

**Analysis of the Barbados
National Budget 2019**

The pursuit of growth

21 March 2019

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Introduction

Deloitte's insights into the 2019 Barbados National Budget

The economies of various countries continue to recover at varying pace from the global recession. Barbados, as a small island state still has its fair share of hurdles to clear in order to get to a sustainable position.

Indeed its efforts are stymied by the directives issued by The Organization for Economic Co-operation and Development (OECD) and the European Union (EU) which threaten to marginalise its international business sector.

The Prime Minister, the Right Honourable Mia Amor Mottley, delivered her 2019 national budget speech to Parliament on Wednesday, 20 March 2019.

The Prime Minister noted that her Government's policies intended to address stabilization, growth and transformation and she announced both tax and non-tax measures to achieve these objectives.

We are pleased to make a contribution to this economic conversation through an analysis of the Prime Minister's budget.

In this publication, our tax and business advisory teams share perspectives on the expected impact on persons, businesses and the economy in general.

Deloitte strives to **make an impact that matters**. We hope that you find our commentary and analysis insightful and that it facilitates your understanding of these measures.

For clarifications or advice, please do not hesitate to contact one of our advisors.



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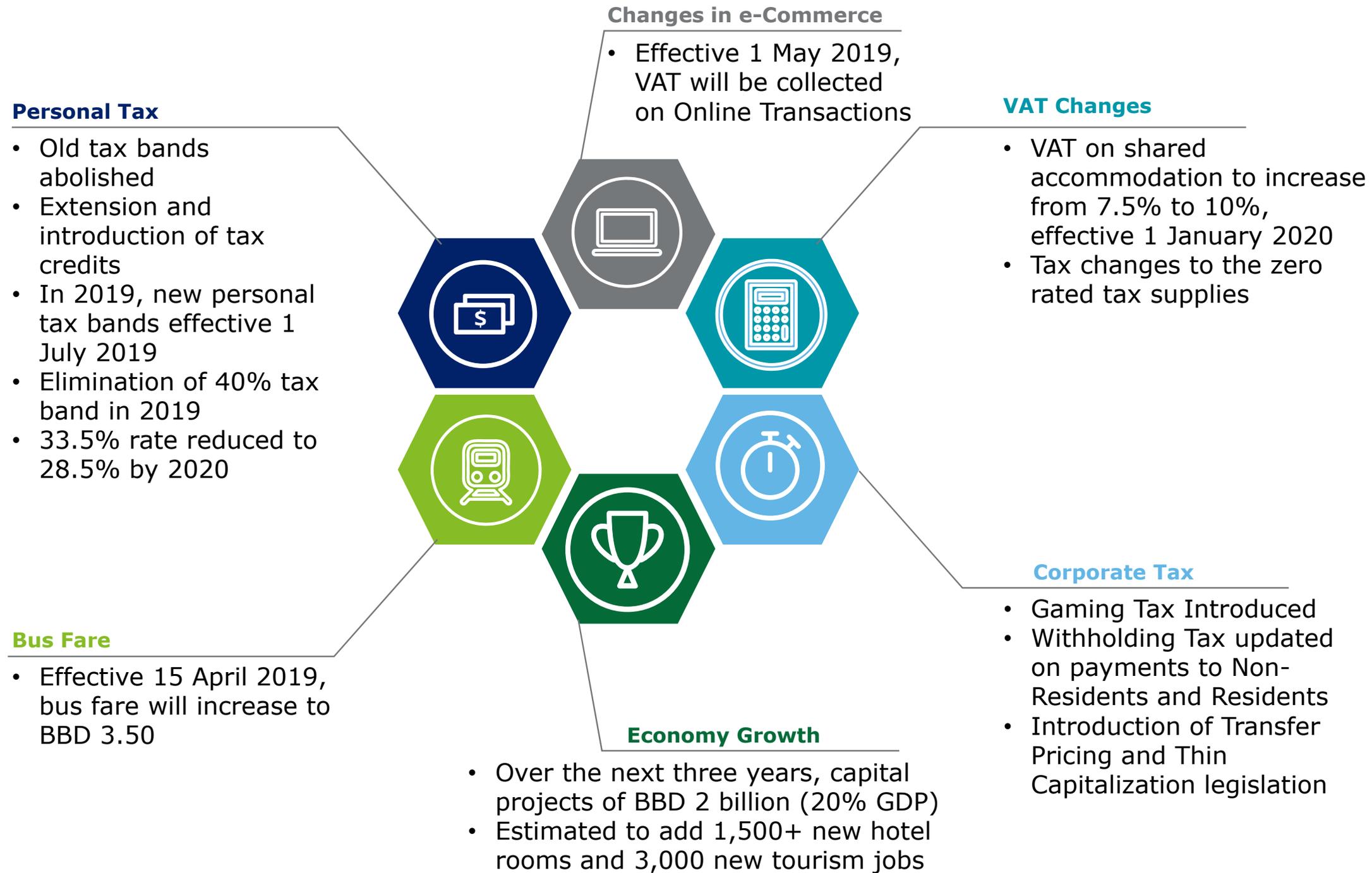
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Economic Overview

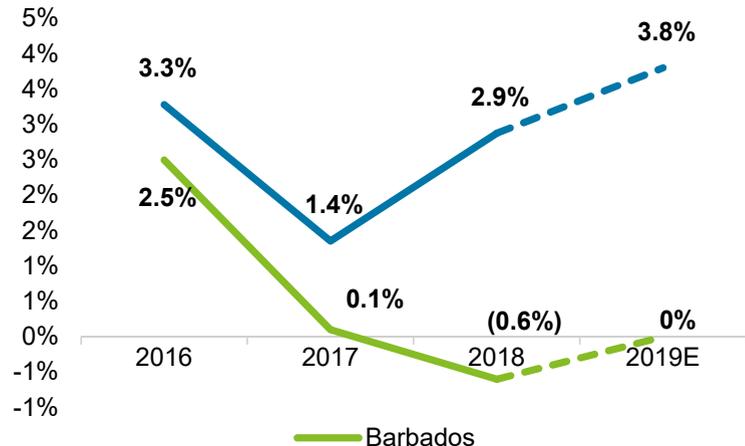


Economic Overview

Gross Domestic Product (GDP)

Barbados' economic contraction in 2018 of 0.6% would by no means be considered stellar, especially compared to its 0.1% growth in 2017 and the 2.9% average growth in 2018 registered by its Eastern Caribbean neighbors.

Real GDP Growth



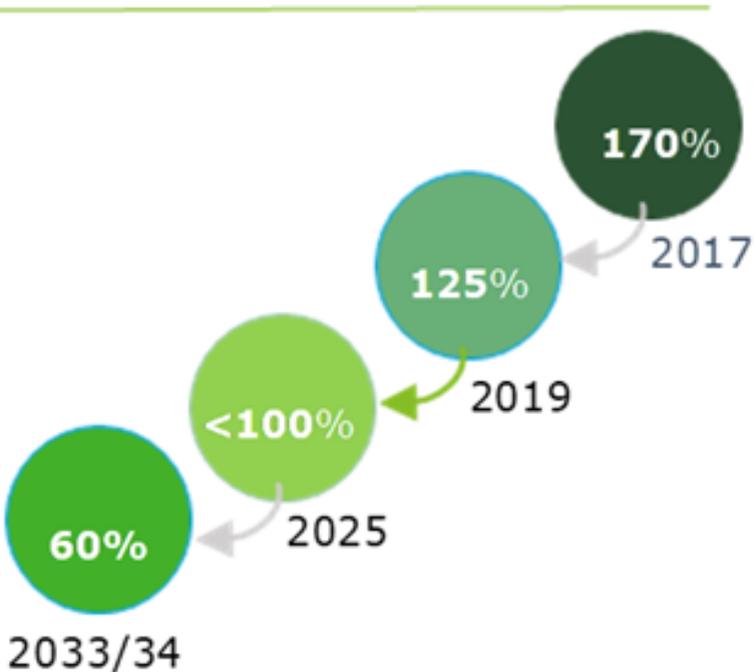
Source: Central Bank of Barbados and the Eastern Caribbean Central Bank

Growth for 2019 is projected to remain flat. In terms of a long-term outlook, the Prime Minister proposed one of "the largest National Training Initiative" programs, geared towards developing better skills especially in digital technologies. Once properly implemented and citizens participate, this is likely to increase productivity and improvements in the quality of output and ultimately growth.

Government debt

Any discussion on Barbados' economy should also consider other key metrics such as debt-to-GDP, reserves and import cover, amongst others. Since assuming office in the last 10 months, the Government's key focus on implementation of the Barbados Economic Recovery and Transformation (BERT) program may have borne fruit, particularly with respect to those three metrics. Reserves increased to over BBD 1 billion (close to 15 weeks of cover) and debt-to-GDP is on a downward trajectory.

Debt-to-GDP



Source: Central Bank of Barbados, 2019 Budget Address

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Economic Overview

Debt (cont'd)

Government completed the much-discussed domestic debt restructuring, with the Central Bank and National Insurance Scheme (NIS) writing off BBD 2.9 billion of debt. These write-offs are likely to impact future NIS pensions. It will be difficult to fully understand the extent this action would have without audited financial statements or an update from Government.

Given the results of the debt restructure and with gross international reserves increasing from BBD 473.4 million at December 2017 to BBD 1 billion by the end of 2018, Standard & Poor's upgraded Barbados' long-term domestic credit rating to B- in November 2018 after its selective default rating in June 2018.

The Prime Minister confirmed that the restructure of external (foreign) debt, which represents less than 15% of public sector debt, remained incomplete due to the implications of foreign law jurisdictions. Foreign investors who faced increased loss provisions on their balance sheets are unlikely to welcome this news.

Uncertainty remains among foreign clients with Barbados debt exposures with regards to their valuation of these investments and indications are that they anticipate challenges from regulators on their assumptions.

Tax revenues

Based on its 2019/20 estimates, Government anticipates revenues of BBD 3.1 billion in the fiscal year. Although the Prime Minister noted a change in focus from taxation on income toward taxation on assets and consumption, we observed an expected increase in receipts from income taxes by BBD 82 million. Given the reduction in personal taxation, we await further details to understand the rationale driving the projected increase.

Estimates of current revenue

BBD	Approved 2019-2020	Revised 2018-2019	change
Goods and Services	1,475,066,836	1,348,225,242	126,841,594
Corporation taxes	418,307,628	366,701,986	51,605,642
Income Taxes	536,900,079	454,900,035	82,000,044
Taxes on Property	186,743,847	159,030,701	27,713,146
Taxes on International Trade	216,500,000	208,160,680	8,339,320
Other Taxes	56,210,719	56,848,918	(638,199)
Tax Revenue	2,889,729,109	2,593,867,562	295,861,547
Non-Tax Revenue	258,704,736	252,635,374	6,069,362
Total Current Revenue	3,148,433,845	2,846,502,936	301,930,909

Source: Barbados Estimates 2019 - 2020

Although disposable incomes are expected to rise, demand may be hampered as Barbadians utilize their extra disposable incomes to shore up depleted savings or settle outstanding debts.

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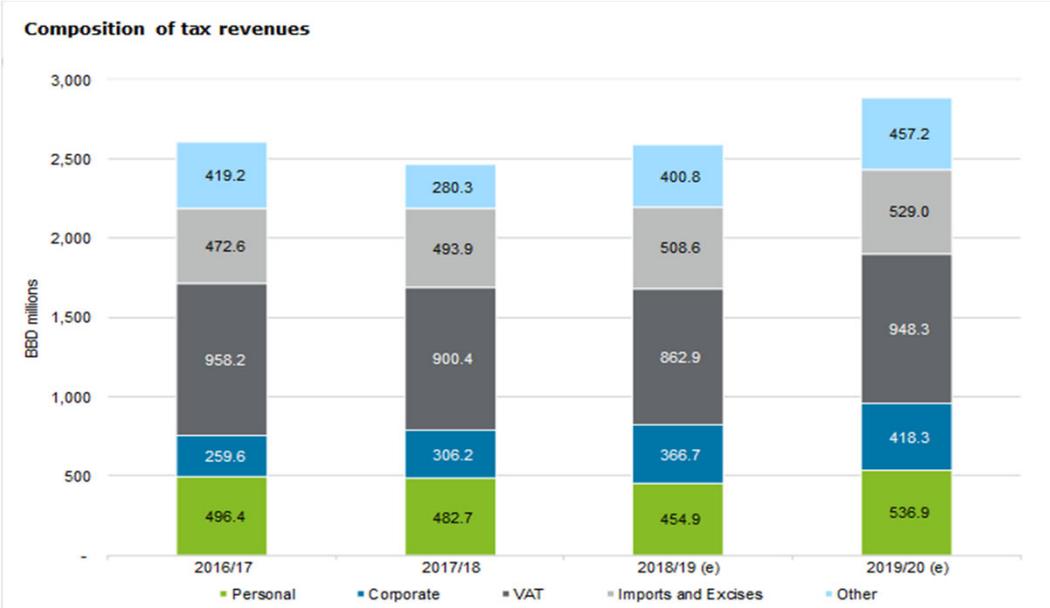
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Tax revenues (cont'd)

Increased VAT on the tourism sector and its imposition on online transactions represent a greater shift in Government's focus on indirect sources of revenues. Receipts from indirect taxes account for 75% of Government's tax revenues.

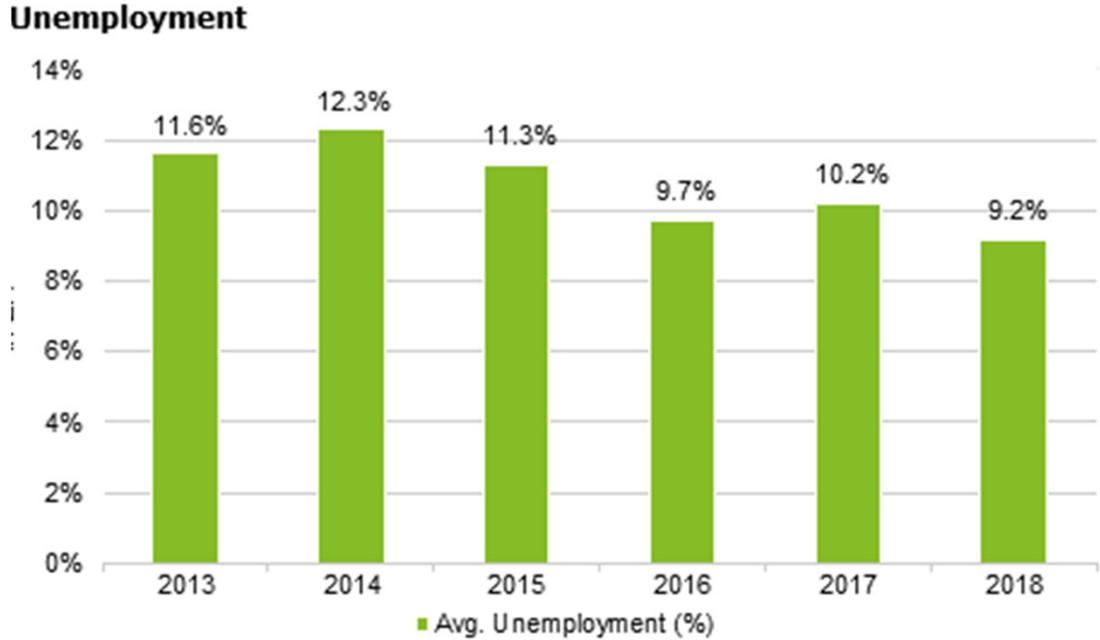


Source: Central Bank of Barbados, Barbados Estimates 2019-2020

In terms of direct taxation, estimates of corporate income taxes increased as a result of a change in the tax rate from 25% to 30% per the June 2018 budget. Subsequently, the corporate income tax rates for the domestic sector converged downwards in alignment with the international sector (sliding scale of 5.5% to 1%).

Unemployment

Looking at the employment figures in Barbados, the unemployment rate moved to 9.2% in 2018 (10.2% in 2017). Notwithstanding this improvement from 2017, the rate is likely to rise in 2019, as public sector job losses continue with the execution of BERT initiatives.



Source: Central Bank of Barbados

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Budgetary Proposals



Budgetary Proposals

Item	Deloitte Summary	
Accommodation & Room Rate Levy	Proposal	Deloitte's Comments
	<ul style="list-style-type: none"> Effective 1 January 2020 the VAT on the accommodation sector will increase from 7.5% to 10%. Effective 1 April 2019 the Room Rate Levy will be increased by 75%. The rates for Vacation Rental Properties and Villas will be increased from 2.5% to 3.75% to a maximum of BBD 35 per bedroom per night. 	<ul style="list-style-type: none"> The increase in VAT on accommodation and the room rate levy would mean an increase in prices of a number of tourism sector service providers. This however, is the preferred option to doubling the VAT rate. This measure should add revenues of BBD 15 million per annum. The chart below further gives a summary of the new rates.

Accommodation	Current Rate	Proposed Rate
Accommodation		
Apartments	BBD 5.00	BBD 8.75
Guest Houses	BBD 5.00	BBD 8.75
Hotel "B" Class	BBD 5.00	BBD 8.75
Hotel "A" Class	BBD 11.00	BBD 19.25
Hotel Luxury Class	BBD 20.00	BBD 35.00
Vacation Rental Properties and Villas	2.5%	3.75% up to a max of BBD 35

* Please note that the Villa rate is not a per room rate

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Item	Deloitte Summary	
Zero-Rated & Exempt	<p>Proposal</p> <ul style="list-style-type: none"> Effective 1 April 2019 some zero-rated supplies will be reclassified to exempt supplies. Namely villas, water and other items not specifically listed. 	<p>Deloitte's Comments</p> <ul style="list-style-type: none"> The reclassification means that companies will no longer be able to reclaim VAT on inputs and this would affect their bottom line. The measure should achieve government's intention of reducing its administrative burden and improving cash flow.
VAT on e-Commerce	<p>Proposal</p> <ul style="list-style-type: none"> Effective 1 May 2019, legislation will come into effect to begin the collection of VAT from e-commerce. 	<p>Deloitte's Comments</p> <ul style="list-style-type: none"> This proposal is set to increase government revenues by approximately BBD 7 million annually for further spending for positive social work. The requirement to charge and collect VAT on businesses that earn revenue through e-commerce transactions will now be enforced. The BRA will impose tax on transactions where there is a high certainty of goods, such as hotel rooms, villas, and rental vehicles. For the avoidance of any doubt, the intention is for there to be no double taxation. Once a person demonstrates that they have suffered tax on a transaction, there will be no double charge. This should clarify any ambiguity surrounding the measure when it was announced in the mini budget.

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Item	Deloitte Summary	
Land Tax	<p>Proposal</p> <ul style="list-style-type: none"> Effective fiscal year 2019-2020, homeowners will see an increase in land tax as per table below. 	<p>Deloitte's Comments</p> <ul style="list-style-type: none"> This represents apportionment of the tax burden whereby people who have higher values homes will pay more taxes. We expect that these new rates will have a positive impact of the government's revenues increasing by an estimated BBD 62 million.

Residential	Current Rate	Proposed Rate
<i>Improved Value:</i>		
BBD 0 - BBD 150,000	0.00%	0.00%
BBD 150,001 - BBD 450,000	0.10%	0.10%
BBD 450,001 - BBD 850,000	0.45%	0.70%
Over BBD 850,000	0.75%; Capped at \$60,000	1%; Capped at \$100,000
<i>Site Value:</i>		
Vacant	0.8%	0.8% on up to 4,000 sq ft. & 1% on excess
Non-Residential	0.7%	0.95%

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Item	Deloitte Summary	
Gaming Tax	<p>Proposal</p> <ul style="list-style-type: none"> Effective 1 May 2019 there will be a 20% withholding tax on gambling winnings and a 17.5% gambling tax on the net-drop of all gaming establishments. Gaming establishments have until 1 January 2021 to change out slot machines to auditable machines. Extending the presence of gaming tables and machines in private members gaming establishments that will be focused primarily on visitors to the island who will bring much needed foreign exchange to our economy. Regulating the gaming industry via a public-private approach 	<p>Deloitte's Comments</p> <ul style="list-style-type: none"> This is a reintroduction of tax on this sector and represents an additional revenue stream for government. This proposed tax will be effective from 1 May 2019 and will affect establishments which operate slot machines, Video Lottery Terminals (VLTs), sports betting and lotteries. It also affects those establishments which operate on-line betting and gaming tables such as poker, blackjack, etc.
Bus fare & Water rates	<p>Proposal</p> <ul style="list-style-type: none"> Effective 15 April 2019 bus fare will increase from BBD 2.00 to BBD 3.50. However, there will be discounted passes and transfers for frequent commuters. Commercial water rates will move from a fixed rate of BBD 4.66 per cubic meter for up to 40 cubic meters and any excess then at BBD 7.78 with a monthly cap of 12,000 cubic meters. 	<p>Deloitte's Comments</p> <ul style="list-style-type: none"> The increase in bus fare was inevitable and should aid in the Transport Board's effort to become a more efficient state-owned enterprise. The increase of BBD 1.50 per trip could impact the average person, but without information on the discounted rates, the true effect maybe unknown. The consolation is that the concessions given to school children remains. The increase in commercial water rates may result in companies passing this increase on to the consumers. In keeping with the government's policy to protect the vulnerable in the society, it will need to monitor any many developments in this regard.

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<p>Withholding Tax on payments to non-residents</p>	<p>Proposal</p> <ul style="list-style-type: none"> The Prime Minister proposed the elimination of withholding tax on payments made to non-residents, with the exception of dividends. These payments include interest, management fees and royalties. There will no longer be a deduction for payments to non-residents as it relates to management fees. 	<p>Deloitte’s Comments</p> <ul style="list-style-type: none"> There is a bit of ambiguity with respect to this measure as it seems to contradict the provision under Barbados’ law that allows payments to be made to non-residents out of foreign currency to be free of withholding tax. It may have been the Prime Minister’s intention to provide for payments now made from local currency to be free of the withholding tax except for dividends which should continue to have reduced withholding rates under applicable treaties. It is expected that this non deduction in management fees will generate more tax revenue for the government.
<p>Withholding tax on payments to residents</p>	<p>Proposal</p> <ul style="list-style-type: none"> The Prime Minister proposed that the rate of withholding tax on interest payments and dividends paid from local sources to residents will be increased from 12.5% to a new rate of 15%. This measure is to become effective immediately. However, withholding tax on payments to pensioners will remain at the current rate of 0%. 	<p>Deloitte’s Comments</p> <ul style="list-style-type: none"> This is a ready-made measure that will increase government’s revenue, while sparing the pensioners any extra incidence of taxation. Given that the interest on bank deposits is low, the increasing of withholding tax may encourage individuals to find other saving options outside of the banking system.

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<p>Thin Capitalization</p>	<p>Proposal</p> <ul style="list-style-type: none"> It was proposed that a thin capitalization rule be introduced to regulate the ratio of debt to equity which is used to finance a company. In order to avoid any potential abuse where a company could fund its operations primarily with debt, the Prime Minister proposed to introduce a limitation on the amount of related party interest which is deductible from income derived from a business or property. A thin capitalization rate of 1.5:1 will be introduced. The proposed measure will become effective 1 September 2019. Interest payable on outstanding debts to non-resident related parties who own more than 10% of a company will be deductible so long as the total amount of debt does not exceed one and half times the equity of the company. Amounts in excess of this ratio would no longer be deductible. 	<p>Deloitte’s Comments</p> <ul style="list-style-type: none"> This is a new tax requirement in Barbados and has the potential to negatively affect companies with complex financing structures incorporating back to back loans. The international business sector includes many such structures and the expectation is that tax planners will evaluate the impact of this measure on their effective tax rates. This will directly impact an entity’s taxable income. Taxable profit is therefore likely to increase as the amount of interest which would normally be deducted on loan financing will be reduced.

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Transfer Pricing	<p>Proposal</p> <ul style="list-style-type: none"> Transfer pricing legislation is to be introduced to govern the taxation of transactions involving the sale of goods and services between related parties. This is in line with efforts to effect greater compliance with the OECD requirements. 	<p>Deloitte's Comments</p> <ul style="list-style-type: none"> The expected timeline for the introduction of this measure was not specified, however it is likely to result in greater scrutiny and regulation of related party transactions and bodes well with the recently introduced economic substance legislation. While there was previously no transfer pricing legislation in place in Barbados, the income tax act allowed the Commissioner to impute the market rate of interest on related party transactions which are not deemed to have taken place at arm's length.
Branch Profits Tax	<p>Proposal</p> <ul style="list-style-type: none"> The Prime Minister proposed that withholding tax on payments of branch profits which are paid out of income derived outside of Barbados would, similarly to the payment of dividends to non-residents, no longer be subject to branch profits tax. 	<p>Deloitte's Comments</p> <ul style="list-style-type: none"> A branch profits tax of 10% is currently applicable on such remittances unless otherwise reduced by the provisions of a double taxation treaty. This measure brings aligns payment of branch profit tax with the payment of dividends out of the foreign currency earnings. This should be advantageous to branches of foreign companies who repatriate funds to their overseas parent.

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Foreign Currency earnings credit	<p>Proposal</p> <ul style="list-style-type: none"> Effective income year 2019 the rebate on foreign currency earnings will be reduced from its current range of 35% - 93% to 26% - 70% and further reduced to 24% to 65% in 2020. 	<p>Deloitte's Comments</p> <ul style="list-style-type: none"> This change will reduce disposable income as the rebate on income tax will decrease. It could be argued that this change could be counter productive given that the original intention of the foreign currency allowance was to encourage the earning of foreign exchange.

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2019 Personal Income Tax	<p>Proposal</p> <ul style="list-style-type: none"> Effective 1 July 2019 the personal income tax rates will be restructured as follows: <ul style="list-style-type: none"> All personal allowances will remain First tax band up to BBD 50,000 per annum - 12.5% Over BBD 50,000 per annum - 33.5% The reverse tax credit was broadened from earnings of BBD 18,000 p.a. to BBD 25,000 per annum A Compensatory Income Credit (CIC) was introduced for persons earning above BBD 25,000 but below BBD 35,000. 	<p>Deloitte's Comments</p> <ul style="list-style-type: none"> Expanding the reverse tax credit band and the introduction of the CIC will benefit low income workers as those persons earning less than BBD 35,000 will effectively not be paying taxes. The removal of the 40% tier of taxes and the introduction of the lower rates at the other two tax brackets should be welcomed by persons whose tax liability increased when the three tiers were introduced last year.
2020 Personal Income Tax	<p>Proposal</p> <ul style="list-style-type: none"> Effective 1 January 2020 the personal income tax rates will be restructured as follows: <ul style="list-style-type: none"> All personal allowances will remain First tax band up to BBD 50,000 per annum - 12.5% Over BBD 50,000 per annum - 28.5% 	<p>Deloitte's Comments</p> <ul style="list-style-type: none"> Further to the changes outlined for 2019, the government will further decrease the tax rate in 2020 on the second band of income. Please see table below for the effect of the new tax rates will be applied.

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	Current			Proposed - July 1, 2019			Proposed - January 1, 2020	
	Resident	Resident Expat		Resident	Resident Expat		Resident	Resident Expat
Assessable Income	120,000	160,000	Assessable Income	120,000	160,000	Assessable Income	120,000	160,000
Less: Exempt Income		(57,500)	Less: Exempt Income		(57,500)	Less: Exempt Income		(57,500)
	120,000	102,500		120,000	102,500		120,000	102,500
Personal Allowance	(25,000)	(25,000)	Personal Allowance	(25,000)	(25,000)	Personal Allowance	(25,000)	(25,000)
Taxable Income	95,000	77,500	Taxable Income	95,000	77,500	Taxable Income	95,000	77,500
Taxes Payable:			Taxes Payable:			Taxes Payable:		
Up to BBD35,000	16% 5,600	5,600	Up to BBD50,000	12.5% 6,250	6,250	Up to BBD50,000	12.5% 6,250	6,250
BBD35,001 to BBD50,000	33.5% 5,024	5,024	Over BBD50,000	33.5% 15,075	9,213	Over BBD50,000	28.5% 12,825	7,838
Over BBD50,000	40% 18,000	11,000		-	-		-	-
Total Tax Payable	28,624	21,624	Total Tax Payable	21,325	15,463	Total Tax Payable	19,075	14,088
NIS Contribution:			NIS Contribution:			NIS Contribution:		
Employee	11.10% 6,420	6,420	Employee	11.10% 6,420	6,420	Employee	11.10% 6,420	6,420
NET SALARY MONTHLY	84,956	131,956	NET SALARY MONTHLY	92,255	138,117	NET SALARY MONTHLY	94,505	139,492
	7,080	10,996		7,688	11,510		7,875	11,624
Increase in Monthly Resident Income				608			188	
Increase in Monthly Resident Expat Income					513			115

* Figures have been rounded to the nearest dollar.

In this example, a resident taxpayer can expect an extra BBD 608 per month or BBD 7,296 annually based on the 1 July 2019 changes and an additional BBD 188 monthly or BBD 2,256 annually from 1 January 2020.

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Exchange controls	<p>Proposal</p> <ul style="list-style-type: none"> Effective 1 July 2019 Barbadians will be allowed to open foreign currency denominated bank accounts, to hold foreign currency they have earned here or abroad. The surrender requirement of 70% of foreign exchange brought into Barbados will be eliminated. The annual limit on personal travel facilities increase from BBD 7,500 to BBD 20,000. 	<p>Deloitte's Comments</p> <ul style="list-style-type: none"> Barbados' objective is to maintain its competitive edge in the international business section and the freeing up of the exchange control regime is a welcome initiative to the sector. The higher personal travel allowance could negatively impact the net foreign exchange reserves as it could encourage increased spending on imported goods.

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Education

The Prime Minister proposed:

- That higher wages for master teachers will be implemented as part of the Growth and Development Motto.
- The development of the National Training Initiative
- The First Job Initiative

Deloitte's Comments

The Master Teachers Initiative should encourage high performing teachers to reach their full potential and could increase teacher morale.

The Training and First Job initiatives are designed to eradicate the problem of unemployed youth. Any effort by The Government to reduce unemployment should be commended.

Customs

- Implementation of ASYCUDA World to be completed within three months. Estimated at BBD 700,000
- New contract with a number of retired customs officers to be able to update the tariffs from the 2007 tariffs to the 2017 tariffs within the next month.
- Acquire a USD 40 million loan from the Caribbean Development Bank to repave the GAIA runaway.

Deloitte's Comments

These measures are expected to result in a faster, more efficient and transparent customs clearance process for importers. There should be improved security measures and international trade flows. Government will need to evaluate costs associated with hiring retired customs officers and implementing new systems.

Port

- The Prime Minister announced that there are plans to increase scanners from one to three, as well as to implement new geo fencing. Over 253 new cameras and a new canine unit will also be implemented at a cost of approximately BBD 41 million.
- The private sector has also agreed to install scanners and other security infrastructure at all privately operated off-site clearance facilities.

Deloitte's Comments

These measures should maximize revenues from import duties/taxes and will also serve to minimize the importation of contraband.

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LIAT

The Prime Minister announced the core elements of a New Sustainable Model for LIAT, which includes: Major cost cuts, flights below average revenue subsidized or cut, minimum revenue guarantees for unprofitable routes, wet leases to improve service and sale of planes to reduce debt.

Deloitte's Comments

While the Government has a Corporate Social Responsibility with respect to LIAT, it is more prudent to evaluate any decision to invest additional funds into LIAT's operations from a pure business perspective.

Digitalization of Public Sector

In an effort to improve the quality and speed of government services, online payments will be facilitated. This will be applicable to departments such as Immigration, Police, Customs and Excise and the Barbados Licensing Authority. It is expected that by 30 June 2019, tax payments can be made online to the Barbados Revenue Authority. Facilitation for online payments for various services such as drivers' licenses renewals, passport applications, clearing goods through Customs, ticketing and fines for traffic offences

Deloitte's Comments

In this digital age, this is a welcomed measure, which could lead to costs and time savings. Online payments should enhance customer service and convenience as payments could be made at any time during the day, leading to more efficiencies in Government.

CLICO

The Prime Minister proposed:

- The wind up of ResLife
- That ResLife policyholders with claims over BBD 20k be provided with Series B 15-year Bonds
- That individuals holding Executive Flexible Premium Annuities, the Government will provide the FSC with a special 15 year bond covering principal only

Deloitte's Comments

These pronouncements may be welcomed by policyholders as they will be able to salvage a portion of their investment.

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Police and Protective Services

Implementation and use of more technology in combination with better police morale. A Protective Services Commission also proposed.

Deloitte's Comments

Given the recent escalation in violence and gun crime, any measure towards decreasing violence and crime is a step in the right direction.

A reduction in crime will translate to benefits for individuals, communities and the country as a whole.

Renewable Energy

The Prime Minister reiterated Government's commitment to transitioning Barbados to be a 100% renewable and a carbon neutral island by 2030.

The transition is based on the elimination of fossil fuels for domestic consumption and the export of all hydrocarbons produced on and offshore for the generation of foreign exchange.

Deloitte's Comments

This provides an opportunity for the government to decrease the import bill and possibly create a new industry which could lead to new skilled jobs and capital investment in the country.

Medicinal Cannabis

- Produce Value added products for global export and domestic consumption.
- Pillars – Research & Development, Regulatory framework, Training & certification programs to ensure the safety and efficacy of the products produced.

Deloitte's Comments

This would represent a new industry for Barbados and ultimately a new revenue stream. Research suggests that medical cannabis can assist with improving the health of those who suffer from diseases such as cancer.

There may be some social opposition to this measure, however, depending on how Government handles the sensitization process, could determine its success or otherwise.

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Deloitte Barbados

Deloitte Barbados



Deloitte Barbados

Deloitte Barbados is part of the Caribbean and Bermuda Countries (CBC) member firm and consists of **80 professionals** and **5 partners**. The firm serves clients in the banking, insurance, offshore finance, mining, services and manufacturing sectors. We also serve various clients in the Eastern Caribbean. The firm provides a full range of professional services including audit and assurance, tax, risk advisory, financial advisory and an extensive menu of consulting services.

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