VAT: Is it Suitable for the Caribbean Community?

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Abstract

The Caribbean Community is in transition, moving toward a liberalized trade environment with low tariffs. Tax reform is at the forefront of the policy response since traditional sources of tax revenue such as import duties are on the decline. This paper evaluates the suitability of the VAT to countries of the Caribbean Community. We examine theoretical arguments, practical experiences of the Caribbean with the VAT and the economic and tax characteristics of the Caribbean. We conclude by supporting VAT implementation in the Caribbean Community. This paper also reflects a comprehensive survey of tax reform efforts in the Caribbean.

INTRODUCTION

Small open economies such as those in the Caribbean[1] are faced with great fiscal challenges. As a result these countries have had to search for alternative sources of revenue. The ongoing process of international, hemispheric, bilateral and regional trade liberalization has lowered tariff levels thus gradually eroding a vital source of government revenue. Diminishing revenue has long been a critical concern of Caribbean governments since it threatens to dampen the level and growth of public sector investment programs.

Faced with the external constraint of having to lower tariff levels, Caribbean countries have had to search for alternative sources of revenue. For example Bain (2002) points to the Eastern Caribbean Currency Union (ECCU) countries adopting revenue loss neutralizing measures such as increasing consumption tax rates on selected items and raising the customs service charge. Other Caribbean countries have introduced sales taxes, broad based consumption taxes, and the Value Added Tax (VAT) as key features of tax reform packages. The introduction of broad indirect taxes measures seeks to compensate for potential revenue loss because the narrow tax base in many Caribbean countries severely constrains the avenues for non-distortionary adjustment of existing taxes (Bain, 2002). Indeed many Caribbean countries have introduced sales taxes, broad based consumption taxes, and the Value Added Tax (VAT) as key features of tax reform packages. Moreover, the World Bank and the International Monetary Fund (IMF) are

[1] Caribbean refers to Caribbean Community (CARICOM). Periodic reference is made to Anguilla, which is a member of the Organization of Eastern Caribbean States (OECS). We sometimes refer to this grouping as the Eastern Caribbean Currency Union.

encouraging Caribbean countries to implement the VAT so as to raise revenue and simplify the tax structure.

Today the VAT is functional in excess of 120 countries, some Caribbean countries included. Barbados, Dominica, Jamaica and Trinidad and Tobago have VAT regimes and Guyana is set to implement a VAT at the beginning of 2007, while other member states such as Belize and Grenada have dispensed with it. The IMF through the Caribbean Regional Technical Assistance Centre (CARTAC) has prepared tax studies on the OECS and they have proposed the implementation of a VAT which a few territories have already accepted and committed to doing[2].

Our aim is to provide an evaluation of the suitability of the VAT for the Caribbean based on external constraints, characteristics of Caribbean economies, the nature of the tax structure, and the practical experience that the Caribbean has had with the VAT hitherto. In section 2, we describe the external environment that has hastened the need for comprehensive tax reform, while in section 3 we outline the various elements of tax reform in the Caribbean. Section 4 examines the theoretical arguments for and against the VAT and section 5 describes and examines the practical experiences that the Caribbean has had with the VAT. This section is followed by an analysis of the Caribbean economic and tax structure. Subsequently, in section 7 we evaluate whether the VAT is really suitable for the Caribbean jurisdiction. Finally, section 8 concludes the paper.

[2] Stotsky et al (2000), made similar recommendations for the Caribbean region.

THE EXTERNAL ENVIRONMENT

The global environment, within which CARICOM countries must operate, is harsh and unrelenting, often treating the microstates of the Caribbean as is they were no different from large countries. The quest for “Special and Differential” treatment within the Free Trade Area of the America’s (FTAA) has been a tough one, met with resistance every step of the way by states that do not believe that countries with special circumstances should be treated differently.

Tax reform in the Caribbean has largely been driven by an external environment that continues to erode traditional sources of tax revenue. Caribbean economies are small and highly open, so they have always been vulnerable to the vicissitudes of the global economy. Globalization, trade liberalization and changes in global politics have caused increasing marginalization of Caribbean States. Today development assistance in the form of grants and other in-kind aid has diminished since the decade of the 1980’s. In addition, donors have new interests and this has had consequences for fiscal policy, tax administration and collection, and the tax structure itself.

These changes have placed greater pressure on domestic resources and savings to finance domestic development. Table 1 shows that fiscal deficit to GDP ratios have been worsening in the region. Between 1994 and 2002**,** the average fiscal balance as a percent of GDP, for the Caribbean Community, has risen from -2.81 to -5.4 per cent. This reflects a dual trend of falling tax receipts and increasing capital and recurrent expenditures. Since 1997 the average fiscal balance for the region has moved beyond 3 per cent of

GDP, a widely acknowledged prudential standard. Trinidad and Tobago as seen in table 1 has maintained balanced budget in spite of oil price fluctuations, while the Bahamas, Barbados, and Haiti have maintained moderate fiscal deficits. Antigua and Barbuda, Belize, Dominica, Grenada, Guyana, Jamaica, St Kitts, Saint Lucia and Suriname have all experienced rising fiscal deficit over the 1994-2002 period.

[INSERT TABLE 1]

Governments have been looking to improve efficiency in the way taxes are collected while at the same time looking for additional tax bases. A large informal sector in many Caribbean countries implies, *inter alia*, considerable potential tax bases[3]. These conditions sow the seeds that generate reform and the most obvious solution has been to introduce broad indirect taxes such as the VAT and the GCT[4].

The reduction of import duties associated with trade liberalization often has the effect of reducing fiscal revenues because the level of tax receipts in small open economies is heavily dependent on import and export trends (CARICOM: 2001). Table 2 shows that in 1999, the ratio of import taxes to total tax revenue ranged from 7.23 percent in Trinidad and Tobago to 63.18 per cent in Anguilla. The average degree of dependence in CARICOM using the same measure was 29.39 per cent. CARICOM as a region is moderately to highly dependent on trade taxes as a source of revenue. The OECS and Belize in particular are highly dependent on taxes on international trade. Customs fees are also important to CARICOM countries. Customs fees are supposed to cover administrative costs but in the Caribbean they range from 1 percent to 10 per cent of c.i.f

[3] Large informal sectors in the developing nations can also reflect a burdensome *legal* formal economy, according to De Soto (2000 p. 21), "migrants (from the formal to the informal economy) do not so much break the law as the law breaks them-and they opt out of the (legal) system."

value of imported goods. Customs fees also range in importance from 0.5 per cent of total revenue to 13.2 per cent of total revenue (dos Santos and Bain, 2004). These fees are likely to be rationalized under a liberalized trade environment, thus reducing revenues from this *de facto* tax.

[INSERT TABLE 2]

The effects of trade liberalization are dependent on a number of factors, but perhaps the most important one, is the responsiveness of import demand, or import elasticity. This essentially determines whether there will be revenue shortfall or revenue gain. Nicholls et al (1999) recover import elasticities using an Almost Ideal Demand System (AIDS) model. Their results show that for the OECS, Jamaica, and Trinidad and Tobago, tariff removal under a CARICOM-EU Regional Economic Partnership Agreement would result in revenue shortfall from trade taxes. Revenues in Jamaica, Trinidad and Tobago, and the OECS were projected to decline by 3.4, 2.36, and 8.4 percent respectively under the assumption of no import tariffs between the given Member of CARICOM and the European Union. Bourne et al (1999) conclude that the short term effects of tariff reduction given the high dependence of CARIFORUM[5] countries on trade taxes will be revenue loss, exacerbated by weakness in administration and narrowness of the tax base.

There can be no doubt that tariff levels will continue to decline. Since CARICOM Member States agreed to a four stage reduction schedule in 1992 there has been a gradual reduction in the maximum rates of import duty from 45 per cent to 25 per cent and lower, varying according to the territory.

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[4] General Consumption Tax in the case of Jamaica is a VAT.

Listed below are some of the regional bilateral trade agreements that CARICOM has:

- CARICOM-USA: 1984
- CARICOM- Venezuela: 1993
- CARICOM- Columbia: 1995
- CARICOM- Canada Trade and Economic Agreement: 1979
- CARICOM- Dominican Republic Agreement: 1998
- CARICOM- CUBA: 2000
- CARICOM- CHILE

These agreements as well as broader trade commitments such as the World Trade Organization (WTO) reciprocal agreements, FTAA, and CARICOM Single Market and Economy (CSME) prompted a response from CARICOM governments to pursue a tax reform agenda, which includes among other things the possible implementation of a VAT.

[5] Caribbean Forum of African, Caribbean and Pacific States.

TAX REFORM MEASURES

Domestic Initiatives

Tax reform in the Caribbean has several components. There have been many training programs aimed at improving tax administration, initiated by governments, the Caribbean Organization of Tax Administrators (COTA), the CARICOM Secretariat, and the Caribbean Regional Technical Assistance Center (CARTAC). These programs have typically focused on the training of staff, the computerization of administrations and reform of public accounts for more effective and efficient management. Tax rates are constantly revisited as member governments seek to raise revenues and undertake structural and other changes to stimulate domestic industries and encourage foreign direct investment.

In the case of structural tax reform, most Member States are currently engaged in enhancing their tax systems through direct and indirect mechanisms. More so, Member States are placing emphasis on indirect taxes. Moving toward some form of consumption tax system (particularly the Value Added Tax system) or augmenting existing ones for more national control and leverage to 'protect local industries' seems to be the developing trend in the region.

Countries, particularly in the late 1960s and early 1970s, started to adopt the VAT system. The VAT has become a standard tax in the region. It was introduced in Barbados, Belize, Dominica, Grenada, Haiti, Jamaica, and Trinidad and Tobago as shown in Table

3. It was revised into a consumption tax and sales tax respectively in Grenada and Belize, though recently the VAT has been discussed in the Parliament and is to be reintroduced in Grenada in 2006.

This follows the general movement in the OECS toward VAT, among other tax reform options, as a response to the global trading environment. The OECS stands to lose the most by way of revenue loss from trade liberalization. There are however concerns about how the VAT would be collected and the administrative costs of a VAT. St Vincent and the Grenadines has committed to the VAT in 2006 and Dominica recently introduced a VAT as part of their Poverty Reduction and Growth Facility arrangement. The target revenue yield for this VAT is 9 per cent of GDP and it is expected to replace consumption, sales, hotel and occupancy taxes (Sandiford, p9, 2002). The introduction of this VAT is expected to overhaul the fiscal incentive regime to make it less discretionary. Moreover, a system of excise taxes is there to complement the new VAT system. The VAT will apply to all sectors except the financial sector and will exempt domestic unprocessed agricultural food, imports for health and education sectors and businesses below an EC$60,000 sales threshold. A number of administrative reforms are to follow the introduction of the VAT in Dominica that will ultimately call for an increase in staff of the Inland Revenue Department by 20-25 people[6]. Similar recommendations have been made for other OECS countries. Guyana will be implementing a VAT in 2007 while St Lucia plans to introduce a VAT in the next few years. Table 3 shows in greater detail some tax reform measures that are being undertaken by member governments.

[6] See Sandiford (2002) for details of the proposed VAT in Dominica.

Regional Initiatives[7]

In addition to domestic tax reform, the Caribbean Community has also pursued regional tax initiatives, mainly with a view to improving the efficiency of the CARICOM Single Market and Economy.

Tax Harmonization[8]

Tax harmonization pursued in the Caribbean has a number of elements that are very important in complementing and aiding the move towards a Single Market and Economy. The Common External Tariff (CET) has been the most notable of the harmonization efforts so far. More specifically, outlined in Protocol IV is the prohibition of levies of imports and exports on Intra-CARICOM trade of goods of community origin. Member States are also prohibited from any form of protectionist fiscal actions such as applying fiscal charges on imported goods of community origin that they do not produce or produce in small quantities. The use of subsidies is also prohibited as they might act to frustrate the expected benefits of removing restrictions. Co-operation among customs administrations is also encouraged. The underlying principle of the current approach to tax harmonization in the region is to first reform the tax structure then tax rates. Corporation tax has been the first domestic tax under consideration and is still currently under review. The next harmonization effort may be to reform consumption tax or the VAT.

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[7] See Peters (2002).

CARICOM Double Taxation Agreement (CDTA)

The CDTA is an Agreement among member governments to avoid double taxation and prevent fiscal evasion with respect to taxes on income, profits and capital gains, and for the encouragement of regional trade and investment. This agreement ensures that consumers and businesses are able to operate freely without restriction or penalty within the CARICOM Single Market and Economy (CSME). In addition the agreement provides information governing third parties with business interest in the region. This reform measure in the region is an excellent example of tax co-ordination within the region. So far the agreement has been acceded by 12 Member States. The Bahamas is not a member of the CSME, while Suriname and Montserrat are not parties to the CDTA.

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[8] See Articles, 24, 27 and 32 of Protocol IV of the Revised Treaty of Chaguaramas (1998).

Investment Incentives

There is ongoing work in the area of harmonization of fiscal incentives. These incentives are in relation to industry, agriculture and services. Investment incentives are particularly important for attracting foreign investment to the region, but since adverse competition tactics can severely affect the operation of the Single Market by causing tax induced market distortions, which influence business location decisions, harmonization of investment incentives is crucial. This reform measure also promotes export led industrial and service oriented development in addition to prohibiting discrimination of incentives and the removal of bureaucratic impediments in the aforementioned areas[9].

Tax reform measures have become a major element of macroeconomic policy in the Caribbean Community. Today tax reform occurs on a regular basis, partially due to, adherence by Member States to international best practices and partly due to desires to enhance and maintain revenue stability.

ARGUMENTS FOR AND AGAINST VAT

Ebrill et al (2001) define the Value Added Tax to be “A broad-based tax levied on commodity sales up to and including, at least, the manufacturing state, with systematic offsetting of tax charged on commodities purchases as inputs-except perhaps on capital goods-against that due on outputs.” The reason for this broad definition is because the VAT is applied in so many different ways across countries. Ebrill et al (2001) stated that

[9] See Protocol III, Article 49.

the VAT is not so much a tax on value added but rather a multi stage consumption tax applied at different stages of production.

Arjoon (1991) presents a more theoretical definition; Arjoon defines the VAT simply as a tax on the value added to a good or service by a firm. Value added is the difference between the revenue from sales of goods and services and the cost of the firm’s inputs or purchases over a defined period of time. Samuel (1987) noted that the VAT is equivalent to a sales tax levied on final commodities since the value of final goods equal the sum of the values added at each stage of production and, given that the tax bases of a VAT and a sales tax are identical, a VAT and a sales tax may yield equivalent revenue.

As Ebrill et al (2001) stated, most VATs are intended as a tax on consumption. In the Caribbean this is certainly the case. There are three basic types of VAT[10], namely the consumption type VAT, the product type VAT and the income type VAT. The product type VAT includes gross investment and capital consumption allowance (depreciation) in the basic value added whereas with the income type VAT depreciation is subtracted from the basic value added. With the consumption type VAT, businesses can discount the value of gross investment to derive their value added. The differences in VAT occur as a result of slightly differing tax bases. As Ebrill et al (2001) imply, in the Caribbean the VAT is often introduced partly to replace other consumption taxes and therefore it can be considered a consumption type VAT.

[10] These three VAT types in turn have many variants.

There are three major methods of determining VAT liability. The first and most commonly used method is the ‘invoice-credit’ method, where the tax rate is applied to the value of sales, and credited against the input tax paid on the value of purchases. The second method is the ‘subtraction’ method, where tax is applied directly to the value added calculated by each firm by subtracting allowable purchases from revenues. The final method is the ‘addition’ method, where firms add factor payments or incomes to arrive at the total value added then levy the tax on this tax base. There is a variant of this method called the ‘indirect addition’ method where each factor income is taxed separately.

Because of the compliance features of the invoice credit method, practice and consensus the world over and particularly in the Caribbean favour this method.[11] The compliance feature referred to is the self enforcing nature of the VAT[12] and it arises because the tax credit of a purchaser is the tax liability of his supplier, so there is no incentive to understate liability (Samuel, 1987). This can significantly reduce administrative cost and if absent makes the VAT more susceptible to leakages which the informal sector may exploit.

There are a number of benefits and costs associated with the introduction of the VAT. Most of these factors are closely associated with the major principles of taxation, namely efficiency, equity, and administrative complexity.

[11] See Ebrill et al (2001) for detailed explanation and examples of the applications of the various methods.
[12] This is conditional on regular auditing of firms.

Benefits

The benefits of the VAT centre on the compliance with the efficiency principle of taxation. The VAT is considered non-distortionary or neutral with respect to economic activity. This is because it can be levied on all goods except leisure and at all stages of production. Therefore there is no incentive to alter the allocation of resources. Because the VAT does not alter relative prices, there is minimal interference with economic decision making. This is particularly the case if the VAT is comprehensive, but a comprehensive VAT is difficult to achieve in the Caribbean due to political and in some cases 'welfare considerations' for the poor adversely affected.

Unlike the personal income tax, the VAT only taxes consumption, not savings and therefore can have a stimulating effect on savings. Samuel (1987) supports this notion stating that the consumption type VAT is favoured because of the stimulus it gives to new investment. The income variety retards new investment because it increases the working capital firms have to come up with.

The VAT can either prevent or reduce the cascading of taxes because firms get credit for input value. This feature reduces the tax burden on suppliers and potentially consumers. The self-policing feature of the invoice credit method can potentially mitigate tax avoidance and evasion and improve revenue stability.

When VAT uses the 'destination' principle rather than the 'origin' principle it can improve export competitiveness and the Balance of Payments (Samuel, 1987). However, in the context of the Caribbean community the use of the destination principle is likely to have some member countries tax their most significant export earner of foreign exchange and income at source – tourism. To tax at origin (exports) and exempt at destination (imports) is likely to be the better alternative, plus the added benefit of reducing the incentive to smuggle. This does not mean imports will be exempted altogether since consumers pay the VAT on purchases, unless they import directly. Therefore taxation will occur at the retail level even on imported commodities, but vendors will not receive a credit for taxes paid since they do not pay taxes on their imports.

Costs

The main argument against the VAT is that it violates the equity principle of taxation and it is administratively complex. There are two types of equity, horizontal and vertical equity. Horizontal equity refers to a scenario where people with similar incomes pay similar taxes, whereas vertical equity is a broader concept that refers to a situation where people with different incomes share the tax burden equally or alternatively stated pay a similar proportion of their income in taxes. Horizontal equity is really a sub set of vertical equity because in both cases the proportion of tax paid across people is expected to be the same.

The VAT violates vertical or distributive equity since the proportion of income spent on taxes by lower income groups is higher. In other words the VAT is a regressive tax[13]. Some economists argue that in the long run all income is eventually consumed so

[13] This means that it distributes resources away from lower income groups to higher income groups.

that consumption is a better measure of ability to pay. The VAT can be made progressive by having multiple rates and by excluding particular sectors or goods and services from the tax base[14]. This normally increases the complexity of what the literature considers an already complex tax to administer. On the other hand progressivity may be achieved by rebating those lower income households who are disproportionately affected by the VAT or increasing the non-taxable threshold of their income, since a comprehensive VAT is likely to be more successful than a multi-tiered one or one that exempts or zero rates too many commodities.

The business registration requirements and the onerous record keeping and tracking of invoices by firms, as well as new accounting procedures serve as additional business costs. Moreover, Inland Revenue departments may need additional staff to administer and track revenues and claims while trying to ensure compliance. In this regard, Aizenman and Jinjarak (2005 p.3) suggested "VAT collection efficiency is expected to increase with resources spent on enforcement, and with the efficiency of monitoring, collecting and processing information." However, the increased compliance costs borne by the taxpayers may still be administratively burdensome for small businesses. This is why in countries where the VAT is applied, a sales threshold is used, below which firms are exempted from paying tax. In addition, it is expected that a comprehensive VAT in its purest form would not be as onerous since it is the paperwork associated with exemptions, zero-rating, and rate differentiation that may lead to this type of burden for taxpayers. Otherwise, with the use of the credit invoice method a firm

[14] Many argue that the definition of luxury items or low-income items is highly subjective and difficult to determine in practice.

would just take costs less revenue and remit a portion of the difference to the revenue authority.

The VAT has also been associated with an increase in the general price level. These adverse price effects can reduce real expenditures of the poorest households (see Bird, 1987; Bird and Miller, 1986). Bird (1987) points out that, making generalizations such as "income taxes are better than sales taxes" are useless as guides to reforming tax policy. Often times the success of tax reform is contingent on the nature of the tax structure and administrative practices of a particular jurisdiction.

The three main arguments against VAT implementation are firstly that it may be both costly and complex to administer. This cost is absorbed by both the tax payers and the businesses that remit the VAT. Secondly the VAT is inflationary, and finally the VAT taxes the poor more in a proportional sense than the wealthy. The last two factors affect the poor, and they cannot be understated. Dos Santos (2002) like many others makes a strong case for the VAT by pointing out that it is a good source of revenue but makes little mention of the adverse effects this tax can have on poorer consumers and domestic producers. We find that success is typically defined by the ability of the tax to generate revenue, with consumer welfare being treated marginally. We argue for a more multidimensional approach to the evaluation of VAT suitability to the CARICOM region.

CARICOM EXPERIENCES WITH VAT

Barbados

From the perspective of revenue performance the VAT in Barbados has been successful (Ebrill, *et al*: 2001). "VAT receipts for the first full year exceeded receipts from the taxes it replaced (consumption tax and stamp duties)" (Williams, 2001). This success was partly due to the fact that exemptions were initially kept to a minimum and the VAT was applied to both goods and services. In addition there was extensive administrative machinery for the implementation and proper record keeping by both the private and public sectors after the implementation of the VAT. Such success was not problem-free, as the revenue authority was hard press to expand the list of exempted commodities. It has also been recognized in the Barbados Budget presentation 2003 by the Finance Minister that VAT administration is becoming a problem as complaints from businesses suggest that refunds are not processed expeditiously.

The VAT replaced eleven taxes in Barbados[15], and is levied at 15 percent on most goods and services with the exception of the tourism industry which has a 7.5 percent rate applied for the purpose of maintaining competitiveness. The progressive rate structure which existed before with its multiple tiers and tax exemptions narrowed the tax base and induced high levels of evasion and avoidance by the wealthy and the self-employed (Alleyne and Howard, 2003). Alleyne and Howard (2003) made additional attempts to

[15] Namely the consumption tax, import surcharge, hotel and restaurant sales tax, travel ticket tax, entertainment tax, tax on quarry minerals, surcharge on overseas telephone calls, surcharge on residential rents, service tax on pleasure cruises, stamp duty on imports, and airline services business tax. The

investigate VAT performance in Barbados during the 1997 to 2001 period, by conducting a survey of a cross-section of seventy respondents from accounting firms, businesses, the tourism sector, the general public, the government civil service and Ministry of Finance, as well as VAT officials and economists. At 30.5 per cent of total revenue in 2001, indications are that the tax yield of the VAT is high and indeed 86 per cent of the respondents in the survey believed the government of Barbados was collecting too much revenue. The survey also indicated that the respondents thought that the initial investment costs were high and VAT compliance adversely affected small businesses. The reporting requirements were difficult for small businesses to adapt their systems to or even to outsource. Alleyne and Howard (2003) conclude that the existence of numerous small businesses in Barbados and shortage of staff to audit them has been an impediment to VAT collection. However, the VAT did help raise accounting and reporting standards in the country.

The respondents didn't believe that the VAT had any significant effect on competitiveness in tourism services (though Griffith (2000) provided evidence that it hampers export competitiveness), or other sectors, irrespective of whether they supported the introduction of a VAT or not. Though not directly attributable to the VAT, Alleyne and Howard (2003) also pointed out that total exports declined from BDS$428.5 million in 1996 to BDS$379.3 million in 2000. Thus the zero rating of exports and lower rate of 7.5 per cent in the tourism sector had negligible effects, the very point Griffith (2003) makes.

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consumption tax, stamp duty on imports and import surcharge made up approximately 78 per cent of total

In sum, available evidence indicates that the VAT has been a predominantly successful tax in terms of its ability to raise revenue and accounting and reporting standards in Barbados. There is little evidence that it has significant effects on export and industry competitiveness.

Belize

There is insufficient evidence to pronounce on the performance of VAT in Belize; however based on what is available it suffices to say that for the most part the VAT has had a favorable outcome for the period it existed. VAT provided in excess of BZ$75 million per annum or 28 percent of government's current revenue during 1996-1998 (Clare, 1998). Weak administration and an expanding list of zero-rated items to include food and construction items, led to declining VAT collections over the 1996-1998 period. In August of 1998 the new government in Belize, in keeping with its pre-election campaign position, announced a tax structure overhaul and their intention to abolish the VAT, which was replaced with a sales tax in April of 1999. There seems to be much belief that the abolition of the VAT system was more politically motivated, than on the grounds of its revenue performance and other effects.

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indirect tax revenue (Alleyne and Howard, 2003)

Grenada

VAT in Grenada has been viewed as a failure as experts who designed the VAT system did not take full account of the peculiarities of the Grenada economy (Samuel, 1987). Among some of the reasons given by Samuel (1987), the failure was primarily attributed to lack of production linkages, limited multistage processing, and the implementation and application of certain legislation that acted to negate the expected benefits of the VAT. In addition, insufficient time and lack of broad consultation led to marginal understanding of the intricacies of the VAT system by stakeholders; no rate differentiation which lead to double tax of goods prior to the exemption stage; the VAT was highly inflationary; and the VAT was proportional with respect to consumption but regressive with respect to income. Bain (2002), on the other hand states that the failure of the VAT in Grenada was primarily due to administrative difficulties encountered in the collection process. According to Bain (2002), the VAT was doomed to fail from the outset since the necessary conditions were not satisfied in the initial stages, and hence, we cannot be conclusive about its performance. Another interesting point to note is that the implementation of the VAT in Grenada was followed by the abolition of major taxes such as personal and corporate income taxes (though corporate taxes were replaced by a business levy).

The VAT in Grenada, introduced at a rate of 20 per cent was designed to simplify the tax system. It led to a reduction of the number of taxes from twenty one to seven, replacing many taxes including direct taxes such as the personal and corporate income tax. Tax liability was determined by the credit method and to address the regressive feature of the tax, a range of food items and other product groups were zero rated. Rapid implementation of the VAT without sufficient training and education of tax collectors and tax payers ultimately led to substantial numbers of incorrect tax returns and confusion (Sandiford, 2003). The inadequate administrative structure and the ambiguity in the VAT Act such as confusion relating to the relative roles of the Inland Revenue Department and the Customs Department led to subsequent amendments and ultimately loss of confidence in the new tax system. This undermined the effectiveness of tax authorities in collecting revenue (Sandiford, 2003). Sandiford (2003) points out that total revenue amounted to EC$31.9 million at the end of the year of implementation considerably less than the projected revenue estimate of EC$42.6 million.

One of the key objectives of the VAT was to increase international competitiveness of the Grenadian economy. According to Sandiford (2003) annual growth of Grenada's major merchandise exports (Bananas, Cocoa, and nutmeg) declined to 5.5 per cent during 1987-1995 compared to a growth decline of 1.4 per cent during the 1980-1985, the pre-VAT period. The VAT was also inflationary, with prices of household supplies growing by 25.8 per cent (Sandiford, 2003) and food prices in particular growing by 2 per cent even though food was mostly zero rated.

The VAT was eventually repealed but the government of Grenada has announced plans to re-introduce the VAT in 2006.

Haiti

VAT also exists in Haiti, but we found limited documentation about its performance. In Haiti VAT is essentially a Turnover tax levied as 10 per cent of ex-custom value of imported goods and services. There were several amendments to the VAT from 1982 through 1996. In 1999 the VAT base in Haiti was expanded to include goods and services previously exempted, for example banking services, agri-business and the supply of water and electricity with exemptions for raw material inputs for the export sector (mainly textiles exported to the US), all in an effort by the government to raise tax revenues. Nevertheless, due to continuous political instability since the early 1990's, the US Department of State (2002), highlighted the fact that there is widespread evasion and inefficient collection of taxes in Haiti. They also referred to VAT collection as "sporadic and inefficient".

Jamaica

Jamaica has a VAT in the form of a General Consumption Tax (GCT). This tax is applied at a rate of 16.5 percent on the sale of all goods and services. A lower rate of 12.5 percent is applied to inputs for construction purposes. Special differentiated rates of the GCT in Jamaica apply to motor vehicles, hotel and the telecommunication sectors. This further differentiation makes the tax increasingly complex, owing largely to special rates that apply to motor vehicles, from zero to 177 per cent. Such rate differentiation (according to the IADB[16] (2003 p.3) anarchy in the tax rates) increases distortions and has increased

[16] Inter-American Development Bank

compliance costs. Few goods and services are exempted; exemptions are applied to goods and services that are considered vital for low income households. But, the IADB (2003 p. 17) noted that though exemptions are few some of those that exist go beyond what is customary in other countries and cannot be justified on equity grounds.

As a percentage of total tax revenues the GCT averaged 33.7 percent for the period 1991-1996. Based on calculations from Dos Santos and Bain (2004, p14) VAT represented 7.6 percent of GDP in 2004, Edmiston and Bird (2004, p10) show GCT in Jamaica represented 8.3 percent of GDP for the year 2004. They went on further (at p17) to suggest that, "the GCT is arguably the best-administered tax in Jamaica.", and (at p21) highlighted that, the GCT "has over time demonstrated a respectable performance in revenue terms." However, the IADB (2003) suggested, *inter alia*, a uniform GCT rate and special subsidies for the poor in compensation for price distortions of basic items, created by a generalized VAT, to further enhance the revenue performance of the GCT.

Trinidad and Tobago

The VAT in Trinidad and Tobago is limited to those providing commercial supplies annually in excess of TT$ 200,000. There is a penalty of 8 per cent of the outstanding amount owed to the revenue authority in addition to a 2 per cent monthly interest for late payment. The revenue from VAT has been fluctuating since its inception. But, evaluated against the mentioned merits of the VAT Trinidad and Tobago has been touted as a success story as is well documented by (Bain: 2002). This success was achieved due to careful and timely implementation of the VAT. The requisite training for the staff responsible for its collection and administration; the simplicity of applying one rate (currently 15 per cent of value added); extensive public awareness programs prior to its implementation; full support by the government, among other factors contributed to its success. VAT collected generally surpassed budgeted expectations, but the buoyancy of the VAT seems less than anticipated (Bain, 2002). Refunds have been increasing since the inception of VAT (in 1990), due primarily to extending the list for zero-rating and exemptions of commodities.

Concerns emanating from the experiences of VAT in the region hitherto, are low buoyancy in Trinidad coupled with relatively high refunds, 30-40 per cent of the total VAT collected (Bain, 2002) and some administrative burdens caused by too many small businesses registering. In addition, due to high cost of living, and low wages, escalating food prices in Tobago has been attributed to the VAT. Consequently, the Tobago House of Assembly has requested that Tobago be a VAT free Zone among several alternatives.

CARIBBEAN ECONOMIC AND TAX STRUCTURE

Caribbean economies are extremely small, highly open, and possess highly un-diversified production structures. These characteristics typically result in high vulnerability to external shocks and natural disasters. On the macroeconomic side, most Caribbean economies are typically characterized by low to moderate rates of inflation, high levels of unemployment, stable exchange rates and interest rates, fairly good public sector management, and high and sustained inflows of foreign direct investment.

In all Caribbean economies services form a significant part of total output. In 2003, government services ranged from 7.1 per cent of total output in Suriname to 22 and 33 per cent of total output in Dominica and Montserrat respectively, thus indicating the significant role of government in economic activity and underscoring the importance within a Caribbean context of maintaining revenue stability. Guyana and Dominica have production structures heavily skewed toward agriculture whereas in Belize, Jamaica and Trinidad and Tobago, manufacturing contributes significantly to total output. Belize's locomotive sectors are balanced between agriculture and manufacturing whereas St Vincent has a moderate contribution by agriculture to its output. In the other countries tourism services contribute significantly to Gross Domestic Product.

Just as the characteristics of Caribbean economic structure were inherited from the British colonial system with the exception of Haiti and Suriname, so was the tax system and consequently elements of the tax structure. Peters (2002) indicates that the average tax rate[17] over the last two decades ranged from 25 per cent in Belize and the OECS to 38 and 32 per cent in Guyana and Trinidad and Tobago respectively. Haiti had a tax burden of 33.2 per cent in 2001 (dos Santos and Bain, 2004).

Tables 4 and 5 further illustrate the characteristics of Caribbean tax structure. In the smaller OECS countries taxes on international trade accounted for over 50 per cent of tax revenue except in Montserrat where it was 46.1 per cent. In the larger Caribbean territories such as Trinidad and Jamaica, the dependence on trade taxes is lower but still high; it ranges from 8.5 per cent in Trinidad and Tobago to 24.9 per cent in Jamaica.

[17] This is defined as total tax revenue divided by GDP, also referred to as the tax burden.

Direct taxes account for significant portions of total revenue in the larger Caribbean territories and a very small part in the smaller territories. In Trinidad Direct Taxes account for as much as 60.6 per cent of total revenue on average, whereas for Barbados, Guyana and Jamaica direct taxes are approximately a third of total tax revenue. There is also a dichotomy between smaller states and larger states on the role of domestic consumption taxes because consumption taxes are more significant revenue earners in the bigger territories than in the smaller territories mainly due to the introduction of a broad based consumption type VAT. The VAT accounts for 26.8 per cent of total revenue in Barbados, 20.8 per cent in Jamaica, and 18.0 per cent in Trinidad and Tobago. In the OECS, however, the revenue gained from consumption taxes on imported goods is substantial and in most cases transcends revenue earned from import duties. The Bahamas does not have a corporate income tax (CIT) and St Kitts and Nevis does not have a personal income tax (PIT). Antigua and Barbuda only applies PIT to non-residents. CIT rates in the region range from 15 per cent to 45 per cent. Barbados applies seven different CIT rates, Suriname six different CIT rates, Haiti, Jamaica and St Lucia five and Guyana two rates.

The VAT exists in Barbados, Dominica, Haiti, Jamaica, and Trinidad and Tobago. The rates are 15 per cent in Barbados and Trinidad, 16.5 per cent in Jamaica, 10 per cent in Haiti, and will be 16 per cent in Guyana. Exception is made in Barbados for the Tourism industry where a rate of 7.5 per cent is applied. Similarly Jamaica has special rates for some construction materials (12.5 per cent), hotel accommodation (6.25 per cent), telecommunications, including phone cards (20 per cent) and for automobiles (17.094 -154.545 per cent) (dos Santos and Bain, 2004). VAT revenue as a percentage of

GDP is most significant in Barbados vis-à-vis the other territories. VAT revenue is 9.3 per cent of GDP in Barbados, 6.4 per cent of GDP in Haiti, 7.6 per cent of GDP in Jamaica and 4.3 per cent of GDP in Trinidad and Tobago.

The sales tax exists in Belize, Dominica, and Suriname. In Dominica the sales tax is 7.5 per cent. In Suriname it is 5 per cent and 7 per cent. In Belize the general rate is 8 per cent but for alcohol, tobacco and fuel a rate of 12 per cent applies. Consumption taxes are applied in eight countries, namely Antigua and Barbuda, Dominica, Grenada, Guyana, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, and Suriname. Antigua and Dominica levy single rates of 15 and 20 per cent respectively whereas the other countries apply multiple rates that range from 5 per cent to 128 per cent[18] (dos Santos and Bain, 2004). Table 8 provides a summary of consumption taxes in the region.

The importance of import tariffs and customs fees have been discussed in section 2. The process of tariff reduction has forced the tax structure of Caribbean economies to change, to reflect a greater emphasis on broad based consumption taxes.

Table 7 illustrates the responsiveness of tax revenues in the Caribbean to changes in income or GDP. Over the period 1991 to 1996, the tax buoyancy coefficient was 1.0 per cent in Jamaica and Guyana due mainly to the high buoyancy for the indirect taxes. Barbados recorded low tax buoyancy overall for both direct and indirect taxes. For the OECS countries, the indirect tax buoyancy coefficient ranges between 0.5 and 2.4,

[18] The 128 per cent rate is applied in Guyana to tobacco products.

whereas the overall average tax buoyancy coefficient stood at 1.3, thus indicating some degree of responsiveness between tax revenue and income.

IS THE VAT SUITABLE FOR CARIBBEAN STATES?

In addition to being small and highly open, most Caribbean territories are also islands with populations under one million people. Ebrill et al (2001) point out that VAT performance in small island states has been good as measured by the c-efficiency ratio[19] of 83 per cent. For Barbados, Belize and Jamaica the c-efficiency ratio was 101.1, 56.2, and 83.5 per cent respectively.

Ebrill et al (2001) attribute the strong performance of the VAT to heavy reliance on international trade since all else equal the VAT is strongest in economies that rely heavily on international trade, as does the Caribbean. Ebrill et al (2001) make a comparison between a uniform tariff and a VAT, and they stated that a VAT can improve (economic) efficiency while increasing revenue generation conditional on changes in revenue collection costs. In the Caribbean however, the share of imports in GDP is very high, so is the proportion of consumption that is imported. The gains from VAT over a tariff would therefore be lower. Under limited or zero domestic production there is no difference between a consumption tax and a tariff. It is conceivable that for countries, especially the smaller Caribbean territories, a sales tax on final goods levied or collected at the border would be just as efficient and raise equivalent levels of revenue. However, for the Caribbean, the question of tariffs versus a VAT is irrelevant since it is a given that the Common External Tariff is expected to decline significantly over time due to the various trade commitments that the Caribbean has engaged in. Ultimately tariffs are expected to fall to near zero levels.

For the VAT to work well it should ideally be introduced into a well-structured economy with clearly defined production linkages. Evasion and avoidance should also be at a minimum. Perhaps one of the reasons why the VAT has been successful in Barbados is because it is a fairly stable society. In the case of Trinidad and Tobago the relatively large manufacturing sector in comparison to others in the Caribbean and the presence of well-defined production linkages have contributed to their success. Similarly, the same can be said for Jamaica.

In Guyana where there is wide spread evasion and smuggling, partly reflecting a sizeable underground economy, it is not clear whether VAT will work well. Faal (2003) estimated that in the 1990s the informal economy accounted for 47 per cent of the official economy, Bennett's (1995) average for 1979-1989 is one-third of official economy and Thomas's (1989) average for 1982-1986 range from 26-99 per cent. Clearly instability and weak enforcement of the rule of law make VAT unsuitable for Guyana, however on the other hand, the VAT is a mechanism for taxing the informal economy because when informal entities purchase from the formal sector they are taxed and since they do not file tax returns, they cannot receive credit for their purchases. This raises costs in the informal sector relative to the formal sector and should cause the informal sector to shrink. The

[19] The c-efficiency ratio is defined as the ratio of VAT revenue to private consumption per unit standard tax

OECS on a whole has limited domestic production of goods and is highly dependent on imports of both final and intermediate goods. In addition to this, the OECS countries have very small populations and limited financial resources when compared to Barbados. They major concern for OECS territories is capacity.

Other considerations for an effective and efficient VAT or sales tax have to do with the implementation process. In particular, time lags that are associated with phasing out other duties and time given for business to adjust inventories; raising awareness and understanding of the VAT by stakeholders before implementation is critical; the need for rate differentiation to avoid the tax being regressive-with respect to income or a subsidy to low income households; and prudent management of other aspects of the economy to reduce the inflationary effects associated with the VAT**.** Dos Santos (2002) has highlighted factors necessary for successful implementation of the VAT such as support from the highest authorities, sufficient time lags to facilitate training of those responsible for VAT collection and administration, and public awareness campaigns among other factors. Bain (2002) lists six preconditions for successful implementation of VAT in the small OECS countries, namely strong political will, extensive and effective education campaigns, appropriate legislation, skilled tax administrators, adequate computer systems, and an effective auditing system. Both dos Santos (2002) and Bain (2002) state that given the administrative systems and nature of these economies a minimum of two to three years is required prior to implementation for planning and preparation. Indeed, the lack of the above preconditions in Grenada caused confusion, multiple legislative amendments, errors in tax returns, and in general collection difficulties.

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rate.

Even after successful VAT implementation, the VAT may impose considerable administrative challenges for the smaller countries in the Caribbean Community. These difficulties are encountered by other Caribbean and Central American countries, and are not insurmountable. The governments of the OECS countries have demonstrated a willingness to confront these challenges. These costs cannot be evaluated in isolation they must be compared to the benefits of the VAT. The VAT is expected to enhance revenue collection because it considerably broadens the tax base and has more incentive compatible compliance characteristics than other taxes.

The effect of the VAT or a Sales tax on income needs to be carefully assessed, due to its regressive nature. Scant regard is given to this fact in the available literature on VAT in the Caribbean, and the success of the VAT in CARICOM has been evaluated solely based on its revenue enhancing potential, efficiency, neutrality and simplicity of implementation. However, in both theory and practice, distribution problems that arise as a result of the VAT appear to be easily resolved. The theory argues for either a differentiated VAT system or a VAT system with thresholds and this is what all Caribbean countries with a VAT have done without major problems or huge costs. The VAT can be made progressive by exempting certain goods or taxing them at lower rates (Stotsky and WoldeMariam, 2002).The income tax can be made more progressive thereby leaving overall progressivity unchanged or alternatively as mentioned before the government can provide rebate cheques to consumers. Tanzi and Zee (2000) state that the traditional form of taxing consumption such as VAT have been found to be far less regressive than commonly thought when viewed from a life-cycle perspective as opposed to a static perspective and this has certainly been the experience of Caribbean countries that have implemented the VAT. Thus in an economy with forward looking rational agents, traditional equity concerns are likely overstated (Tanzi and Zee, 2000).

Typically the introduction of the VAT does have inflationary effects but this shock has very little persistence and dies out after the first year. The effects the VAT has on export competitiveness are not directly observable but in all cases the introduction of the VAT has had no discernable impact on export performance. Bain (2002), Sandiford (2002) and Alleyne and Howard (2003) all agree that the practical experience of the Caribbean with VAT does not lend much support to the view that VAT enhances export competitiveness. Exempting either imports or exports from VAT should have the same effect though most countries with VAT experience have opted to exempt exports.

It would appear that in countries with moderate to large manufacturing, wholesale and retail sectors such as Trinidad & Tobago, Jamaica, Belize, Suriname, Barbados and the OECS, a VAT or sales tax well implemented, enforced and properly managed could effectively work to replace tariffs and increase revenues. On the other hand, in Member States with large agriculture sectors and small manufacturing, wholesale and retail sectors, for example Guyana, a VAT may not be as effective. However a broad based sales tax may prove more effective if evasion and avoidance are kept at a minimum, since for example in the case of Guyana import duties contribute more to tax revenues than in the rest of the more developed Caribbean countries.

The VAT by way of its revenue effects has proven to be an efficient tax. For example, in Barbados it replaced a number of smaller taxes, and exceeded revenue collected for all the taxes it replaced combined. This simplification of the tax structure conditional on revenue stability is an extremely attractive feature of the VAT. Moreover, an additional benefit of VAT implementation is that it is often accompanied by other positive tax reforms such as removing discretionary incentive regimes, introducing schedules of excise taxes and generally raising accounting and reporting standards.

Revenue expansion as a result of VAT implementation however does not by itself solve the problem of worsening deficits. The VAT can replace lost revenue and perhaps even increase revenue but if expenditure grows faster, deficits will continue to rise. Caribbean governments have shown a propensity to spend whatever revenue increases are gained and often times to exceed revenue growth. This ‘tax and spend’ behaviour does not negate the benefits of VAT implementation but it does mitigate its potential for positive macroeconomic outcomes.

CONCLUSION

Caribbean countries are faced with the task of reducing their import tariffs due to commitments to the CSME, FTAA, CARICOM-EU REPA, and the WTO. Given the fact that the region is moderately to highly dependent on import duties as a source of revenue, this could create revenue shortfalls in the short run. Moreover increased pressure to finance domestic development with local resources and the desire to improve efficiency of the tax structure and tax administration has led to overwhelming tax reform across the community.

These trade shocks are particularly acute for the OECS and Belize. Tariffs are probably the ideal form of collecting revenues in these small open economies, but given the constraint that tariffs are declining, this ceases to be a policy option.

Our analysis agrees with the general consensus that a move toward broad indirect taxes is the best alternative. It is clear that the success of such a system is primarily dependent on implementation after careful consideration of a country's economic structure and developmental objectives.

The VAT has had some revenue-enhancing effects in the region and many similar small island jurisdictions across the world. Equity also does not appear to be a problem in the Caribbean since in all cases relief is (or can be) provided through different means to low income groups. There is no evidence to indicate that these regimes are regressive.

One of the major issues in the Caribbean is the administrative costs associated with a VAT. This is a critical issue especially for the OECS; however, given the expected benefits and the commitment of the governments, this challenge is not insurmountable.

We conclude by supporting VAT implementation in the Caribbean Community. To be successful the small countries of the OECS must focus on improving capacity, whereas Guyana must improve political and macroeconomic stability and substantially improve the enforcement of the rule of law.

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Table 1: Caribbean Countries: Fiscal Balance
(Fiscal Balance, in per cent of GDP)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Antigua & Barbuda	-5.2	-3.3	-1.5	-3.2	-3.7	-3.4	-5.4	-7.6	-7.1	…
Bahamas	-0.7	-1.4	-2.8	-1.0	-1.9	-1.2	-0.4	-1.7	-4.3	-2.9
Barbados	-0.5	- 0.7	-3.0	-1.1	-0.6	-2.3	-1.5	-3.6	-5.9	…
Belize	-6.1	-3..5	-2.6	-2.9	-4.6	-9.8	-9.9	-10.0	-9.8	-7.2
Dominica	-5.8	-2.2	-2.0	-5.2	-0.7	-9.8	-5.4	-8.2	-3.8	…
Grenada	-1.4	0.2	-2.7	-2.2	-3.0	-2.8	-3.2	-8.6	-8.4	-
Guyana	-6.8	-3.3	-1.6	-6.9	-4.6	-2.5	-6.4	-9.5	-9.1	-13.5
Haiti	-3.7	-4.3	-2.5	-0.6	-1.1	-1.4	-2.5	-2.7	-3.0	…
Jamaica	2.4	1.4	-5.6	-7.7	-7.0	-4.3	-1.0	-5.7	-7.6	-8.5
Montserrat	0.1	1.8	-12.0	-0.4	1.9	1.8	5.1	2.5	1.6	…
St Kitts	-2.8	-5.5	-3.8	-4.3	-7.7	-11.9	-14.6	-13.2	-13.0	…
St Lucia	0.0	0.9	-0.8	-0.9	3.8	3.4	-1.4	-3.9	-2.5	-7.5
St Vincent & the Grenadines	-0.3	-2.1	0.6	-4.8	-3.7	-1.8	0.1	-1.6	-2.2	-2.9
Suriname	-11.4	2.1	3.2	-5.4	-14.1	-10.1	-12.7	3.7	-6.6	-0.1
Trinidad and Tobago	0.0	0.2	0.5	0.1	-2.6	-3.2	1.6	-0.1	0.6	…
Average	-2.81	-1.16	-2.44	-3.10	-3.31	-3.95	-3.84	-4.68	-5.40	-6.09*

Source: Caribbean Development Bank, IMF, Caribbean Centre for Monetary Studies

*Average for available data

Table 2: Import Taxes as a Percentage of Fiscal Revenue, 1990-1999

Country	Year									
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Antigua & Barbuda	52.08	54.84	54.75	54.12	51.48	51.83	51.08	49.71	50.36	48.08
Anguilla	...	65.97	67.84	48.33	54.92	53.23	58.25	57.04	65.57	63.18
Bahamas	65.94	62.23	55.62	54.97	53.65	52.62	52.77	52.10	49.79	52.67
Barbados	13.21	9.44	8.08	8.08	8.63	8.61	8.08	9.26	9.35	9.57
Belize	51.54	51.86	47.82	49.20	49.70	52.97	34.41	31.57	33.50	34.77
Dominica	17.84	18.21	17.45	17.61	14.67	14.27	13.99	14.98	13.53	14.61
Guyana	11.39	10.23	9.50	12.59	12.82	11.58	11.67	11.80	12.06	…
Jamaica	...	13.44	13.71	13.57	10.89	11.86	10.83	11.27	10.60	10.42
St. Kitts & Nevis	53.49	50.29	48.29	26.24	49.13	45.57	45.33	44.23	42.04	43.57
St. Lucia	51.92	50.49	50.01	50.57	48.34	48.01	47.89	44.71	48.61	47.08
St. Vincent	51.09	49.62	48.71	47.60	45.91	48.94	43.60	44.93	42.75	43.26
Trinidad and Tobago	8.17	8.08	9.36	9.35	7.71	5.80	5.20	6.25	7.22	7.23

Source: ECLAC database

Table 3: Value Added Tax and Tax Reform Measures in the Caribbean

Country	Date Introduced	Rate	VAT Base	Some Tax Reform Measures
ATG	1993, but took effect 2nd January 1995	15% 6.5%	Consumption Tax on locally manufactured goods. Hotel accommodation tax	The government intends to strengthen tax administration and reduce tax exemptions in addition to implementing the final phase of the CARICOM CET, automated system for customs administration and the implementation of a VAT.
BDS	1st January 1997	15%	Value Added Tax	Some restrictive trade measures were undertaken in response to trade liberalization, which included among other things, a rise in tariffs and the reintroduction of import licenses.
BLZ	A VAT was introduced in 1996, but was abolished in 1999	8% 12%	Sales Tax on goods and services (imported and locally produced) except: --Electricity and water (not in bottles for sale) supply --Imports bound for either and Export Processing Zone or Commercial Free Zone --Goods exported from Belize --Hotel accommodation charges --Goods or services made available from funds provided by grant agreements or borrowed from external financial institutions --Financial services by institutions not licensed under the Banks and financial Institutions Act --Basic food items such as rice, flour, bread, corn, fresh meat, eggs, beans and sugar Some medicines and medical supplies for human use. Sales Tax on alcohol, tobacco and fuel products	
DCA		25% 5%	C. Tax on locally manufactured goods Tax on retail sales	The government is currently focusing on reform measures that will tackle the root causes of its country economic downturn. In discussions with the IMF progress on economic decline is partially premised on reform of the tax system. A standard VAT system with a broad base and few exemptions is planned for adoption by mid 2005. Target revenue yield is 9% of GDP which could put the rate at 18%. This tax will replace consumption, sales, hotel and occupancy taxes
GDA		10% 8%	C. Tax on locally manufactured goods Hotel accommodation tax	Government plans to re-introduce the VAT in Grenada by January of 2006.
GUY		0%, 30%, 50%	C. Tax on locally manufactured goods	A Tax reform study was conducted by the USFAD that has made the following recommendations, which the government has welcomed and indicated their willingness to heed: - broadening of the tax base by reducing evasion; eliminating or reducing discretionary exemptions to a minimum; introducing a broad base tax which includes services in its base; raising the personal income tax threshold and introducing a presumptive tax on income for small businesses and professions. Guyana plans to introduce a VAT.
HAI		10%	Turnover tax on value added; This tax is also applied to the ex-customs value of imported goods	A New Tax Law is among issues being addressed in new legislation pending in the National Parliament

Table 3: Value Added Tax and Tax Reform Measures in the Caribbean- continued

Country	Date Introduced	Rate	VAT Base	Some Tax Reform Measures
JAM	22nd October 1991	15%	General Consumption Tax, which is charged on the sale of goods and services	Income tax exemption under the Export Industry Encouragement Act will be phased out by 2003 to comply with the WTO agreement on subsidies and countervailing duties.
		12.5%	Charged on inputs for construction	
SLU		0%-35%	C. Tax on locally manufactured goods	VAT is under consideration in SLU
		8%	Hotel accommodation tax	
SVG		0%-65%	C. Tax on locally manufactured goods	The government seems keen on adopting a VAT by 2006
		7%	Hotel accommodation tax	
SKN		7.5%-17.5%	C. Tax on sales of locally manufactured goods	
		4%	Consumption Tax on Professional Services	
		20%	C. Tax on CIF value plus import duty of imported goods	
		7%	Hotel accommodation tax	
SUR	1sJanuary 1998	0%	No Value Added Tax; Sales taxes are imposed at varying rates on the sale of beer, soft drinks, tobacco, cigarettes and motor gasoline	
		7%	Turnover Tax on goods	
		5%	Turnover tax on services	
TNT		15%	Value Added Tax	

Source: CARICOM Secretariat

Table 4: Tax Structure: Taxes as a percentage of Total Tax Revenue in Select Caribbean Countries for the period 1991-1996.

	Barbados	Guyana	Jamaica	Trinidad
DIRECT TAXES	43.1	38.6	37.5	61.6
Taxes on Income, Profits, and Capital Gains of which:	31.5	36.8	36.8	60.6
Companies	10.9	20.2	13.7	29.4
Individual/PAYE	17.9	12.6	20.9	19.5
Employment Levy	1.0	-	-	-
Training Levy	1.2	-	-	-
Transport Levy	1.3	-	-	-
Health Service Levy	1.0	-	-	-
Unemployment Levy	-	-	-	1.2
National Health Surcharge	-	-	-	1.6
Oil Royalties	-	-	-	7.7
Withholding Tax	-	4.0	-	1.4
Bauxite & Alumina	-	-	1.1	-
Business Levy	-	-	-	0.8
Interests & Dividends	-	-	5.5	-
Other Taxes	2.7	-	-	-
Taxes on Property	6.0	1.8	0.7	0.9
INDIRECT TAXES	56.9	61.4	62.5	38.4
Taxes on Domestic Goods and Services of which:	39.1	33.6	31.3	29.3
Consumption Tax/VAT/GCT (Local)	26.8	-	20.8	18.0
Highway Revenue	1.9	-	-	-
Hotel and Restaurant Sales Tax	1.8	-	-	-
Excise Duties	-	0.4	-	9.5
Motor Vehicle Taxes	-	33.0	-	1.6
Education Tax	-	-	0.9	-
Contractor Levy	-	-	4.1	-
Purchase Tax on Cars	-	1.3	0.3	-
Other Taxes	7.3	-	5.0	0.5
Taxes on International Trade and Transactions of which:	17.8	14.8	24.9	8.5
Import Duties	9.1	12.4	0.3	5.5
Export Duties	-	0.8	-	-
Stamp Duties	8.8	-	1.2	2.6
Custom Duty	-	-	11.8	-
Airport Services	1.4	-		-
Travel Taxes	-	-	1.5	-
GCT Imports	-	-	12.9	-
Bauxite Levy	-	-	6.2	-
Other Taxes	-	12.2	-	-
Total Tax Revenue	100.0	100.0	100.0	100.0

Source: ECCB

Table 5: Tax Structure: Taxes as a percentage of Total Tax Revenue in 1997 for the Eastern Caribbean

	Anguilla	Antigua	Dominica	Grenada	Montserrat	St Kitts	St Lucia	St Vincent
DIRECT TAXES	0.7	16.4	30.2	14.2	41.4	25.2	30.8	31.9
Taxes on Income, Profits, and Capital Gains of which:	0.7	14.8	30.2	11.6	37.7	22.7	30.3	31.0
Personal Income Tax	0.0	3.1	13.9	2.8	31.4	6.9	12.1	13.9
Corporate Income Tax	0.0	7.9	16.3	8.7	4.9	15.1	12.2	13.6
Taxes on Property	0.7	1.6	0.0	3.6	3.7	2.5	0.6	0.9
INDIRECT TAXES	99.3	83.6	69.8	85.8	58.6	74.8	69.2	68.1
Taxes on Domestic Goods and Services of which:	37.4	21.9	14.9	20.5	12.4	20.1	13.4	17.2
Consumption Tax	-	-	3.4	10.4	0.0	1.5	3.1	3.4
Hotel Occupancy Tax	14.1	1.6	0.3	-	0.3	5.6	3.9	1.9
Entertainment Tax	0.0	0.0	0.1	-	0.0	0.0	0.0	0.0
Telecommunications Tax	-	3.4	-	-	-	1.0	0.7	1.4
Insurance Levy	-	0.5	-	-	1.4	0.7	0.9	1.4
Licenses	9.4	5.0	4.5	3.4	8.1	3.1	2.3	3.9
Taxes on International Trade and Transactions of which:	61.9	61.7	54.9	65.3	46.1	54.7	55.8	50.9
Import Duties	55.2	18.9	13.8	14.8	8.6	30.4	17.9	12.0
Export Duties	0.0	0.0	-	-	-	0.2	0.0	0.2
Consumption Tax	-	27.6	37.4	37.1	16.9	23.1	26.6	31.3
Customs Service Tax	-	7.7	2.3	0.0	14.5	7.4	9.0	4.7
Foreign Exchange Tax	2.5	1.0	-	-	3.6	-	-	-
Travel Tax	-	2.4	-	0.0	-	0.8	0.3	0.0
Embarkation Tax	4.2	2.6	1.2	1.5	0.8	1.6	0.0	1.3
Total Tax Revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: ECCB

Table 6. Taxation of Consumption

Country	VAT	Sales Tax	Consumption and Excise Tax
Anguilla	None	None	None
Antigua & Barbuda	None	None	15%
Bahamas	None	None	None
Barbados	7.5-15.0%	None	None
Belize	None	8%, 12%	None
Dominica	None	7.5%	20%
Grenada	None	None	5-8-10-15%
Guyana	None	None	0-128%
Haiti	10%	None	Excise taxes
Jamaica	16.5%, 12.5%, 6.25%	None	None
Montserrat	None	None	None
St Kitts and Nevis	None	None	4-17%
St Lucia	None	None	5-35%
St Vincent	None	None	5-40%
Suriname	None	5%, 7%	5-25%
Trinidad and Tobago	15%	None	None

Source: CARICOM Secretariat (dos Santos and Bain, 2004)

Table 7: Tax Buoyancy in Select Caribbean Countries

	Anguilla	Antigua	Dominica	Grenada	Montserrat	St Kitts	St Lucia	St Vincent	Barbados	Guyana	Jamaica	Trinidad
Direct Taxes	-1.7	1.4	4.6	11.5	-1.2	1.1	0.4	2.1	-0.9	1.4	0.9	0.9
Taxes on Income, Profits and Capital Gains	-1.7	1.6	3.5	-0.5	-1.4	1.1	0.4	2.1	-0.8	1.4	0.9	0.9
Taxes on Property	-	-	-	-	-	-	-	-	0.3	1.9	1.2	1.4
Indirect Taxes	2.4	1.1	2.2	0.5	-1.0	0.8	0.9	1.2	1.0	1.2	1.1	1.3
Taxes on Domestic Goods and Services	3.0	1.2	5.2	0.6	0.9	1.2	1.6	1.6	-0.4	1.3	1.0	1.5
Taxes on International Trade and Transactions	2.1	1.1	1.4	0.6	-1.3	0.7	0.7	1.1	2.5	1.1	1.2	0.9
Total Tax Revenue	2.5	2.9	3.0	0.7	-1.1	0.9	0.7	1.5	0.1	1.3	1.0	1.0

Source: ECCB

Note: For Barbados, Guyana, Jamaica, and Trinidad and Tobago the period 1991-1996 was used to derive an average whereas for the other countries the year 1997 was employed.