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May 31st, 2018

Honorable K. Peter Turnquest, MP
Deputy Prime Minister and Minister of Finance
Ministry of Finance
Cecil Wallace-Whitfield Centre
Nassau, The Bahamas

Re: Budget Communication 2018/2019

Dear Minister Turnquest,

Thank you for agreeing to meet with members of the Bahamas Chamber of Commerce and Employers Confederation (BCCEC) this afternoon. We wish to respectfully reiterate that while we appreciate that the efforts of the Government of The Bahamas (GOB) are well intentioned, we find the lack of business and industry engagement unacceptable and not in keeping with the transparency, accountability and collaboration promised by the GOB.

As we communicated today, the BCCEC cannot support any tax proposal which is not founded on comprehensive economic analysis and has not received BCCEC and private sector review and feedback. At a time that the Bahamian economy is beginning to show some signs of recovery, we have serious concerns that the proposed increase in Value Added Tax (VAT) will negatively impact investor confidence, reduce consumers' disposable income and further challenge a shrinking middle class.

In addition to our objection to tax increases in the absence of empirical analysis and justification, we emphasized that the time given by the GOB to implement this increase being the 1st July 2018, is unrealistic and impractical. This approach highlights the importance and value in consulting the private sector to ensure that the Government is intimately aware of the process, communication and system enhancements required by the business sector if it is to comply with a tax change. As you are aware, the business community was given well over a year to prepare for the introduction of VAT in 2015, and a further six (6) months after implementation to ensure that all businesses and VAT registrants were fully compliant.

Prior to the introduction of VAT in 2015, the GOB fully engaged the BCCEC and private sector in extensive and beneficial dialogue to determine the effective VAT rate, time of implementation as well as the list of exemptions. The GOB at the time also engaged a select private sector committee to lead the public education campaign on the details of VAT. It is regrettable in this instance, that there has been no private sector engagement or consultation.

The BCCEC respectfully offers that an increase in the VAT rate, along with the expansion of the exemptions under VAT will be economically disruptive to the nation, commercially challenging to businesses and complicate the current system of VAT. The proposed increase in exemptions goes diametrically against the recommendations of the BCCEC as well as the GOB's own VAT consultants.

While we agree that the state of the Government's fiscal affairs needs to be remedied, we are reminded that successive administrations created this fiscal challenge and we cannot tax ourselves out of our current situation. The increase in government expenditure year on year is unsustainable. Specifically, we note that recurrent and capital expenditure is being increased by \$555M when compared to the projected expenditure for 2017/2018. The increase in VAT and other revenue measures are projected to yield \$500M in 2018/2019; hence, we submit that the additional revenue will be funding the increased spending appetite of the GOB for the new fiscal year. The GOB needs to identify other opportunities for improving the economy through fiscal prudence and innovation, tax efficiency and equity and enhanced



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revenue generating measures. Further, we find the tax rate comparison with other Caribbean countries inappropriate and in fact irrelevant.

The BCCEC and its allied partners, namely the Organization for Responsible Governance and the Retail Federation remain available and committed to working closely with our Government to arrive at the most appropriate and efficient plan to address the fiscal challenges. We would like to once again thank you for meeting today and most importantly for committing to meet with business and industry in the coming days to share the Government's economic and fiscal analysis, with the purpose of considering expense reduction and tax increase alternatives.

We thank you for your consideration.

Respectfully

Mike Maura, Jr.
Chairman

Edison L. Sumner
Chief Executive Officer

Cc Mr. Marlon Johnson, Financial Secretary (Agt)
Organization for Responsible Governance
Bahamas Retail Federation
BCCEC