more revenue so that it can successfully meet its financial obligations. Currently, the government is often subject to borrowing money. In an interview with the Tribune dated September 16th, 2013, Kevin Seymour, the former Grand Bahama-based partner for PriceWaterHouse Coopers Bahamas stated that the government is expecting to raise an extra $200 million in annual revenues from its proposed Value-Added Tax. He further explained: “The extra revenues generated by VAT will be vital to the Government’s ambition of eliminating its GFS (recurrent) fiscal deficit by the end of the 2015-2016 fiscal year, and generating enough revenues to eventually start paying down its $5 billion-plus national debt.” Here it is unequivocally seen that VAT suits the modern Bahamas because it will be a major source of revenue.

There has also been much debate of why VAT has been selected as the tax of choice over traditional sales or income tax. The Bahamas has always been praised as being a tax haven. Consequently, we have always been attractive to foreign businesses who desire to operate outside their countries in order to avoid the exorbitant taxes on their income. If the Bahamas were to implement income tax, then it would discourage creativity, entrepreneurship and foreign investment. Income tax is normally about 33%, but Vat is only between 15-17%. Furthermore, other than the administrative costs, the businesses are not paying VAT, but merely collecting it from the final consumer and remitting it to the Government. Thus, VAT encourages entrepreneurship which will in turn create jobs and add to the economy.

Many Bahamians have also expressed desire to have a sales tax. However, a sales tax is prone to evasion because it only targets one stage of production, whereas, VAT applies tax to each stage of production.

In colonial days, the economy was largely contingent on primary industries like sisal, sponging and wrecking just to name a few. The current Bahamas is a service
based economy with tourism and banking as its main industries. The pillars of a modern economy are providing the aforementioned services, as well as light manufacturing. However, the main tax source, customs, does not apply to services. Indeed, relying on customs duties is like functioning without technology. The world has moved away from trade barriers and has largely eliminated customs duties according to the World Trade Organization rules (WTO). The Bahamas is the only country in the region that is not a part of the WTO. At the moment, no tax is charged on services, yet, the Bahamas is a service based economy. Approximately seventy percent of its Gross Domestic Product is derived from services such as tourism and banking, thus leading to a shortfall in the Government. Hence, introducing VAT will incorporate the taxation of services which fuels the economy.

In a paper written for the Caribbean Regional Technical Assistance Center, Paulo dos Santos said: “VAT performance has been particularly strong in small island countries with populations under one million.” The Bahamas perfectly fits this description as we have an approximate population of three hundred fifty thousand and we are a small island country. The reality is that the Bahamas, or any country for that matter, will never find a tax that will please everyone. The only thing that the Bahamian Government can do is to aim to find the most suitable tax. Is VAT perfect? No. Does VAT suit the modern Bahamas? I say without a shadow of a doubt, I give a resounding YES!