



TOURISM INDUSTRY PARTNERS GROUP:

Bahamas Hotel and Tourism Association
Bahamas Hotel and Restaurant Employers Association
Nassau Paradise Island Promotion Board
Grand Bahama Island Tourism Board
Bahamas Out Islands Promotion Board
Bahamas Diving Association
Marina Operators of The Bahamas
Bahamas Sightseeing & Tour Operators Association
Sandal's Resorts
Baha Mar Limited
Atlantis Paradise Island

May 23, 2014

The Right Honourable Perry G. Christie, M.P.
Prime Minister and Minister of Finance
Office of the Prime Minister
Sir Cecil Wallace-Whitfield Building
Nassau, N.P., Commonwealth of The Bahamas

Dear Prime Minister:

Re: Recommendations Regarding Tax and Fiscal Reform

Recognizing the urgency in advancing the Government's position on tax and fiscal reform in your budget communication next week, we wish to advance recommendations and concerns to you on these matters. Our communication to you on May 21, 2014, when we submitted the draft report from Ernst & Young, indicated that the final report with recommendations would follow. Given the time constraints which were brought to our attention yesterday in meetings with Minister Khaalis Rolle and Financial Secretary John Rolle, we are advancing our recommendations for your consideration.

Recognizing that the solutions to the nation's fiscal challenges must not jeopardize our industry and the economy, we strongly recommend the following:

- **A six percent across-the-board VAT Rate**
- **VAT not be assessed on: Promotion Board levies, mandatory gratuities and fees, and other business generation activities outlined below**
- **The roll-back of Business License Fees to levels assessed our industry prior to July, 2013**
- **Measures outlined below and in the Chamber of Commerce Coalition submission dated today.**

Prime Minister, it must be understood that based upon our analysis, VAT at six percent will still add to our costs and significantly increase the tax revenue which the Government realizes from the tourism industry. Room revenue constitutes 32% of hotel revenue. The taxable base from all other areas of our industry grows significantly. The EY report indicates that a 2.5% VAT rate would be revenue neutral for our industry. Six percent would be acceptable providing the above measures are also undertaken.

Ernst & Young Findings on Adverse Effect of Originally Proposed VAT

In summary, VAT as originally proposed for the tourism industry at 10% and 15% would likely result in:

- **A 9% Increase in the Price to Tourists - assuming all of the tax increase is passed on to the customer which will be necessary given the financial vulnerability already facing our industry**

- Consumer Price Resistance resulting in an 11% reduction in tourist consumption due to a reduction in the number of visitors and lower levels of consumption by those who do visit
- A Corresponding Reduction in Tourism Spending by \$363 million
- Reduction in Employment Levels with the multiplier effect resulting in a loss of up to 9,000 jobs
- Nearly \$340 million Reduction in Tourism's Contribution to GDP by 2016.

Alternatively, reducing the proposed VAT rate on tourism industry businesses and implementing other fiscal reform measures would reduce the negative economic impact of the VAT.

We wish also to note that, as the EY study utilized data from the World Travel and Tourism Council to ensure consistency and parity across the industry, the EY modeling could not fully factor a significant level of revenue increases which the Government will realize in 2015 as expanded and additional tourism investments come on stream, led by the Baha Mar investment. Based upon independent research which Oxford Economics has conducted for Baha Mar, the development is projected to contribute an additional 15.4% to GDP, totaling an additional \$1.6 billion in year one.

We believe the anticipated impact of Baha Mar and other projected tourism investments must be fully considered in revenue projections by the Government, further helping to negate the need for implementing VAT at a higher level.

Five Point Smart Tax Initiative To Preserve and Protect the Tourism Industry

Prime Minister, you may recall that our industry's position regarding tax and fiscal reform is guided by five basic tenets under our Smart Tax initiative. These are outlined below. Justification and concerns follow:

1. **Delay Implementation of VAT** – This is an issue of readiness. We commend your decision to delay implementation and recommend that it occur no sooner than the first quarter of 2015. This considers the need for businesses to have sufficient time to review and offer recommendations on the details of the revised VAT legislation, regulations and guidelines once they are released. We must then cooperatively work with Government to prepare businesses for implementation. Recent research conducted by BHTA reveals that only 22 percent of businesses indicated that they have a full understanding of how a VAT works, further underscoring the need for a well-planned and executed implementation effort.
2. **Create Alternatives** – Alternatives and their potential impact are detailed in the draft EY report.
3. **Ensure Tax Reform's Impact on Tourism is Neutral**– A 6 percent VAT with the measures described above gets our industry close to this point and in fact significantly increases revenue to Government from our sector. However, further impacting that are provisions in the original draft legislation and regulations which we are told by Ministry of Finance representatives will remain. **We object in the strongest terms to these proposed measures which will negatively impact our industry and the country. The proposed measures include:**
 - **Assessing VAT on Promotion Board Levies** – Eroding the revenue base from our nation's Promotion Boards would only reduce the dollars available for promoting the destination on TV, radio, in newspapers and print publications, through digital advertising, and promotional events. The Bahamas is presently being outspent by key competitive destinations. Currently, the only destination television promotion underway is that by the Nassau/Paradise Island Promotion Board.

These are dollars which otherwise would be used to generate business and subsequently generate additional tourist arrivals and the accruing benefits to the economy and Government.

- **Assessing VAT on Mandatory Gratuities and Charges**
- **Tax on Complimentary Rooms** – an existing policy developed by industry and Government should remain in effect. Taxing hotels for rooms used to promote business or support charities is not practiced anywhere else in the Caribbean and discourages industry from supporting and undertaking these important efforts.
- **Assessing VAT on Overseas Advertising** – VAT should not be payable on overseas advertising services. Jamaica and other competitors exempt overseas advertising services recognizing this is essential to generating revenue for the hotel and the country. VAT on any overseas advertising via a Promotion Board or directly by a hotel should not incur. Tourism is an export product. To consider overseas advertising an imported service to which we apply VAT is counterproductive.
- **Assessing VAT on Nonprofit Organizations** – This would require that foundations established by companies like Atlantis, Sandals and Baha Mar pay VAT. This penalizes businesses for making contributions of equipment, materials, furnishings, services, etc. to help improve public institutions and spaces, assist with crisis, and support the overall community. The tax would also extend to BHTA and the Promotion Boards, further adding to their costs and taxing activities which are aimed at generating revenue for the country and improving the nation's tourism product.
- **Group Business** – Most groups are booked well in advance, as much as two years for large groups. Contracts are already locked for rates, F&B and other services. Where proof can be provided regarding contracts made prior to VAT's enactment, VAT should not be applicable. The group business has become highly cost competitive in recent years. Bahamian hotels offer considerable price and value-added incentives to attract this business during the traditionally slower months. Consideration should be given to adopting incentives around VAT to attract this business during those periods to boost revenue and support higher levels of employment and hours worked.
- **Requiring that VAT be Paid on Gross Sales**, effectively layering VAT on overseas sales and commissions. This is unprecedented in the global travel industry and will result in a significant loss in bookings by travel agents, tour operators, wholesalers, OTAs and intermediaries who will opt to book clients elsewhere. VAT should only be applied to amounts received by hotels in order to avoid double taxation on the portion which is paid by guests directly to travel agents and tour operators for their services provided overseas. This would make our hotel sector uncompetitive.
- **Treatment of Casinos** – it is paramount to preserve the gaming industry in The Bahamas that inputs are not exempt that guest winnings are zero rated.

The added burden imposed on our industry by these provisions would severely weaken our price competitiveness, particularly in offering all-inclusive and small Family Island resorts as options in our product offerings, given the unique challenges they face in a VAT scenario. These are targeted areas which the Government of The Bahamas wishes to encourage for further development.

4. **Ensure Tourism Packages Sold Abroad Remain Competitively Priced** – Our primary concerns in this regard are referenced in the first bullet in tenet #3.
5. **Ensure Cash Flow Remains Unimpeded by Tax Reform** - Transitioning to VAT requires careful consideration of how contracts and inventory which would've been executed prior to VAT's effective date are treated to avoid double taxation. Transition measures should also consider a revenue neutral provision for group business booked prior to VAT coming into effect. Groups represent a significant portion of the

stopover arrivals business with contracts often agreed to several years in advance. Furthermore, the timing of refunds and adjustments must be accelerated.

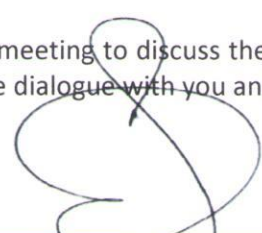
Way Forward: Preserve the Tourism Industry

Prime Minister, our tourism industry faces unprecedented cost competitive challenges. Enclosed you will find several slides which clearly illustrates those challenges and the erosion of market share by The Bahamas. The EY research validates our price competitiveness concerns. A 6 percent VAT which considers our other recommendations would still add to our costs, but given the realities facing the country it is a level which we would find workable.

Most countries with a Value Added Tax recognize that tourism is an export business and special consideration is given to ensure its competitiveness by reducing or eliminating VAT. Relative to size, The Bahamas is ranked 10th globally out of 184 nations by the World Travel and Tourism Council in the contribution which tourism makes to GDP. This underscores the importance to all Bahamians of ensuring our competitiveness. We are poised for unprecedented tourism growth in the next two years. Decisions which are made over the coming weeks will weigh heavily in our ability to realize tourism's potential.

We request a meeting to discuss these matters as early as possible and look forward to engaging in a positive and productive dialogue with you and your colleagues.

Sincerely,



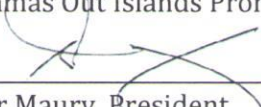
Stuart Bowe, President
Bahamas Hotel and Tourism Association



George Myers, Chairman
Nassau Paradise Island Promotion Board



Dean Spychalla
Bahamas Out Islands Promotion Board



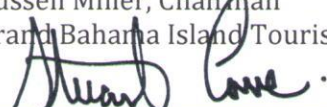
Peter Maury, President
Marina Operators of The Bahamas



Robert 'Sandy' Sands, Chairman
Bahamas Hotel Employers & Restaurant Association



Russell Miller, Chairman
Grand Bahama Island Tourism Board



Stuart Cove, President
Bahamas Diving Association



Sonia Bowe Adderley
Bahamas Sightseeing & Tour Operators Association

Enclosure: *BHTA Report: Data Underscoring Competitive Challenges Facing Bahamas Tourism Industry*

- cc: The Honourable Obediah Wilchcombe, MP, Minister of Tourism
- The Honourable Michael Halkitis, M.P., Minister of State for Finance
- The Honourable Khaalis Rolle, M.P., Minister of State for Investments
- Mr. John Rolle, Financial Secretary, Ministry of Finance
- Sir Baltron Bethel, Senior Policy Advisor, Office of the Prime Minister
- Robert Myers, Co-Chairperson, Coalition for Responsible Taxation
- Gowan Bowe, Co-Chairperson, Coalition for Responsible Taxation