CONDITIONS FOR IMPROVING THE PROPERTY TAX IN THE BAHAMAS

FINAL REPORT

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Abbreviations:

CVO	Chief Valuation Officer
CLR	Collection Ratio
CVR	Coverage Ratio
GDP	Gross Domestic Product
GOB	Government of the Bahamas
IDB	Inter-American Development Bank
IMF	International Monetary Fund
LUPAP	Land Use Planning and Policy
MG	Import of Goods
MOF	Ministry of Finance
OECD	Organization of Economic Cooperation and Development
RPT	Real Property Tax
WTO	World Trade Organization
VAT	Value Added Tax
VR	Valuation Ratio

Executive Summary

The Commonwealth of the Bahamas has translated sound economic management, political stability and close proximity to the world's largest consumer market into steady growth and high levels of per capita income. Real annual economic growth has averaged about 1.3% over the past two decades with a strong growth spurt of 4.6% during 1993-99. Per capita income is currently about B$21,500 and over $25,000 in purchasing power parity terms, which makes it the highest amongst the Caribbean economies.

Despite achieving growth and high levels of per capita income, the Government of the Bahamas (GoB) faces fiscal challenges to contain public debt while sustaining public services to support growth and development. These fiscal challenges are arising from (1) the negative impact of the 2008-09 recession on revenues combined with increased stimulus expenditures, (2) a narrow and volatile tax base combined with a need to modernize and strengthen its revenue administration and (3) policy objective of joining WTO has implications for reducing import duty rates and for non-discrimination in tax policy

This report addresses options for improving the fiscal balance in the short and medium terms with a particular focus on the reform of the property tax system and its potential revenue contribution. The report (1) presents an overview and performance of the revenue base of the Bahamas exploring the nature and seriousness of the emerging public debt build up; (2) analyzes the existing tax structures and reforms presenting policy and administrative recommendations for improving revenue yield; (3) analyzes property tax policies and administration to identify recommendations for improving property tax revenue yield, equity and efficiency in the Bahamas.

1. Economic Background and Emerging Debt Management

The Bahamas economy is closely linked to the US economy, largely being driven by tourism, the development of tourist resorts, and the construction and purchase of second and retirement homes. Some 90% of the value added in the Bahamian economy is derived from the service sectors, which directly and indirectly mainly service the tourism and financial sectors.

The 2008/09 recession in the US, therefore, led to significant declines in the Bahamian economy. While the overall economy contracted by 4.3% in 2009, sectors critical to the tax base contracted even more dramatically. For example, hotel room expenditures dropped by 20.6% during 2009 compared to the prior year. This included the number of room-nights dropping by 13.4% which led to cuts in demand for all other tourism related services. There was also a 20.7% decline of merchandise imports in 2009 which undermined import-based revenues.

Government revenues are highly correlated with the economic performance linked to tourism. GoB revenue yields have been relatively volatile around an average of 17.4% of GDP. The recession of 2008/09 through 2009/10 saw revenue yields fall to around this average level from their peak levels of 19.8% in 2007/08. The full impact on the government revenue position, however, was significantly worsen by the additional contraction in the economic base that resulted in real or inflation-adjusted revenues falling by 11.4% in 2008/09 and a further 4.5% in 2009/10. This real decline in government revenues was the major contributor to the start of the debt burden growth.

During the recession period, tax revenues declined from about 90% to roughly 85% of total revenues. The major tax revenue decline came in import duties which dropped by two percentage points of GDP in 2008/09 and a further half percentage point in 2009/10. The negative impact of declining import duty yields and revenues was fortunately moderated by increasing tax yields and shares from business and professional licenses and from property taxes.

While revenues have been relatively volatile, GoB expenditures have grown over the past decade reaching a peak of 23.1% of GDP in the recession year 2008/09. The growth in expenditures as a share of GDP was in part due to a 3% decline in real GDP, but also arose from a 3.2% real increase in expenditures to stimulate the economic recovery. These real expenditure increases combined with real revenue declines during the recession years has led to rapid debt increases. The debt burden climbed to 47.3% by the end of 2009/10 from the level of about 34% which prevailed from 2003/04 through 2006/07.

While this debt burden seems moderate by international standards (where typically concerns arise when the debt goes above 60%), the real burden comes from the heavy interest burden on revenues. The interest expenses have risen to 13.6% of the total revenues by 2009/10, which is close to the trigger point for interest burdens that absorb over 15% of revenues.

Effectively managing expenditures and raising revenues is essential to enable GoB to manage its debt problem. Analysis of changes on the debt burden over the medium term show that the size of the primary surplus is expected to be the key determinant to bring down the debt-to-GDP ratio. A primary surplus of about 0.5% of GDP is required to keep the debt burden stable, but a primary surplus above 2% is need to start making significant reductions in the debt-to-GDP ratio over the medium term. Without prudent and strategic reduction of the national debt, GoB may find that the risk rating of GoB sovereign debt will be downgraded. So far, aside from Standard and Poor's downgrading Bahamas from A- to BBB+ in December 2009, the GoB credit ratings have stayed stable. GoB must maintain its market credibility by showing commitment to cutting the deficit and running down the debt burden. Government priority must be on enhancing government revenues, while prudently managing expenditures.

2. Government Revenue Options

The Bahamas, as a small island economy with low domestic valued added in the industrial sectors, has focused its taxation on international merchandise trade. Customs taxes are the major source of tax revenue. Aside from property taxation, all other revenues come from a range of selective taxes on sales and transactions, fees, licenses and some other non-taxes revenues. No income tax is charged in order to attract foreign investment and no broad-based tax on consumption is used. The Customs Department collects taxes on international trade and excises, while the administration of the inland or domestic revenues is dispersed across some 26 other ministries, departments and agencies.

2.1 Taxes on imports

Taxes on imports are composed of import duties, stamp taxes on imports and more recently excise taxes which replaced stamp taxes on most imports effective 2008/09. Tax revenues from imports typically formed over 50% of revenues, but started to decline from 2003/04 to below 50% in 2006/07 and dropped further during the recession years of 2008/09 and 2009/10.

The recent decline in import taxes comes partially from a reduction in imports of goods as a share of GDP, and partially from a decline in the effective tax rate. Imports of goods and services in 2009 dropped to 50.6% of GDP while imports of goods dropped to 34.4% of GDP, the lowest level since 1999. The recent steep drop in import revenue could be attributed to the drop in the effective tax rate from around 20% to only 14.1% in 2009, reflecting possible changes in the tariff, changes in exemptions and collection performance and/or changes in composition of imports. By contrast the import stamp and excise tax yield was robust over the years and even rose in 2009 when import stamp tax was largely replaced by the excise taxes.

Currently, the Bahamas has a high potential or trade-weighted import tax rate. In 2009/10, it was 27.5% and when combined with the stamp tax and excise tax on imports the rate rises to 36%. The revenue raising potential, however, is undermined by tax exemptions and other failures to collect taxes on imports such that in 2009/10 only some 49% of potential import tax liabilities and 79% of excise taxes on non-oil and gas imports were collected.

Analysis of the effective tax rates on imports relative to their potential rates shows important implications for future tax policy and revenue potential. If the loss of revenues through import exemptions (and any other cause of failure to collect) was significantly reduced, then the Bahamas has the potential to lower its import tax rates, enhance its revenues and improve the efficiency of its economy by lowering the average price level of goods relative to its competitors for tourist expenditures. For example a flat import duty rate of 15% with no exemptions would outperform the current structure. A standard rate of 20% with a limited number of lower rate items and exemptions and a limited number of higher rate items would likely also be a significant improvement. If average costs in the Bahamas were reduced by lowering tax rates on imports, it would attract a larger flow of tourist expenditures that would generally expand the economy and tax bases.

Bermuda provides a good example for the Bahamas. Bermuda relies on import duties for about a quarter of its revenues which form about 16% of GDP. Import duty rates are centered on a standard rate of 22.5% with a few goods having higher and having lower rates. This yields an effective import duty rate of 20% of import values. Goods imports only form about 20% of GDP in Bermuda, so that import revenues yield about 4% of GDP.

When import tax rates are high, domestic prices of goods are raised by this amount causing substantial increases in the domestic cost of living as well as loss of tourism competitiveness. If about half the tax revenues at these rates are not collected, then the Bahamas is suffering an extra efficiency cost in raising revenues because of the high market prices on all domestic sales compared to raising the same revenues at about two thirds of the tax rate, say. The ability to lower import duty rates without revenue loss, if exempt imports are reduced, would ease the problem of lowering import tariffs if the Bahamas joins the WTO.

To improve economic efficiency and enhance revenues, GoB could implement a policy of rationalizing import tariffs by radial compression (raising low rates, lowering high rates and lowering the number of rates) and lowering the standard tariff rate in conjunction with reducing exempt imports. Exemptions could be limited by actions such as having a minimum import duty rate, only awarding partial discretionary exemptions, reducing the terms of exemptions given to new investors, limiting exemptions to the investment expenditures and not awarding exemptions for operational costs.

In the 2010 Budget, the Minister for Finance has already announced that concessions in the Industries Enhancement Act will be limited to 5 years and eliminated concessions under the Spirits and Beer Manufacture Act. Enhancements of import tax policy should be supported and strengthen by modernizing customs administration. Assistance from development partners with the training required and the management of the implementation of reforms may still be beneficial to accelerate the change processes.

2.2 Domestic indirect tax reforms

2.2.1 Business license tax

GoB is introducing a reform and rationalization of business licensing and taxation effective in 2011. The Business License Act, 2010 replaces the Business Licence Act (Ch. 329), Liquor Licences Act (Ch. 372), Shop Licences Act (Ch. 377), and Music and Dancing Licences Act (Ch, 374) and amends the Broadcasting Act (Ch. 305). All businesses are now required to be licensed under one act with a generally simplified tax schedule, with a number of exemptions.

This is an important reform for three reasons. **First**, it simplifies and consolidates the business license tax into a broad-based, low rate turnover tax. **Second**, it concentrates more of the tax administration into the Inland Revenue Department that also manages the property tax collection. This improves the prospects developing a modern and professional tax administration for domestic taxes. **Third**, the new tax structure should raise revenues. A rough estimate based on the distribution of the 2010 turnover levels of registered businesses indicates revenues of at least $88 million or about 1.2% of GDP for 2011. In the medium term, this turnover structure offers the option of further revenue enhancements. For example, an increase in the turnover tax rates of 0.5 percentage points would generate about 0.6% of GDP.

2.2.2 Hotel occupancy tax

The Hotel Occupancy Tax (recently raised to 10%) applies to room charges only and not to other hotel services. This results in two problems. **First**, it requires apportionment of charges in the case of resorts offering all inclusive packages. **Second**, it encourages hotels to separate out other charges such as extra energy charges or room service charges from the room charge to avoid the tax. Consideration could be given to expanding the base of the tax to include all hotel services (including restaurant, catering, bar, conference, etc services) and lowering the tax rate. This would require expanding the tax to competing stand-alone business such as restaurants and bars, but small stand alone business could be excluded by having a minimum turnover level of a business before it would be required to register to collect the tax.

2.2.3 Casino tax

The Casino Tax has been a significant source of revenue at about 0.3% of GDP in the early 2000s, but the tax yield has steadily drifted downwards to about 0.15% of GDP over the last decade. This decline is because the casino tax is structured as two taxes: (i) a basic flat payment that has not been increased over time with inflation; and (ii) a tax on the monthly net gambling winnings of a casino that declines with winnings in large casinos. Revenues could be enhanced by increasing the basic tax plus increasing the bracket sizes and flattening out the rate structure of the large casino rates. A first step could be raising the tax rate on winnings above $20 million from 5% to 10%.

2.3 Public corporation profitability

The GOB fiscal situation can be indirectly improved by enhancing profitability and efficiency of state-owned corporations. Some sectors have the potential to enhance government income such as increased dividends from the Bahamas Electricity Corporation as its financial situation can be improved. Other sectors can reduce their need for subsidies (eg, if the Water and Sewage Corporation was able to recover a greater share of its costs). The Inter-American Bank Country Assistance Strategy, 2010-2014, targets these types of improvements in the state-owned corporations.

2.4 Prospects for a broad-based domestic tax

2.4.1 Value Added Tax (VAT): Although the International Monetary Fund and the Caribbean Regional Technical Assistance Centre has recommended that the GoB adopt a VAT, GoB has stated that it does not intend to introduce a VAT or broad-based sales tax. There are significant arguments for not making the introduction of a VAT in a small island economy a priority issue even if it may be part of the long-run revenue solution.

First, for a small island economy with a small industrial sector, a combination of import duties on goods, selective excise taxes on goods, and selective taxes on services can effectively collect similar revenue yields to a VAT, except that this combination results in a range of hard to identify and estimate tax distortions between sectors. The argument for a VAT would be more for economic efficiency than revenue reasons.

Second, the introduction of VAT would be expensive, requiring development of the necessary tax administration capacity and the education of the business sector in VAT compliance. Given the current limited capacity of the GoB domestic tax administration, the design, preparation, training and education for implementation of a VAT would need to be approached as a multi-year exercise.

The GOB needs to develop a medium- term strategy for strengthening the domestic taxes that could ultimately lead to a broad- based VAT.

2.4.2 Broad Based Turnover Tax: The GoB could gradually increase the use of the business licensing turnover tax structure. These revenue collections would be underpinned by strengthening the capacity of the Inland Revenue Department to conduct modern tax administration. An explicit action plan should be developed to identify the elements, timing and financing of this institutional development. In addition, the selective taxes on services could be strengthened. Some examples relating to largely tourist-based services (gambling, hotel, restaurant, bar, conference, etc services) are provided above.

These reforms would enhance revenues over the medium term, but it is recognized that the use of turnover taxes has its limitations. Once turnover tax rates reach about 3% and above, turnover taxes start leading to significant tax stacking and related price distortion problems.

In the long run, the GoB will need to identify a broad based domestic tax. One logical step is to convert the turnover tax for the businesses above a certain turnover level ($100,000 per year, say) to a credit-method consumption-based VAT while leaving the business licensing tax in place for all small and otherwise exempt business (which would include the financial sector businesses). By this time the domestic tax administration should have been strengthened to handle a VAT.

2.4.3 Payroll Tax: An alternative strategy would be to follow the path of Bermuda and introduce a payroll tax on employment income. In Bermuda about 25% of revenues come from import duties and over 40% from payroll taxes. Economically a wage tax and a sales tax have similar characteristics except that a wage tax is direct and more explicit, but can include some progressive elements (such as no or low tax rates on low monthly wages.) In addition, payroll taxes may be contemplated to finance social security benefit programs that may be introduced in the longer run. The payroll tax would leave business and capital investments free of income taxes and not disturb the current attractiveness of the Bahamas as an income-tax- free investment destination.

2.4.4 Property Taxation: A fourth alternative would be to strengthen the property tax. The annual property tax in the Bahamas has tremendous potential for further growth. The Bahamas is currently collecting 1.1% of GDP from the annual Real Property Tax despite taxing a narrow tax base, full of generous exemptions, with low and out of date property valuations, and a very low collection rate estimated to be between 30-50% with virtually no enforcement against non-compliance.

3. Property Tax Reform Recommendations

The property tax revenue performance for the Bahamas is higher than most developing and transitional economies but still only about 40-50% of the property taxes collections in the United States, Canada and the UK. For comparison, Bahamas is collecting 1.1% of GDP from the annual property tax, as compared to 1.9% in Barbados and 3.2%, 2.8% and 2.8% of GDP in the UK, USA and Canada, respectively.

With administrative improvements alone, it is estimated that the annual property tax revenue could be increased by almost 100 percent over the next 5 years. From 1.1% of GDP, Bahamas should be able to increase property tax revenues to about 2% of GDP through implementing administrative reforms which more effectively capture the tax base, gradually reducing the number of exemptions, updating the valuations, improving the collecting rate and adopting and implementing effective sanctions and penalties to deal with noncompliance.

Recommendation #1: **The Government should adopt a proactive, comprehensive, multi-year strategy to improve property tax policy and administration, with a priority on improving the administrative ratios related to coverage, valuation and collection.** The current property tax situation did not become a problem overnight; neither will the problem be solved overnight. The property tax system will not "naturally" generate the required increase in government revenue. The Government must pursue a consistent, multi-year, proactive approach if the Government is seriously interested in generating the additional revenue from the property tax. The priority must be on improving property tax administration.

Recommendation #2: **The Government should follow a "collection-led" reform strategy focusing on improving the collection ratio, while incrementally improving the coverage and valuation ratios.** The Government should focus initially on improving property tax collections, dealing with the property tax arrears, putting into place improved collection and enforcement mechanisms, enhancing taxpayer service, awareness and education, followed by ensuring a complete and up-to-date property tax registry and improving the accuracy of the property valuations.

Recommendation #3: **The Government needs to mobilize the political will and to strengthen the administrative capacity and administrative willingness to proactively improve revenue collection and to take decisive action against non-compliance**. Currently there appears to be little enforcement against non-compliance, which has generated property tax arrears of over $500 million, more than 7 times the annual property tax liabilities. This lack of enforcement against non-compliance affects both the immediate revenue yield and taxpayer equity as well as reduces the overall credibility of the property tax system leading to reduced levels of voluntary compliance in the longer run.

Mobilization of the political will require the government to (i) make amendments to the property tax legislation, (ii) support and require the Tax Deparments to prepare and publish manuals on property tax administrations and compliance procedures, (iii) support the training of officials on new procedures and taxpayer education programs concerning compliance with these procedures and (iv) back-up enforcement actions of the Tax Department as laid out in the recommendations below.

Recommendation #4: **The collection-led, multi-year property tax reform strategy should be linked to ongoing local governance reforms aimed at enhancing government accountability and improved local public service delivery. Theory and international practice confirm that property tax is an ideal local-level tax, providing a direct and indirect link to improved local services.**

Local identity with the property tax could increase collection efficiency and help justify expanding the property tax coverage to all property in the family islands to cover the various locally-based island services. The property tax could be restructured as a central government "shared tax" revenue with 100% of the revenues allocated to the local governments throughout the Bahamas. Overall horizontal equity in government expenditure across the islands would be handled through adjustments in the budgeting process.

As international experience confirms, mobilizing the required political support for a stand-alone property tax reform is virtually impossible. Therefore successfully linking (piggybacking) the property tax reform to governance reforms will increase the probability of successful implementation by tapping into the political will and political imperative necessary to undertake the required property tax reforms.

Recommendation #5: **The Government needs to adopt an annual work plan linked to the property tax strategic implementation plan.** Annual work plans are needed to identify the tasks, related resources, and performance targets needed to implement the property tax strategic implementation plan. These work plans will enable the Tax Department to proactively implement a strategic "collection led" implementation strategy aimed at increasing the property tax yield from the property tax. The Ministry of Finance should design the reporting format and cause to be produced the Annual Report on Property Taxation as per Law. This annual report can be used to monitor the implementation of the 3-5 year strategic "collection-led" implementation plan and the annual work plans.

Recommendation #6: **To ensure consistency, equity and sustainability of the reform implementation, the Government needs to revise, and then codify the various property tax administrative system procedures into "standard operating procedures (SOPs)" for each of the administrative procedures** (e.g., property identification, data collection and maintenance, property valuation, revenue collection, tax enforcement, appeals and taxpayer service. A property tax administration manual should be adopted to guide the day-to-day operations of the Tax Department to improve administrative performance, consistency and service.

Recommendation #7: The Government should review and reduce the very generous property tax exemptions to improve property tax revenue yield, equity and efficiency.

- **The Owner-Occupied Housing exemption threshold should be reduced. First,** the current owner-occupied exemption of $250,000 is substantially higher than those in the neighboring United States. **Second,** the exemption is not means-tested, meaning that the exemption is given to rich and poor alike perpetuating inequity. **Third,** the level of exemption was increased without a systematic updating of property tax roll values. **Fourth**, the exemption is difficult to administer to ensure that second homes are not also receiving a second exemption. As a first step, it is recommended that the owner-occupied exemption be shifted back to the previous $100,000 level (at least for all properties where the valuation has not been raised to current market values) to be more consistent with the home owner exemption used in neighboring countries, such as the United States and to allow the valuation tax roll time to be adjusted upwards consistent with increases in actual market value.

- **The property tax exemption for hotels, rental pooling, and time shares should be reviewed and reduced**. Although perhaps well intentioned, the generous property tax exemption on hotels and other tourist related investments may be extravagant and unwarranted, potentially allowing hotel investments to be property tax exempt for up to 20 years. This exemption provides a major subsidy to the hotel investors and to users of those hotels who receive government services without paying the property tax and the true costs of government funded services.

- **The current property tax exemptions for Bahamians should be reviewed**. When the Bahamas joins the WTO, it will be necessary for the Government to change its tax system to eliminate the property tax distinctions given to Bahamians and to Foreigners. This means that the current exemption on unimproved land owned by Bahamians on New Providence will need to be adjusted. In addition, the current exemptions given to Bahamians on all property on the family islands will need to be restructured.

Recommendation #8: **The Government should simplify the property tax rate structure to improve the transparency and accountability of the property tax system to taxpayers**. Rather than having a progressive tax rate structure, it is recommended to simplify the tax system to either a single rate or to a simple classified rate structure which would apply a single rate to standard categories of property such as commercial, owner-occupied residential and unimproved properties. Jamaica provides a good example in that they shifted from their progressive property tax to a flat rate structure in 2005.

Recommendation #9: **The Government should improve the Coverage Ratio to ensure that all properties are captured on the tax roll, with accurate information on the property characteristics needed to determine an accurate property valuation**.

- **The Government needs to improve the quality, availability and exchange of property information.** Substantial investment was made into the BNGIS and the LUPAP effort to effectively integrate physical, legal and fiscal property information to improve the efficiency in land markets, tenure and property taxation. Technical and institutional constraints should be addressed to enable the Bahamas to realize the benefits from improved access to property-related information.

- **The Government needs to expand the use of third party information** from the Bahamas Electricity Company, Water Company, Bahamas Investment Authority, and Public Works to update the property records. These agencies have varying property related information on such characteristics as property location, names of occupants and/or taxpayers, property size, property types, property building characteristics and property values. These agencies should be required to report this information to the Tax Department through the use of a standardized property information sheet.

- **The current property tax reporting form needs to be streamlined to capture a broader range of information**, such as other third party information like the electricity meter number and other parcel-based identifiers which might facilitate later data cross referencing. The form should be redesigned for easy computer data entry.

- **All third parties handling property-related information should be required to report this information to the Tax Department.** This would include such third parties as lawyers, notaries, banks and lending institutions, as well as third parties such as the Ministry of Public Works, the Registrar General, Treasury and others. The reporting format should be in the manner and form prescribed by the Tax Department.
- **Customers applying for services from the Bahamas Investment Authority should be required to submit a property reporting form when applying a certificate or permit.** A copy of the property reporting form should be given to the Tax Department to be used for updating the property tax files. This is the case of new property not yet captured on the tax roll (ie, property changing from Bahamian to foreign hands on the family islands).
- **The Tax Department should undertake a strategic and systematic field updating of property information using cost effective, strategically targeted field data collection/valuation to broaden the tax base coverage and valuation accuracy.** This can be done by targeting higher value neighborhoods. Creative use of the electricity installed capacity and electricity usage can help target those geographic zones which would have the higher value properties.
- **The Tax Department should have a strategy to conduct a general reassessment every 5 years as provided for in the law.** This will require the Tax Department to develop a work plan strategy to systematically update property information and property values across the taxing jurisdiction. This field work should be undertaken in accordance with the "standard operating procedure" for property roll updating process discussed earlier. This updated data on housing characteristics will be used to determine the relative assessments used for determining property tax liability.

Recommendation #10: **The Government should continue using a simplified valuation approach for determining the relative property value for each property.** This simplified valuation approach should be systematized and made more transparent, allowing the system to be adopted as a computer-assisted valuation method. The Tax Department should develop land value zone maps and building cost tables which can be updated easily through the computer. Information from the Department of Lands and Survey on land prices should be made available to the Tax Department to make these land value maps. Information from the Ministry of Housing should be made available to make the building cost tables.

Recommendation #11: **As part of the Standard Operating Procedures for Valuation, the Government needs to design a standard property market information collection form which can be used to capture the property related valuation information**. Regulations should be changed to force government agencies linked to land transactions and land issues to fill in these forms (e.g., DOLS, Registrar General, Treasury, etc.). Completed forms should be a requirement for the conveyance of properties and a copy should be submitted to the Tax Department.

<u>Recommendation #12</u>: **As per the Real Property Tax Act, it is critical that the Tax Department value properties based on a common valuation date.** Currently the valuation is estimated based on the date of the actual valuation. This means that properties are being valued and taxed upon values which are inconsistent, generating inequity. For equity purposes, it will be important to establish and maintain a common valuation date for all valuations.

<u>Recommendation #13:</u> **The Tax Department should index property values to inflation between general assessments to minimize "sticker shock"** when properties are valued after a five year period. This indexation approach is used in several countries as a way of keeping the property tax roll relatively up to date during the intervening years between the periodic updating general assessments.

<u>Recommendation # 14</u>: **The Tax Department should consider using the income approach to value commercial property** to improve equity and more accurate valuation levels. It is recommended that a pilot effort be undertaken to estimate a sample of commercial properties using the income approach in order to compare the relative results as compared to the market value. Based on the analysis, the Government can adopt the more appropriate valuation approach. There would be no need for any legal change as the Real Property Tax Act allows for either method of valuation.

<u>Recommendation # 15</u>: **The Government should design and implement a tax arrears collection strategy to improve revenues, equity and efficiency in the short term, mobilize the policy will for enforcement, and send a signal to taxpayers to improve voluntary compliance in the future.** Once again, without a strong, intentional, proactive collection and enforcement strategy implementation, it will not be possible to generate the desired property tax revenue improvements.

<u>Recommendation #16:</u> **The Government should expand its taxpayer awareness, taxpayer service and taxpayer education to reduce the compliance costs to taxpayers.** Taxpayers require information on tax payment responsibilities, requirements and rights. Taxpayers should be informed on the purpose of property taxation, reasons for the amounts, the payment procedures, and how to handle disputes and appeals. To the extent possible, the Tax Department should stress and deliver taxpayer service to encourage voluntary compliance.

<u>Recommendation #17:</u> **The Tax Department should consider options to allow multiple tax payment installments to facilitate payments and reduce compliance costs**. The Tax Department should also consider options of payment through the banking system, internet, credit cards, ATM machines, and phone payment as a way of improving taxpayer service and convenience for payment. All of these efforts should be undertaken to reduce the compliance costs to the taxpayers, while recognizing the possible implications for increases in tax administration costs. The costs and benefits of each alternative should be carefully considered.

<u>Recommendation #18:</u> **The Tax Department needs to fully inform the taxpayer of the consequences of non-compliance.** Taxpayers should be informed about the late payment fee of 5%, the possibility of garnishment of wages and rents, the option of placing an encumbrance on the property title, and more recently the possibility of the seizure and auction of unimproved property (as per the 2009 Real Property Tax Act amendment). Taxpayers should be given full information to encourage them to voluntarily comply with their tax obligations. Effective government-taxpayer communication is vital.

<u>**Recommendation #19:**</u> **The Tax Department should use a combination of sanctions and/or penalties against non-compliance.** Sanctions for property taxation should be linked to location-specific services such as building permits, electricity and water connection, BIA permits or certificates, the registration of deeds and/or other property-related conveyances at the Registrar General, business license fees and/or the transfer of property through the Treasury Stamp Duty process.

- **The Government should develop an explicit policy and be intentional in requiring a tax clearance certificate for any and all transactions and/or services related to property.** This would require taxpayers to obtain an official tax clearance certificate from the Tax Department which states that the property in question has paid its taxes in full and has no outstanding charges. Taxpayers would then be required to pay their property tax in full prior to receiving any property-related government service. This would be an effective way to indirectly encourage tax compliance.
- **The Government should institute a system of tax liens (also known as caveats, encumbrances) on the property deed/title at the Registrar General.** Under this approach, the Tax Department would provide a list of outstanding charges by property identification number to the Registrar General for recording on the deed/title. This first charge on the property would take precedent over any private liens (such as mortgages) thus putting pressure on banks and other lending agencies to follow up with their clients for tax payments. The tax lien would need to be cleared before the title could be transferred. The tax lien would also encourage tax compliance in the event that the property was to be used as collateral for a loan. International experience shows that tax liens are a very effective way to encourage tax compliance. To date, the Bahamas has not used the option of tax liens to encourage property tax compliance. Use of the tax lien should be strategic to maximize its effectiveness.

<u>**Recommendation # 20**</u>: **The Government must be willing to and must exercise the enforcement provisions for non-compliance**. Without enforcement, the tax becomes a voluntary contribution with only those civic oriented taxpayers paying the required taxes (or the politically weak), essentially subsidizing those taxpayers who do not pay the property taxes. This noncompliance reduces tax revenues, introduces major inequity and stimulates a culture of non-compliance into the tax system.

- The Government should take some symbolic action to enforce noncompliance against unimproved property as provided under the 2009 Amendment of the Real Property Tax Act (ie, to seize and sell unimproved property for noncompliance). According to the arrears information from the Tax Department, there are 22,000 vacant land taxpayers who are in arrears for a total of $156 million, with average arrears of $7,000. A further analysis of the vacant land arrears shows that there are 38 vacant land taxpayers who owe more than

$500,000 each. These are the logical taxpayers to target for the enforcement sequence. Once again, the strategy should follow the same sequence as the tax lien above.

- The Tax Department should explore the possibility of seizing movable property instead of movable property. In some countries, tax departments are allowed to seize such movable property as furniture, air conditioners, vehicles, etc. rather than being required to seize and sell immovable property for the recovery of property tax arrears. This may have some advantages that should be explored.

Recommendation #21: The Government should consider how to improve the property tax information technology systems and to rationalize the property tax administration institutional structure. The Tax Department currently uses a SunGard Public Sector System for managing its property tax administration. This system appears to be essentially an accounting, billing and accounts receivable management system, but not a comprehensive property tax administration management system per se. Countries are increasingly developing computer systems which manage the actual property information and perform computer assisted valuation. These systems typically have an interface to existing treasury systems or have built in billing and collection monitoring module which manages the account receivable functions. Various options should be explored (eg, Sungard Public Sector System or a more integrated property tax administration management system, building on the BNGIS or LUPAP funded property information systems).

Recommendation #22: The Government should redesign the institutional structure for property tax administration. Various recommendations have been made to create an Inland Revenue Department which would merge property taxation, business licensing, stamp duties, and excises. It is expected that this would facilitate the exchange of information, allow for a more functional reorganization and establish the strong basis for the Government to more effectively manage and coordinate inland revenue collection. This needs to be further explored to identify the advantages and disadvantages of the proposed organizational structure as it relates to enhancing property tax administration and ultimately property tax revenues.

The critical thing for property tax administration system is to maintain the objectivity of the property valuation function. Tax systems around the world do this by maintaining a separation between the fiscal cadastre/valuation functions and the more treasury-related functions of billing, collection and enforcement. In addition, the valuation appeals section must also be separated from the property valuation function to avoid a conflict of interest situation.

Closing Comments:

With minor adjustments to the policy framework, but with major changes to the property tax administration, it should be possible to enhance the property tax revenues in the Bahamas from the current level of 1.1% of GDP to 2% of GDP. The current system is plagued with problems of incomplete property tax coverage, out of date and inconsistent property valuations, low property revenue collection levels, with little to no enforcement against non-compliance. This creates a source of major revenue loss and generates inequity throughout the system encouraging greater non-compliance.

A detailed medium term work plan is required that lays out the tasks and timetable to implement the recommendations for the reform of property tax policy and administration laid out above. A strategic, collection-led property tax reform will be able to enhance property tax revenues and the equity of the property tax system. This will lead to greater voluntary compliance and citizen/government accountability framework. In combination with improved taxpayer service and an updating (a general reassessment) of the property tax roll, the property tax system in the Bahamas should provide the basis for a strong source of government revenues in the future.

Table of Contents

Chapter 1: Introduction to Fiscal Challenges Facing Bahamas

1.1 The Commonwealth of the Bahamas has translated sound economic management, political stability and close proximity to the world's largest consumer market into steady growth and high levels of per capita income. Real annual economic growth has averaged about 1.3% over the past two decades with a strong growth spurt of 4.6% during 1993-99. Per capita income is currently about B$21,500[1] and over $25,000 in purchasing power parity terms[2], which makes it the highest amongst the Caribbean economies. The Bahamas, however, now faces a number of fiscal challenges to contain its public debts that arise from a number of related factors:

i. The 2008/9 financial crisis and great recession have had a strong negative impact on economic growth in the Bahamas. Real economic growth rates dropped to -1.7% in 2008, -4.3% in 2009 and are expected to be -0.5% in 2010 in 2010 before positive growth is regained in 2011. This has had a negative impact on revenues, which, when combined with increased stimulus expenditures, has caused the public debt stock to start growing sharply in fiscal year 2008/09. The growth path in public debt and its expected consequences are elaborated on below.

ii. The Government of the Bahamas (GoB) has relied on a narrow and volatile tax base. Over the past decade, nearly half the revenues have come from the taxation of imports, and aside from the taxation of property, all other revenues come from a range of selective taxes on sales and transactions, fees, licenses and other non-taxes revenues. The Bahamas has no income tax and no broad-based tax on sales. This has resulted, since 2000/01, in the revenues averaging 17.4% of GDP with a standard deviation of 1.4% of GDP and ranging between a low of 15.5% and a high of 19.8% of GDP. In addition, tax administration capacity is weak, particularly for domestic or inland revenues where tax collection is dispersed across many agencies. In light of the emerging debt management problem, the restructuring and modernization of the tax system poses a challenge and an opportunity over the medium term.

iii. GoB has the policy objective of joining the World Trade Organization (WTO). This has implications for lowering the tariffs that could be charged on imports as a WTO member, which would appear to put pressure on the taxation of imports as a major revenue source. Joining the WTO would also require a review of tax policy to remove discrimination in the tax treatment between Bahamians and non-Bahamians.

[1] The Bahamas has maintained exchange rate parity at one-to-one with the US dollar.

[2] UNDP International Human Development Indicators estimate GDP per capita (2008 PPP US$) at $25,887 for the Bahamas.

1.2 This report addresses options for improving the fiscal balance in the short and medium terms with a particular focus on the reform of the property tax system and its potential revenue contribution. The report is broken into the following four chapters.

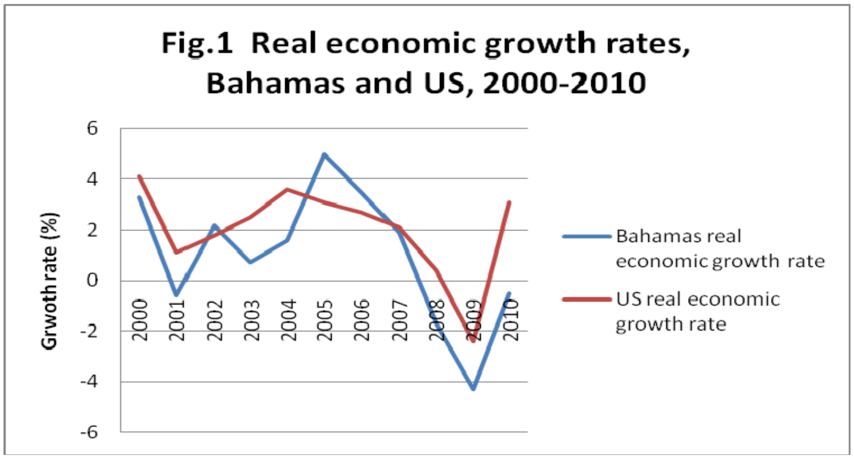
Chapter 1 presents the general background of the revenue base of the Bahamas and its performance. In addition, this chapter explores the nature and seriousness of the emerging public debt build up.

Chapter 2 focuses on the broader context of the economy and existing tax system to provide the context in which a property tax reform can be implemented. Potential alternatives or complementary supportive actions to stabilize the fiscal situation are identified. It discusses the tax structures used to date and the reforms already under taken to date in the indirect tax policy and administration. This includes the potential role of a broad-based goods and services tax and the issues involved in its possible introduction and implementation, a topic that has already received much attention over the past decade.

Chapter 3 focuses on an in-depth analysis of the property tax system, exploring the revenue trends and the potential for further growth. The analysis focuses on the policy variables linked to the tax base and tax rates as well as to the administrative variables linked to the coverage ratio, valuation ratio and the collection ratio. The property tax situation in the Bahamas is explored in light of theory and international practice to identify obstacles and constraints in the current property tax system and to identify recommendations and a strategy to improve the revenue yield, equity and efficiency of the property tax system in the Bahamas.

Chapter 4 concludes with a set of policy and administrative recommendations for the property tax system in the Bahamas.

1.3 The economy of the Bahamas is closely linked to the US economy. Over the past decade, the Bahamian real economic growth rate has been about one percentage point lower than the US real growth rate, with a one percentage point increase in the US growth rate being correlated with 1.2 percentage point increase in the Bahamian growth rate. As Figure 1 indicates, the Bahamian growth rate has been much more volatile, peaking at 5% in 2005, but dropping to a low of -4.3% during the 2009 recession.



1.4 This sensitive linkage has largely been driven by tourism (stay over and cruise ship visits), the development of tourist resorts, and the construction and purchase of second and retirement homes. Some 90% of the value added in the Bahamian economy is derived from the service sectors, which, directly and indirectly, mainly service the tourism and financial sectors. Studies of tourism stay over expenditures (which form 90% of tourism expenditures) show that these are highly positively responsive to changes in private consumption expenditures in the countries of origin (mainly the US), but negatively responsive to the price of staying in the Bahamas relative to Caribbean competitors.[3]

1.5 This indicates a major growth-sensitive linkage to the US economy. The 2008/09 recession in the US, therefore, led to significant declines in the Bahamian economy. While the overall economy contracted by 4.3% in 2009, sectors critical to the tax base contracted even more dramatically. For example, hotel room expenditures dropped by 20.6% during 2009 compared to the prior year. This included the number of room-nights dropping by 13.4% which led to cuts in demand for all other tourism related services. Another key indicator is the 20.7% decline of merchandise imports in 2009 over 2008 which undermined import-based revenues.

[3] IMF, The Bahamas: Selected Issues and Statistical Appendix, IMF Country Report No. 05/224, July 2005, Section I, "The Determinants of Tourism Demand in the Bahamas."

1.6 The structure of the revenues of the Government of the Bahamas (GoB) will be covered in more detail in Chapter 2. Here the focus will be on the total revenues, its major components and its growth and volatility to provide an understanding of the sources of the current growth in the debt burden of the GoB. Table 1.1 gives an overview of the GoB revenue performance from 2000/01 through 2009/10. As already indicated above, GoB revenue yields (revenues as a share of GDP) have been relatively volatile around an average of 17.4%. The recession of 2008/09 through 2009/10 saw revenue yields fall to around this average level from their peak levels of 19.8% in 2007/08. The full impact on the government revenue position, however, was significantly worse by the additional contraction in the economic base that resulted in real or inflation-adjusted revenues falling by 11.4% in 2008/09 and a further 4.5% in 2009/10. This real decline in government revenues was the major contributor to the start of the debt burden growth.

Table 1.1 Government of Bahamas revenues as a share of GDP and composition of revenues, 2000/01 - 2009/10

		2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Revenue as a share of GDP		**17.6%**	**15.5%**	**15.8%**	**16.1%**	**16.8%**	**17.9%**	**18.9%**	**19.8%**	**18.1%**	**17.4%**
Growth in revenue as share of GDP			-11.8%	1.9%	1.6%	4.1%	6.8%	5.7%	4.7%	**-8.5%**	**-3.7%**
Real growth in economy		1.3%	0.8%	1.4%	1.2%	3.3%	4.2%	2.7%	0.1%	**-3.0%**	**-2.4%**
Real gowth in revenues			-11.0%	3.4%	2.8%	8.5%	13.0%	9.7%	3.3%	**-11.4%**	**-4.5%**
Tax revenue out of total revenue		89.5%	90.1%	90.4%	88.0%	88.9%	89.6%	90.2%	89.0%	**85.3%**	**85.1%**
Major tax revenue sources											
	Import duty + Excise tax + Import stamp tax	56.2%	55.9%	57.3%	53.6%	50.5%	51.0%	48.8%	47.7%	**43.9%**	**42.4%**
	Other stamp taxes	8.4%	8.4%	8.8%	9.7%	13.0%	13.2%	17.1%	18.1%	**14.7%**	**12.5%**
	Business and Professional Licence	5.7%	6.5%	6.0%	6.0%	5.8%	6.1%	5.3%	6.2%	**7.3%**	**7.9%**
	Property taxes	3.5%	3.9%	4.1%	4.0%	5.2%	4.4%	6.0%	5.1%	**6.4%**	**7.0%**
Non-tax revenue out of total revenue		10.5%	9.9%	9.6%	12.0%	11.1%	10.4%	9.8%	11.0%	**14.7%**	**14.9%**

Sources: Ministry of Finance, Budget Communication, Central Bank of Bahamas and author calculations

1.7 While details of the tax structures and their revenues responses will be explored further in Chapter 2, Table 1.1 gives some highlights of the changes in the composition of revenues during the recession period. **First**, tax revenues declined from about 90% to about 85% of total revenues. This reflected both a fall in tax yields that was partially offset by a rise in non-tax revenue yields. **Second**, the major fall in tax revenues came in the import duties which dropped by two percentage points of GDP in 2008/09 and a further half percentage point in 2009/10. Merchandise imports dropped by 20% between 2008 and 2009 with the sharpest drops coming in the highly taxed group of transportation equipment which dropped by 39.2%.[4] **Third**, the negative impact of declining

[4] The change in the composition of imports was analyzed based on imports by Broad Economic Categories (BEC) as published by the UN Statistical Office.

import duty yields and revenues was moderated by increasing tax yields and shares from business and professional licenses and from property taxes.

1.8 While revenues have been relatively volatile, Table 1.2 shows that GoB expenditures have grown over the past decade.[5] When measured as a share of GDP, total expenditures grew gradually from 2000/01 through 2005/06 reaching 20% (with a temporary drop in 2003/04), then shifted upwards to 21.5% in 2006/07 and again to 23.1% in 2008/09 when countercyclical stimulus spending measures were undertaken. Real (inflation adjusted) expenditures were fairly volatile over the decade, but notably a real expenditure growth occurred 2008/09 in the face of real declines in the economy in 2008/09 and 2009/10. These real expenditure increases combined with real revenue declines during the recession years has led to rapid debt increases.

Table 1.2. Government of Bahamas expenditures as a share of GDP and growth rates, 2000/01 - 2009/10

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Expenditures[y] as a share of GDP	**17.9%**	**17.4%**	**19.0%**	**16.0%**	**19.3%**	**20.0%**	**21.5%**	**21.6%**	**23.1%**	**23.2%**
Growth in expenditures as share of GDP		-2.6%	9.1%	-15.5%	20.6%	3.3%	7.4%	0.8%	**6.6%**	0.5%
Real growth in expenditures		-1.8%	10.7%	-14.6%	25.8%	9.4%	11.5%	-0.5%	**3.2%**	-0.4%

y: Expenditures exclude debt redemption costs. MOF report expenditures including debt redemption

Sources: Ministry of Finance, Budget Communication, Central Bank of Bahamas and author calculations

1.9 When the combined effects of changes in revenues and expenditures are captured in the bottom-line measures of the GoB deficit, the impacts on the debt burden (or the direct debt of GoB over GDP) and the interest burden show up in Table 1.3 as sharp increases in both the debt and interest burdens in 2008/09 and 2009/10. The debt burden climbed to 47.3% by the end of 2009/10 from the level of about 34% which prevailed from 2003/04 through 2006/07.[6] While this debt burden seems moderate by international standards (where typically concerns arise when the debt goes above 60%), the real burden comes from the heavy interest burden on revenues because of the relative low revenue yield of less than 20%. The interest expenses have risen to 13.6% of the total revenues by 2009/10, which is close to the trigger point for interest burdens that may take 15% of revenues.

[5] Expenditures reported here exclude debt redemption payment. The Ministry of Finance typically reports expenditures including debt redemptions.

[6] Note that the Central Bank of Bahamas reports a lower deficit in 2009/10 by 1.1% of GDP and lower stock of debt at the end of 2009/2010 by 1.6% of GDP.

1.20 Table 1.3 also shows the importance of controlling the primary balance to control the debt burden. The primary balance is essentially the free cash flows that the government has available to contribute to debt service if it is positive, but indicates the need for additional financing if it is negative. All the major increases in the debt burden of GoB come in years when the primary deficit rose above 1% of GDP, namely, 2001/02-2002/03 and 2008/09-2009/10. The earlier high primary deficits came from sharp revenue decline to a low of 15.5%, while the recent primary deficit was caused by both a sharp increase in expenditures and a moderate drop in revenue yields (but a sharp drop in real revenues.)

Table 1.3. Government of Bahamas deficits and debt as share of GDP, 2000/01 - 2009/10

		2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10 MOF	2009/10 CBB
Primary balance	(a)	1.3%	-1.2%	-1.5%	-0.9%	-0.9%	0.2%	-0.8%	-0.1%	-2.8%	-3.3%	-2.2%
Interest expenses	(b)	1.7%	1.8%	1.7%	1.9%	1.9%	1.7%	1.8%	1.9%	2.1%	2.4%	2.4%
Overall or GFS balance	(c)=(a)-(b)	-0.3%	-3.0%	-3.2%	-2.8%	-2.8%	-1.6%	-2.5%	-2.1%	-4.9%	-5.7%	-4.6%
Reduction in cash balances & other financing	(d)	0.2%	0.3%	0.2%	1.3%	-0.9%	-0.6%	0.8%	-1.2%	-0.6%	1.0%	1.0%
Net borrowing	-((c)+(d))	0.1%	2.8%	3.1%	1.5%	3.7%	2.2%	1.7%	3.2%	5.5%	4.7%	3.6%
Direct debt		28.2%	30.3%	32.3%	33.8%	34.5%	34.2%	33.9%	36.5%	42.0%	47.3%	45.7%
Effective interest rate[x]		6.1%	6.4%	5.6%	5.8%	5.6%	5.2%	5.3%	5.4%	5.6%	5.3%	5.3%
Interest expenses out of total revenues		9.5%	11.7%	11.0%	11.8%	11.1%	9.6%	9.3%	9.8%	11.6%	13.6%	13.6%

x: *Effective interest rate is interest expense in financial year over debt at end of CY (or mid-point debt in FY)*

Sources: Central Bank of Bahamas and Ministry of Finance

1.21 The Ministry of Finance made projections of the deficits and debt burdens expected over the next three years though 2012/13 as shown in Table 1.4A. These were based on the assumptions that the economy would be regaining real economic growth by 2011/12, total revenues being raised to and sustained at 20% of GDP, and total expenditures being gradually cut down to 21.7%. This is projected to bring annual net borrowing down below 2% of GDP and to stabilize the debt burden at about 49% of GDP and the interest burden at 13% of revenues over this period.

1.22 There are two concerns which arise out of these projections. One concern is whether the debt burden will be on track to decline further over time and, if so how fast, and the other concern is the credibility of the revenue increase in the short term and the potential to enhance revenues in the medium term. The former issue of the debt dynamics is explored further here. The latter issue of the potential sources of revenue enhancement is covered in Chapter 2.

Table 1.4A. Ministry of Finance deficit and debt projections as a share of GDP, 2009/10-2012/13					
		2009/10	2010/11	2011/12	2012/13
Nominal economic growth rate		1.1%	2.3%	4.0%	4.5%
Real economic growth rate		-4.3%	-0.5%	2.0%	3.0%
Total revenues		17.4%	20.0%	20.0%	20.0%
Total expenditures		23.2%	23.0%	21.9%	21.7%
Primary balance	(a)	**-3.3%**	**-0.4%**	**0.8%**	**0.9%**
Interest expenses	(b)	2.4%	2.6%	2.7%	2.7%
Overall or GFS balance	(c)=(a)-(b)	-5.7%	-3.0%	-1.8%	-1.6%
Reduction in cash balances & other financing	(d)	1.0%	0.0%	0.0%	0.0%
Net borrowing	-((c)+(d))	4.7%	3.0%	1.8%	1.6%
Direct debt		**47.3%**	**49.2%**	**49.2%**	**48.7%**
Effective interest rate[x]		5.3%	5.5%	5.5%	5.5%
Interest expenses out of total revenues		13.6%	12.7%	13.0%	12.9%
Minum primary balance for stable debt burden		**0.8%**	**1.5%**	**0.7%**	**0.5%**

x: Effective interest rate is interest expense in financial year over debt at end of CY (or mid-point debt in FY)

Sources: 2010/11 Budget Communiucation Minister of Finance, Government of Bahamas, May 26,2010 and author estimates

1.23 Based on relationships for debt dynamics shown in Annex A, the minimum primary balance can be derived for debt stability (or for no increase in the debt to GDP ratio). The actual primary balance has to be higher than the minimum required primary balance for debt stability in order to have the debt burden decline. The last row in Table 1.4A gives this minimum required primary balance based on the initial debt burden in a year, the interest and growth rates expected in the year and any other sources of debt finance (including decreases in cash balances, increases in check floats and sales of government assets).

1.24 The results show that in 2010/11 the expected primary balance (-0.4%) is significantly below the minimum required balance (1.5%) which means that debt increases. By 2011/12, the expected primary balance would be marginally above the minimum required primary balance as growth improves and the expenditures as a share of GDP decline, and this positive gap improves somewhat to forecast a small decline in the direct debt burden from 49.2% to 48.7% of GDP. If these basic parameters of the debt dynamics are sustained, the debt burden would continue to decline at about only one-half of a percent of GDP a year. This would leave the debt burden vulnerable to any adverse fiscal shocks as the debt burden would remain high for a long time.

1.25 In addition to the economic scenario outlined in Table 1.4A, the GoB is proposing to privatize Bahamas Telecommunications Company (BTC) within fiscal 2010/11. If this sale is concluded, the impact of this on the debt burden is estimated in Table 1.4B. The sale is expected to yield about 3% of GDP. If these revenues are used to pay down debt (shown as other sources of financing in Table 1.4B), then the initial debt burden, going forward from 2010/11, will drop by about three percentage points. Given that interest rates are typically a little higher than nominal growth rates in the Bahamas, however, the debt level tends to increase unless the primary balance is positive. A reduction in the debt level by sales of BTC slows this effect marginally. Effectively, the asset sale used for debt reduction shifts the future path of the debt burden down by about three percentage points, but has only a negligible impact on its rate of decline by about 1% of the three percentage point downward shift in the debt path. The lowering of the debt burden over the medium term is expected to depend primarily on the increase in the primary surplus. By 2012/13 under this scenario, the direct debt burden would be down to 45.7% of GDP, but still uncomfortably high.

Table 1.4B. Ministry of Finance deficit and debt projections as a share of GDP with asset sales, 2009/10-2012/13

		2009/10	2010/11	2011/12	2012/13
Nominal economic growth rate		1.1%	2.3%	4.0%	4.5%
Real economic growth rate		-4.3%	-0.5%	2.0%	3.0%
Total revenues		17.4%	20.0%	20.0%	20.0%
Total expenditures		23.2%	23.0%	21.9%	21.7%
Primary balance	(a)	**-3.3%**	**-0.4%**	**0.7%**	**0.9%**
Interest expenses	(b)	2.4%	2.6%	2.5%	2.5%
Overall or GFS balance	(c)=(a)-(b)	-5.7%	-3.0%	-1.8%	-1.6%
Reduction in cash balances & other financing	(d)	1.0%	**3.0%**	0.0%	0.0%
Net borrowing	-((c)+(d))	4.7%	0.0%	1.8%	1.6%
Direct debt		**47.3%**	**46.2%**	**46.2%**	**45.7%**
Effective interest rate [x]		5.3%	5.5%	5.5%	5.5%
Interest expenses out of total revenues		13.6%	13.0%	12.7%	12.7%
Minimum primary balance for stable debt burden		**0.8%**	**-1.5%**	**0.7%**	**0.4%**

x: *Effective interest rate is interest expense in financial year over debt at end of CY (or mid-point debt in FY)*

Sources: 2010/11 Budget Communiucation Minister of Finance, Government of Bahamas, May 26,2010 and author estimates

1.26 To illustrate the importance of the primary balance in reducing the debt burden, a different scenario is presented in Table 1.5. A crucial assumption in the scenario in Table 1.4A is the ability of GoB to raise revenues from 17.4% in 2010/11 to 20% in 2011/12 and subsequent years. While revenues, particularly from import related taxes are expected to bounce back as the economy starts to recover, revenues of 20% of GDP is higher than previously achieved so that reaching or exceeding this level will require some combination of policy changes and enhanced administrative effort. The potential sources of revenue enhancement are the topic of the remaining chapters of this report.

1.27 Table 1.5 illustrates the impact of an alternative revenue growth path. With the slow recovery of growth in the US economy, there may be a lagged slow recovery in the Bahamian economy. Hence, even with enhanced revenue efforts, it may take time to achieve a level of revenue collection of 20% and above. Table 1.5 assumes that this 20% is only achieved by 2012/13, but that revenue improvements continue to be achieved as policy and administrative improvements are implemented. At the same time, total expenditures are cut gradually as stimulus expenditures are withdrawn and as the bulk of the gains from lower interest burdens are taken as cuts in total expenditures. Under this revenue adjustment path, the debt burden peaks in 2011/12 and then start to decline at an increasing rapid pace as the primary balance increases. By 2014/15 the debt burden drops to 42.9% of GDP and declines by over two percentage points a year as a balanced budget is achieved and the actual primary balance starts exceeding the minimum required balance by a wide margin. Generally, a primary surplus of at least 0.5% of GDP is needed to keep the debt-to-GDP ratio stable. To start making significant reductions in the debt burden, it is recommended that a primary surplus of over 2% of GDP is targeted over the medium term.

1.28 If GoB can accelerate the growth in revenues or cut expenditures faster to raise the primary balance, that would hasten the turnaround in achieving a reduction in the debt burden. A risk of delaying the increases in the primary surplus is that the risk rating of GoB sovereign debt will be downgraded. So far, aside from Standard and Poor's downgrading Bahamas from A- to BBB+ in December 2009, the GoB credit ratings have stayed stable. A credit rating down grade would lead to interest rate increases. f the interest rate increases from 5.5% to 6%, for example, the interest burden will increase annually by about one-quarter percent of GDP and, if other (non-interest) expenditures remain unchanged, the primary balance will decrease and the debt burden will rise by nearly one percent of GDP higher in 2014/15 than in the case in Table 1.5. To avoid this situation, it will be important for the GoB to maintain its credibility in the market that the GoB is committed to cutting the deficit and running down the debt burden.

Table 1.5. Possible alternative deficit and debt projections as a share of GDP with asset sales, 2009/10-2012/13

		2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Nominal economic growth rate		1.1%	2.3%	4.0%	4.5%	4.5%	4.5%
Real economic growth rate		-4.3%	-0.5%	2.0%	3.0%	3.0%	3.0%
Total revenues		17.4%	19.0%	19.5%	20.0%	20.5%	21.0%
Total expenditures		23.2%	23.0%	21.9%	21.7%	21.3%	21.0%
Primary balance	(a)	**-3.3%**	**-0.4%**	**0.2%**	**0.9%**	**1.8%**	**2.5%**
Interest expenses	(b)	2.4%	2.6%	2.5%	2.6%	2.5%	2.5%
Overall or GFS balance	(c)=(a)-(b)	-5.7%	-4.0%	-2.4%	-1.7%	-0.8%	0.0%
Reduction in cash balances & other financing	(d)	1.0%	**3.0%**	0.0%	0.0%	0.0%	0.0%
Net borrowing	-((c)+(d))	4.7%	1.0%	2.4%	1.7%	0.8%	0.0%
Direct debt		**47.3%**	**46.2%**	**46.7%**	**46.3%**	**44.9%**	**42.9%**
Effective interest rate[x]		5.3%	5.5%	5.5%	5.5%	5.5%	5.5%
Interest expenses out of total revenues		13.6%	13.7%	13.0%	12.8%	12.4%	11.8%
Minimum primary balance for stable debt burden	(e)	**0.8%**	**-1.5%**	**0.7%**	**0.4%**	**0.4%**	**0.4%**
Primary balance - Minimum primary balance for stable debt burden	(f)=(a)-(e)	**-4.1%**	**1.1%**	**-0.5%**	**0.4%**	**1.3%**	**2.1%**

x: *Effective interest rate is interest expense in financial year over debt at end of CY (or mid-point debt in FY)*

Sources: 2010/11 Budget Communiucation Minister of Finance, Government of Bahamas, May 26,2010 through 2010/11 and author estimates for remaing years

Chapter 2: Tax System in the Bahamas

2.1 The Bahamas, as a small island economy with low domestic valued added in the industrial sectors, has focused its taxation on international merchandise trade so that customs taxes are the major source of tax revenue. Aside from the taxation of property, all other revenues come from a range of selective taxes on sales and transactions, fees, licenses and some other non-taxes revenues. See Table 2.1 for the sources of GoB revenues expressed as a share of GDP for the period 1993/94-2009/10. Annex B gives the actual tax revenues for the fiscal and calendar year over the same time period. No income tax is charged in order to attract foreign investment and no broad-based tax on consumption is used. This structure results in a Customs Department collecting taxes on international trade and excises, while the administration of the inland or domestic revenues is dispersed across some 26 other ministries, departments and agencies. In light of this distribution of revenue sources, this chapter will explore the structure of some the key taxes and revenue sources (other than the property tax which is the subject of Chapter 3) with a view to identifying potential reforms to their structure and administration, with a particular focus on additional revenue sources over the short and medium terms.

Table 2.1. Central Government Revenue as a share of GDP, Fiscal Years, 1993/94-2009/10

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
TAX REVENUE	**16.8%**	**17.0%**	**16.7%**	**16.0%**	**15.3%**	**14.8%**	**15.9%**	**15.5%**	**13.7%**	**14.1%**	**13.9%**	**14.7%**	**16.1%**	**16.6%**	**17.3%**	**15.4%**	**14.9%**
Property Tax	0.7%	0.5%	0.7%	0.7%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.9%	0.8%	1.1%	1.0%	1.2%	1.2%
Selective Tax on Services	0.7%	0.6%	0.8%	0.6%	0.7%	0.6%	0.8%	0.7%	0.7%	0.6%	0.6%	0.8%	0.6%	0.5%	0.6%	0.5%	0.5%
of which: Gaming Tax	*0.5%*	*0.5%*	*0.5%*	*0.4%*	*0.5%*	*0.4%*	*0.4%*	*0.3%*	*0.3%*	*0.2%*	*0.2%*	*0.4%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*	*0.1%*
Hotel Occupancy Tax	*0.2%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*	*0.4%*	*0.4%*	*0.4%*	*0.4%*	*0.4%*	*0.4%*	*0.4%*	*0.3%*	*0.4%*	*0.4%*	*0.3%*
Business and Professional Licence	0.7%	0.9%	1.0%	0.8%	0.8%	1.2%	1.0%	1.0%	1.0%	0.9%	0.9%	1.0%	1.1%	1.0%	1.2%	1.3%	1.4%
of which: Company Fees & Registration	*0.1%*	*0.1%*	*0.2%*	*0.2%*	*0.1%*	*0.1%*	*0.1%*	*0.1%*	*0.1%*	*0.1%*	*0.1%*	*0.1%*	*0.1%*	*0.1%*	*0.1%*	*0.1%*	*0.1%*
Int'l Business Companies	*0.1%*	*0.1%*	*0.1%*	*0.1%*	*0.2%*	*0.4%*	*0.3%*	*0.2%*	*0.3%*	*0.3%*	*0.3%*	*0.2%*	*0.2%*	*0.2%*	*0.3%*	*0.3%*	*0.3%*
Motor Vehicle Tax	0.4%	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Departure Tax	1.9%	1.6%	1.4%	1.3%	1.2%	1.2%	1.2%	1.1%	1.1%	1.1%	1.2%	1.1%	1.1%	1.1%	1.0%	1.0%	0.9%
of which: Passenger Ticket Tax	*0.1%*	*0.1%*	*0.0%*	*0.0%*	*0.1%*	*0.0%*	*0.1%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.1%*	*0.0%*	*0.0%*	*0.0%*
Taxes on International Trade & Transactions	**11.4%**	**11.5%**	**11.0%**	**10.6%**	**10.2%**	**9.3%**	**10.3%**	**9.7%**	**8.8%**	**9.1%**	**8.7%**	**8.6%**	**9.4%**	**9.2%**	**9.5%**	**8.1%**	**7.6%**
Import Tax	*9.3%*	*9.1%*	*8.8%*	*8.3%*	*8.0%*	*7.3%*	*8.1%*	*7.5%*	*6.8%*	*7.3%*	*6.9%*	*6.6%*	*7.2%*	*7.0%*	*7.2%*	*5.2%*	*4.7%*
Stamp Tax from Imports	*1.9%*	*2.1%*	*2.0%*	*2.0%*	*2.0%*	*1.8%*	*1.9%*	*2.0%*	*1.7%*	*1.7%*	*1.6%*	*1.8%*	*2.0%*	*2.0%*	*2.0%*	*0.2%*	*0.2%*
Excise Tax																*2.5%*	*2.5%*
Import+Import Stamp+Excise Tax	***11.1%***	***11.3%***	***10.8%***	***10.3%***	***9.9%***	***9.2%***	***10.0%***	***9.5%***	***8.5%***	***8.9%***	***8.5%***	***8.3%***	***9.2%***	***9.0%***	***9.3%***	***7.9%***	***7.4%***
Export Tax	*0.3%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*	*0.2%*	*0.2%*	*0.3%*	*0.3%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*
Stamp Tax from Exports			*0.006%*	*0.002%*	*0.013%*	*0.005%*	*0.006%*	*0.002%*	*0.002%*	*0.002%*	*0.001%*	*0.000%*	*0.001%*	*0.001%*	*0.000%*	*0.000%*	*0.000%*
All Other Stamp Tax	1.2%	1.3%	1.5%	1.4%	1.4%	1.6%	1.4%	1.5%	1.3%	1.4%	1.5%	2.2%	2.4%	3.1%	3.5%	2.6%	2.2%
Other Tax	0.2%	0.2%	0.2%	0.1%	0.2%	0.2%	0.1%	0.6%	0.1%	0.2%	0.2%	0.2%	0.2%	0.4%	0.3%	0.3%	0.7%
NON-TAX REVENUE	**1.9%**	**1.9%**	**1.9%**	**1.7%**	**1.8%**	**1.5%**	**1.5%**	**1.8%**	**1.5%**	**1.5%**	**1.6%**	**1.7%**	**1.9%**	**1.8%**	**2.1%**	**2.6%**	**2.6%**
Income	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.5%	0.5%	0.4%	0.4%	0.5%	0.4%	0.6%	0.7%	0.6%	1.3%	1.4%
Public Enterprises	*0.0%*	*0.1%*	*0.1%*	*0.0%*	*0.1%*	*0.1%*	*0.1%*	*0.1%*	*0.0%*	*0.1%*	*0.0%*	*0.0%*	*0.1%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Other Sources	*0.5%*	*0.6%*	*0.5%*	*0.6%*	*0.5%*	*0.5%*	*0.4%*	*0.4%*	*0.4%*	*0.3%*	*0.4%*	*0.4%*	*0.5%*	*0.7%*	*0.6%*	*1.2%*	*1.4%*
Fines, Forfeits & Admin. Fees	1.3%	1.3%	1.3%	1.1%	1.1%	1.0%	1.0%	1.3%	1.1%	1.1%	1.2%	1.2%	1.2%	1.1%	1.4%	1.4%	1.2%
Sales of Government Property	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%
Other	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
CAPITAL REVENUE		0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%		0.0%	0.3%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%
GRANTS		0.2%		0.0%	0.0%								0.0%				
TOTAL REVENUE & GRANTS	**18.7%**	**19.3%**	**18.7%**	**17.7%**	**17.1%**	**16.3%**	**17.5%**	**17.3%**	**15.2%**	**15.6%**	**15.8%**	**16.5%**	**18.0%**	**18.5%**	**19.4%**	**18.0%**	**17.5%**

SOURCE: Central Bank of Bahamas and Treasury Accounts and Treasury Statistical Summary Printouts.

Taxes on imports

2.2 Taxes on imports are composed of import taxes, stamp taxes on imports and more recently excise taxes which replaced stamp taxes on most imports effective from 2008/09. Tax revenues from imports formed over 50% of revenues in over recent decades, but as shown previously in Table 1.1, they started to decline from 2003/04 to below 50% in 2006/07 and further during the recession years of 2008/09 and 2009/10. As shown in Table 2.1, the decline in 2003/04 reflected a drop in the import tax revenues as a share of GDP, but this tax yield recovered after two years before dropping significantly in the recession years. Hence, some of the decline in the relative import tax share was due to lower import tax performance and some reflected increases in other revenues.

Table 2.2 Imports and effective tax rates and yields on imports, 1999-2009

		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Imports of goods and services (M)	%GDP	53.3%	57.9%	53.8%	51.8%	51.7%	55.9%	54.4%	61.9%	61.5%	63.0%	**50.6%**
Imports of goods (MG)	%M	66.7%	67.3%	67.0%	64.7%	63.3%	62.5%	64.8%	62.9%	65.2%	69.5%	67.9%
	%GDP	35.5%	38.9%	36.1%	33.5%	32.7%	34.9%	35.2%	38.9%	40.1%	43.8%	**34.4%**
Import tax	%MG	21.1%	19.0%	21.1%	20.8%	21.8%	18.0%	20.1%	18.9%	17.6%	**14.8%**	**14.1%**
	%GDP	7.5%	7.4%	7.6%	7.0%	7.1%	6.3%	7.1%	7.3%	7.1%	6.5%	**4.8%**
Import stamp tax + Excise tax	%MG	5.0%	4.8%	5.1%	5.1%	4.9%	4.4%	5.5%	5.2%	5.0%	**5.9%**	**7.4%**
	%GDP	1.8%	1.9%	1.9%	1.7%	1.6%	1.5%	1.9%	2.0%	2.0%	2.6%	2.6%
Import tax + Import stamp tax + Excise tax	%MG	26.1%	23.9%	26.3%	25.9%	26.8%	22.3%	25.6%	24.1%	22.6%	**20.7%**	**21.5%**
	%GDP	9.3%	9.3%	9.5%	8.7%	8.8%	7.8%	9.0%	9.4%	9.1%	9.0%	**7.4%**

Sources: Bahamas department of Statistics, Central Bank of Bahamas and Ministry of Finance

2.3 From Table 2.2, the decline in the tax performance of taxes on imports during the great recession comes in part from a decline in imports of goods (MG) as a share of GDP, and in part from a decline in the effective tax rate (import taxes over MG). Imports of goods and services (M) in 2009 dropped to 50.6% of GDP and imports of goods (MG) dropped to 34.4% of GDP, the lowest level since 1999. While goods imports in 2009 dropped significantly compared to the previous three years, the share of GDP in 2009 was similar to levels in 2002-2005 when the import tax yield was around 7% compared to the low level of 4.8% in 2009.[7] This suggests that the steep drop in the revenue yield from imports could be attributed to the drop in the effective tax rate from

[7] The typical import tax yield in the Bahamas of over 6% of GDP, is in the high range internationally. In a study of 125 countries over 1975-2000, only 24 had trade taxes (taxes on imports and exports) averaging over 6% of GDP, but of these 20 were small, mainly island economies similar to Bahamas. In 2000, the average trade tax yield among low income countries was 3.2% of GDP and among middle income countries was 3.7% of GDP. See Glenday, 2006.

around 20% in the earlier years to only 14.1% in 2009. This could reflect changes in the tariff, changes in exemptions and collection performance and/or changes in composition of imports. By contrast the tax yield of import stamp and excise taxes was robust over the years and even rose in 2009 when the excise tax replaced the import stamp taxes. The excise tax was introduced in 2008/09 so that it was effectively generating revenues in the whole of 2009. The decline in goods imports in 2009 offset the higher effective tax rate and left the tax yield in 2009 unchanged from a year earlier.

2.4 To investigate the performance of taxes charged on imports, two data bases were used. Ministry of Finance provided data on imports at the six-digit Harmonized System (HS) Code level that gave the value of imports and the tax liabilities and collections taken directly from the import declaration documents by the Customs Department. Ideally, detailed data for more years should be used to study the range of effects including changes in the tariff structure and composition of imports, but this is beyond the resources and scope of this study.

2.5 Table 2.3 compares the effective tax rates gained from actual tax collections relative to imports of goods reported in the trade statistics for the two fiscal years with the effective tax rates calculated from the detailed import data base from the import entries excluding oil and gas imports.[8] The results in part A (based on actual tax revenues and trade statistics) are consistent with the calendar year effective tax rate in Table 2.2 that showed a drop in the effective import tax rate in the recession years, but the increase in the effective excise rate (that replaced import stamp taxes) sustained the combined effective tax rate.

2.6 The detailed customs data also allowed the estimation of (i) the effective tax rates based on the actual collections compared to the import values as well as (ii) the potential effective or trade-weighted tax rates based on the tax liabilities if all imports paid the full tariff rates. These results are in part B of Table 2.3. The 2009/10 results in part B are close to the results in part A, but, in 2007/08, while the effective import stamp tax rate in part B is close to that in part A, the effective import tax rate in part B is lower than that in part A as the total import tax revenues reported in the detailed data base are lower than the actual reported collections. This likely indicates missing customs documents in the 2007/08 data. The total revenue figures are closer in the 2009/10 data.

[8] A significant volume of oil and gas products are imported for storage and re-export. Unfortunately, the data did not separate out the values of these products from the final imports for use in the Bahamas. It did provide the actual taxes collected on the final imports.

Table 2.3 Effective tax rates on imported goods in 2007/08 and 2009/10

		2007/08	2009/10
A. Based on actual collections and import statistics			
	Effective import tax rate	16.9%	13.9%
	Effective import stamp + excise tax rate	4.6%	8.1%
	Effective import + import stamp + excise tax	21.5%	22.1%
B. Based on detailed import data from Customs records (excluding oil & gas imports, but including oil & gas excises)			
	Effective import tax rate	13.9%	13.3%
	Effective import stamp + excise tax rate	4.5%	8.4%
	Effective import + import stamp + excise tax	18.5%	21.7%
	Potential effective or trade weighted import tax rate	26.7%	27.5%
	Potentail effective or trade weighted import stamp + excise tax rate	4.5%	8.5%
	Potential effective or trade weighted import + import stamp + excise tax	31.2%	36.0%
	Share of import tax liability collected	**59.6%**	**48.6%**
	Share on imports with zero rate of import tax	19.0%	6.0%
	Share of import stamp tax liability collected	100.0%	
	Share of excise tax liability collected on non-oil & gas items		78.7%
	Share of excise tax liability collected		98.1%

Source: Department of Statistics and Ministry of Finance

2.7 The estimates of the potential effective rates (or trade weighted rates) show similar estimates for import taxes in 2007/08 at 26.7% and in 2009/10 at 27.5%, but the potential effective excise tax rate in 2009/10 at 8.5% is significantly higher than that for 2007/08 for the import stamp tax at 4.5%. This results in the combined potential effective rate increasing from 31.2% to 36%. To translate these potential effective tax rates into actual effective tax rates, the impact of exemptions and other failures to collect the full tax liability need to be taken into account. Interestingly, the data shows that in 2007/08 only 59.6% of the potential tax liability was collected, but 100% of the import stamp tax liability was collected. These collection rates dropped in 2009/10 to 48.6% for import taxes and 78.7% for non-oil and gas excise taxes.

2.8 To analyze the nature of the effective tax rates and the exemptions from tax collection, the imports in 2009/10 were broken down by the import tax rates. Here it is useful to note the basic changes that occurred in the taxation of imports starting in 2008/09. The stamp taxes on imports were effectively eliminated, except for wines and potable spirits and tobacco products, and replaced by an excise tax on imports and domestic manufacture. The excise tax applies to petroleum oil and gas products, motor vehicles and parts, tobacco products, firearms and a range of luxury goods (photographic equipment, watches and clocks cosmetics, selected leather goods, and crystal, porcelain and silverware.) Unlike most excises internationally, the excise is not in addition to the import tax. For most excisable goods, the import duty rate is set at zero. In addition to this import stamp tax and excise tax reform, the import tariff has been rationalized over the years, where for example in 2002 there were 18 positive *ad valorem* rates ranging up to 210% with 35% the "standard" rate, by 2009 the number of ad valorem rates was reduced to 13 with a top rate of 75% and "standard rate" of 45%. [9]

2.9 Table 2.4 shows that 8.2% of HS Code items were tax free and these formed 6% of imported goods by value; 38.2% had rates below 45% and formed 49.5% of import value; 52.5% of items had the "standard" rate of 45% and formed 42.5% of import value; and the remaining 1.1% of import items had rates above 45% and formed 2% of imports by value. For all imports, the potential effective or trade-weighted import tax rate was 27.4% but because 51.4% of the tax was exempted or otherwise not collected; the effective rate was only 13.3%. Interestingly, the highest share of exempted or uncollected taxes was in the 45% tariff at 63.9% of the tax liability such that the effective rate is reduced from 45% to 16.2%. When the excise and import stamp taxes are added to the analysis, these taxes fall mainly on items with zero or low import tax rates. They raise the combined effective rate to 17.3% and the share of the total tax liability exempted or not collected falls somewhat to 46.5%. The standard rate of 45% remains unchanged as the category of imports with the highest level of exempt or uncollected taxes. Overall this indicates that exemptions and other failures to collect were large and widely spread across import items of all types and rates.

Table 2.4 Effective tax rates on imported goods in 2009/10 by import tax rate groupings

Import tax rate	Share of import items	Share of import value	Trade weighted import tax rate	Share of import tax liabilty exempted	Effective import tax rate	Share of excise tax	Share of import stamp tax	Share of total import tax liabilty exempted	Effective total import tax rate
No tax[a]	3.6%	1.0%							
0%	8.2%	6.0%	0%		0%	33.5%	59.3%	23.3%	25.2%
Below 45%[b]	38.2%	49.5%	13.9%	23.6%	10.6%	66.5%	40.7%	21.0%	15.5%
45%	52.5%	42.5%	45%	**63.9%**	16.2%			**63.9%**	16.2%
Above 45%[c]	1.1%	2.0%	72.3%	19.0%	58.6%			19.0%	58.6%
All rates	100.0%	100.0%	27.4%	**51.4%**	13.3%	100.0%	100.0%	**46.5%**	17.3%

a Items with zero import, excise and import stamp tax. These are included in 0% import tax category
b Includes ad valorem rates of 1%, 5%, 10%, 15%, 20%, 25%, 30%, 35% and 40%
c Includes ad valorem rates of 55%, 60% and 75%
Source: Ministry of Finance data based on customs entries

2.10 The results of the analysis of the effective tax rates charged on imports relative to their potential rates has important implication for future tax policy and revenue potential. If the loss of

[9] In the 2008 Budget Speech the Minister of Finance reported that the Bahamas had reduced the number of tariff rates from a peak of 129 some years earlier down to 23 in 2008 and had the intention of reaching only 15 tariff rates. It is noted that 15 rates is still a high number and forms a complex tariff.

revenues through import exemptions (and any other cause of failure to collect) was significantly reduced, then the Bahamas has the potential to lower its import tax rates, enhance its revenues and improve the efficiency of its economy. For example a flat import duty rate of 15% with no exemptions would outperform the current structure. A standard rate of 20% with a limited number of lower rate items and exemptions and a limited number of higher rate items would likely also be a significant improvement. Bermuda gives a good example for the Bahamas. Bermuda relies on import duties for about a quarter of its revenues which form about 16% of GDP. Import duty rates are centered on a standard rate of 22.5% with a few goods having higher and a few goods having lower rates. This yields an effective import duty rate of 20% of import values. Goods imports only form about 20% of GDP in Bermuda, so that import revenues yield about 4% of GDP.

2.11 When import tax rates are high (such as a rate of 45%), then domestic prices of goods are raised by this amount as well causing substantial increases in the domestic cost of living as well as loss of tourism competitiveness because of the resulting higher costs for a tourist in the Bahamas. If about half the tax revenues at these rates are not collected, then the Bahamas is suffering an extra efficiency cost in raising revenues because of the high market prices on all domestic sales compared to raising the same revenues at about two-thirds of the tax rate, say. The ability to lower import duty rates without revenue loss, if exempt imports are reduced, would ease the problem of lowering import tariffs if the Bahamas joins the WTO.

2.12 To improve economic efficiency and enhance revenues to deal with the problem of the growing debt burden, the GoB could embark on continued policy of rationalizing the import tariff by radial compression (raising low rates, lowering high rates and lowering the number of rates) and lowering the standard tariff rate in conjunction with reducing exempt imports. Exemptions could be limited by a range of approaches, including by having a minimum import duty rate, only awarding partial discretionary exemptions, reducing the term of exemptions given to new investors, limiting exemptions to the investment expenditures and not awarding exemptions for operational costs. In the 2010 Budget, the Minister for Finance has already announced that concessions in the Industries Enhancement Act will be limited to 5 years and also eliminated concessions under the Spirits and Beer Manufacture Act. The rationalization and lowering of the import tariff should also reduce the administrative and compliance costs and evasion opportunities. Enhancements of import tax policy should be supported and strengthened by modernizing customs administration as has already been extensively analyzed and recommendations provided.[10] Assistance from development partners with the training required and the management of the implementation of reforms may still be beneficial to accelerate the change processes.

[10] Section V.B of IMF report on "The Bahamas Tax Reform to Reduce Reliance on Import Duties and Strengthen Revenues," November 2002 and Section II of the IMF report on "Revenue Administration—A Program For Reform," October 2009, give detailed analysis and recommendations for the modernization of customs administration.

Domestic indirect tax reforms

Business license tax

2.13 GoB is introducing a reform and rationalization of business licensing and taxation effective in 2011. The Business License Act, 2010 replaces the Business Licence Act (Ch. 329), Liquor Licences Act (Ch. 372), Shop Licences Act (Ch. 377), and Music and Dancing Licences Act (Ch, 374) and amends the Broadcasting Act (Ch. 305). All businesses are now required to be licensed under one act with a generally simplified tax schedule. Businesses under $50,000 in turnover pay a flat $100, businesses up to $500,000 pay 0.5% of turnover and larger businesses pay 0.75% of turnover in the previous year. A number of exceptions to this schedule are provided for: (i) farming, fishing and agricultural product processing businesses pay 0.5% of turnover; (ii) professionals pay 1% of turnover; (iii) gasoline stations pay according to a schedule that effectively starts at 0.2% and has declining rates as turnover increases; (iv) banks and trusts pay according to their asset sizes; (v) insurance businesses pay 3% of policy premiums; and (vi) telecommunications businesses pay 3% of turnover.

2.14 This is an important reform for three reasons. **First**, it simplifies and consolidates the business license tax into a broad-based low rate turnover tax. **Second**, it concentrates more of the tax administration into the Inland Revenue Department that also manages the property tax collection. This improves the prospects of starting to develop a modern and professional tax administration to administer domestic taxes. As Table 2.5 shows that the top 5% of businesses by turnover of over B$1 million, number only 629 businesses and have over 92% of the business turnover. This indicates that it is feasible to develop a focused professional domestic tax administration. **Third**, the new tax structure should raise revenues. Although GoB has not provided the detail of its estimates for 2011 collections, a rough estimate based on the distribution of the 2010 turnover levels of registered businesses indicates revenues of at least $88 million or about 1.2% of GDP. The revenues should be higher especially from the 3% tax on telecommunications revenues. In addition, revenues would be higher if gas stations were subject to a flat ad valorem rate of 0.25%, say. In the medium term, this turnover structure offers the option of further revenue enhancements. For example, an increase in the turnover tax rates of 0.5 percentage points would generate revenues of about 0.6% of GDP.

Table 2.5 Distribution of licensed businesses by size in 2010 and estimated business license tax revenues in 2011

Size	Turnover range		Number of registered businesses	Share of businesses	Average turnover in bracket[x]	Total turnover	Share of turnover	Tax rate	Estimated tax
	Bottom	Top							
Petty	$ -	$ 50,000	10,083	77.1%	$ 25,000	$ 252,075,000	2.1%	$ 100	$ 1,008,300
Very Small	$ 50,001	$ 100,000	850	6.5%	$ 75,001	$ 63,750,425	0.5%	0.50%	$ 318,752
Small	$ 100,001	$ 250,000	773	5.9%	$ 175,001	$ 135,275,387	1.1%	0.50%	$ 676,377
Medium	$ 250,001	$ 1,000,000	743	5.7%	$ 625,001	$ 464,375,372	3.9%	0.625%	$ 2,902,346
Large	$ 1,000,001	$ 28,000,000	593	4.5%	$14,500,001	$ 8,598,500,297	71.5%	0.75%	$ 64,488,752
Very large	$ 28,000,001		36	0.3%	$70,000,003	$ 2,520,000,090	20.9%	0.75%	$ 18,900,001
Total			13,078	100.0%		$12,033,976,570	100.0%		$ 88,294,528

x Average of "very large businesses" was set so that total turnover is consistent with reported gross output value of sectors in the Bahamas

Hotel occupancy tax

2.15 The Hotel Occupancy Tax (recently raised to 10%) applies to room charges only and not to other hotel services. This results in two problems. **First**, it requires apportionment of charges in the case of resorts offering all inclusive packages. **Second**, it encourages hotels to separate out other charges such as extra energy charges or room service charges from the room charge to avoid the tax. Consideration could be given to expanding the base of the tax to include all hotel services (including restaurant, catering, bar, conference, etc services) and lowering the tax rate. This would require expanding the tax to competing stand-alone business such as restaurants and bars, but small stand alone business could be excluded by being required to have a minimum turnover level of a business before being required to register to collect the tax.

Casino tax

2.16 The Casino Tax has been a significant source of revenue at about 0.3% of GDP in the early 2000s but it has not been a buoyant tax as the tax yield has steadily drifted downwards to about 0.15% over the decade. This has resulted because the casino tax is structured as two taxes: (i) a basic flat payment that has not been increased over time with inflation; and (ii) a tax on the monthly net gambling winnings of a casino. For small casinos the tax rises from 10% of net winning up to $10 million to 15% for winnings in excess of $10 million, while for large casinos the tax declines from 25% on the first $10 million in steps down to 5% on winnings above $20 million. This latter declining marginal tax rate structure without any increases in the size of brackets over time with inflation and growth would also add to the declining tax yield. Revenues could be enhanced by increasing the basic tax plus increasing the bracket sizes and flattening out the rate structure of the large casino rates. A first step in this could be raising the tax rate on winnings above $20 million from 5% to 10%.

Public corporation profitability

2.17 The GOB fiscal situation can be indirectly improved by enhancing profitability and efficiency of state-owned corporations. Some sectors have the potential to enhance government income such as increased dividends from the Bahamas Electricity Corporation as its financial situation can be improved. Other sectors can reduce their need for subsidies (eg, if the Water and Sewage Corporation was able to recover a greater share of its costs). The Inter-American Bank Country Assistance Strategy, 2010-2014, targets these types of improvements in the state-owned corporations.

Prospects for a broad-based domestic tax

2.18 The International Monetary Fund[11] and the Caribbean Regional Technical Assistance Centre has recommended that the GoB adopt a VAT. By contrast, the GoB has stated that it has no policy intention to introduce a VAT or broad-based sales tax. There are significant arguments for not making the introduction of a VAT in a small island economy a priority issue. **First**, for a small island economy with a small industrial sector, a combination of import duties on goods, selective excise taxes on goods, and selective taxes on services can effectively collect similar revenue yields to a VAT, except that this combination results in a range of hard to identify and estimate tax distortions between sectors. The argument for a VAT would be more for economic efficiency than revenue reasons. **Second**, the introduction of VAT would be expensive in terms of the development of the required tax administration capacity and the education of the business sector in VAT compliance. Given the current limited capacity of the GoB domestic tax administration, the design, preparation, training and education for implementation of a VAT would be a multi-year exercise. At the same time, as long as the GOB sustains expenditures in excess of 20%, faces difficulties in reducing the debt burden, and will be limited to below 10% of GDP in the revenues available from imports,[12] the GoB faces a pressing demand for more domestic revenues. Even to sustain import based revenue yields at traditional levels of about 9% of GDP will take major changes in tariff and exemption policy and modernization of customs administration as indicated above. Hence, a strategy is required to strengthen the revenue collections over the medium term. Such a strategy is likely to ultimately lead to a credit-method VAT structure after the domestic tax administration capacity improves. A VAT would also assist in the efforts to lower import tariffs in the face of WTO requirements.[13]

[11] IMF report on “The Bahamas Tax Reform To Reduce Reliance on Import Duties and Strengthen Revenues,” November 2002; IMF Country Report No. 09/189, June 2009; and the IMF report on “Revenue Administration—A Program For Reform,” October 2009

[12] With a high effective tax rate on imports of 20% and imports of goods of 50% of GDP, the tax yield is limited to about 10% of GDP.

[13] It is important to note that converting import taxes to VAT is only attractive in the case of final consumption goods where an equal or lower VAT rate can replace a reduction in the import tax rate. For capital goods and other intermediate inputs that would receive input tax deductions or credits under a VAT, dropping import taxes requires raising the VAT rates more than import tax rates are lowered to raise the same revenues. Imported inputs constitute at least 50% of imports in the Bahamas.

2.19 In the medium term, a number of elements of this strategy could include enhancements to the property tax system (as will be discussed in Chapter 3) along with gradually increased use of the business licensing turnover tax structure. These revenue collections would be underpinned by strengthening the capacity of the Inland Revenue Department to conduct modern tax administration. An explicit action plan should be developed to identify the elements, timing and financing of this institutional development. In addition, the selective taxes on services could be strengthened. Some examples relating to largely tourist-based services (gambling, hotel, restaurant, bar, conference, etc services) are provided above. These reforms would enhance revenues over the medium term, but it is recognized that the use of turnover taxes has its limitations. Once turnover tax rates reach about 3% and above, turnover taxes start leading to significant tax stacking and related price distortion problems. In the long run, the GoB will need to identify a broad based domestic tax. One logical step is to convert the turnover tax for the businesses above a certain turnover level ($100,000 per year, say) to a credit-method consumption-based VAT while leaving the business licensing tax in place for all small and otherwise exempt business (which would include the financial sector businesses). By this time the domestic tax administration should have been strengthened to handle a VAT.

2.20 An alternative strategy would be to follow the path of Bermuda and introduce a payroll tax on employment income. In Bermuda about 25% of revenues come from import duties and over 40% from payroll taxes. Economically a wage tax and a sales tax have similar characteristics[14] except that a wage tax is direct and more explicit, but it can include some progressive elements (such as no or low tax rates on low monthly wages.) In addition, payroll taxes may be contemplated to finance social security benefit programs that may be introduced in the longer run. The payroll tax would leave business and capital investments free of income taxes and not disturb the current attractiveness of the Bahamas as an income-tax- free investment destination.

[14] Note that a consumption tax that falls on tourist spending that is highly price elastic in a competitive Caribbean tourism market, then the incidence of these taxes is expected to be passed backwards on to more inelastically supplied labor and land.

Chapter 3: Property Tax Revenue: International Experience and Revenue Potential

3.1 This chapter focuses on the property tax system in the Bahamas. The chapter initially identifies the recent revenue trends for the annual property tax and the Stamp Duty levied on property transactions. The chapter then focuses on the annual property tax potential, outlining the policy and administrative components for revenue enhancement, namely the policy variables of tax base definitions and tax rates and the administrative variables related to the coverage ratio, the valuation ratio and the collection/enforcement ratio. Various areas of reform recommendations are identified which are further discussed in Chapter 4. The analysis indicates the potential for enhancing the revenue yield from the annual property tax in the Bahamas.

Property Tax Situation in the Bahamas

3.2 The Bahamas levies two types of real estate property taxes; namely, the annual property tax on immovable property through the Real Property Tax (Chap 375) and the non-recurrent tax on the transfer of immovable property through the Stamp Act (Chap 370)[15]. Both taxes are central taxes, with tax policy and administration under the central government.[16]

3.3 These two property taxes generated about 3.0% of GDP and represented 8.7% of total government revenue. As Table 3.1 and Figure 3.1 indicates, the stamp duty on immovable property has grown rapidly from B$37 million in FY 04, peaking to US$183 million in FY 08 at the beginning of the financial crisis. At the same time, the annual property tax has grown steadily from FY 2004 from B$37 million to US$84 million in FY2009.

3.4 As a percent of GDP, the property tax revenues have doubled from about 1.5% to 3.0% of GDP from 2001 through 2007. The Stamp Duty on immovable property has grown from 1% in 2001, falling to about 0.6% of GDP in 2003 before growing rapidly to 1.9% in 2007. As Figure 3.2 indicates, the annual property tax remained steady at 0.5% of GDP from 2000-2004, before climbing to 1.1% in 2007. Both property taxes have grown, but the Stamp Duty on immovable property has been much more volatile, responsive to the economic ups and downs while the annual property tax shows stability, with more incremental steady rise in revenues.

[15] See Annex F for more information on the property stamp duty. This report is focused primarily on the annual property tax being levied under the Real Property Tax (Chapter 375).

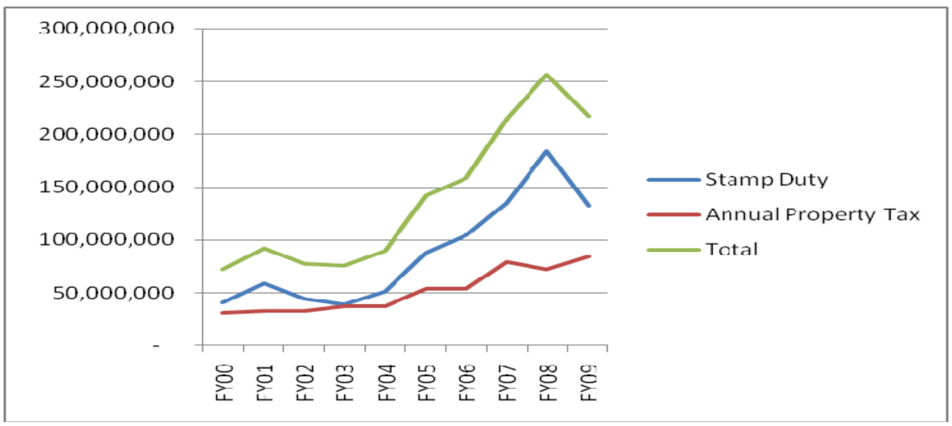
[16] In addition, the Bahamas collects a property registration fee under the International Persons Landholdings Act (Chapter 140) for those seeking to register land purchases through the Bahamas Investment Authority. In 2009, the Government collected $545,000 dollars through these registration fees.

Table 3.1 Property Tax Revenues in the Bahamas (2000-2009)

Property Tax	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09
Stamp Duty	40,594,098	59,362,739	44,514,106	39,101,227	51,668,712	88,289,694	104,878,605	135,290,758	183,868,875	132,499,342
Annual Property Tax	31,621,648	33,364,159	33,203,789	37,110,317	37,764,528	53,811,987	54,270,560	79,022,970	72,500,021	84,577,460
Total	72,215,746	92,726,898	77,717,895	76,211,544	89,433,240	142,101,681	159,149,165	214,313,728	256,368,896	217,076,802

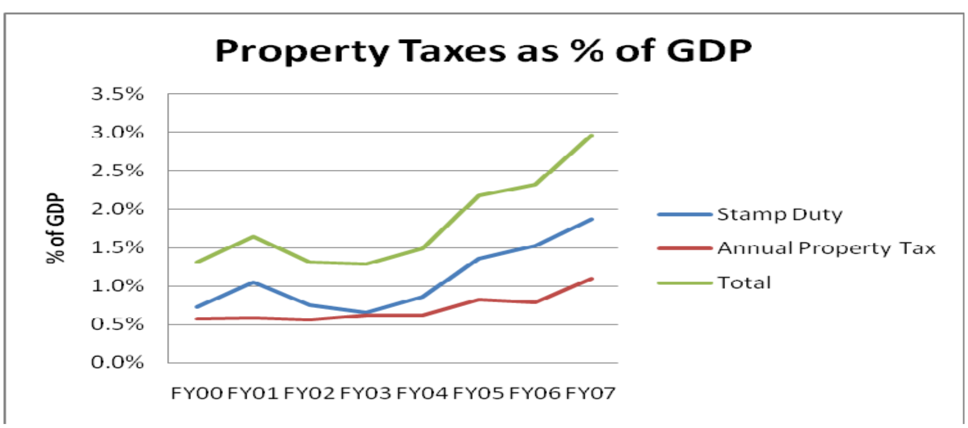
Source: Ministry of Finance, 2010

Figure 3.1 Property Tax Trends in the Bahamas (FY 2000-2009) (Real Terms)



Source: Ministry of Finance, 2010

Figure 3.2 Property Tax Revenue as Percentage of GDP



3.5 How does the Bahamas revenue performance for the property tax compare to other countries? Table 3.1 summarizes the relative role of the annual property tax across several benchmarking countries; namely the US, Canada, UK, Barbados and Jamaica. The Bahamas generated 1.1% of GDP from the annual property tax in 2007, compared to 1.9% in Barbados and 3.2%, 2.8% and 2.8% of GDP in the UK, USA and Canada, respectively. The property tax revenue performance for the Bahamas is higher than most developing and transitional economies but still only about 40-50% of the property taxes collections in the United States, Canada and the UK.

Table 3.1: Property Tax Revenue Performance by Selected Countries

Country	Annual Prop Tax as % of GDP	Annual Prop Tax as % of Total Tax Revenues	Year
UK	3.2%	8.9%	2007
USA	2.8%	10.2%	2007
Canada	2.8%	8.2%	2007
Barbados	1.3%	3.7%	2005
Bahamas	1.1%	8.7%	2007
Country Groups[17]			
OECD Countries	0.90%		2007
OECD America	1.90%		
Transitional Countries	0.68%		2000
Developing Countries	0.60%		2000

Source: OECD Revenue Statistics, 2007, IMF 2005, GOB, 2007, Bahl and Martinez-Vasquez, 2008.

3.6 As Table 3.2 indicates, a comparative tax study focusing only on the Caribbean confirms that the Bahamas and Barbados are the two countries in the region which are generating close to 1% of GDP from the annual property tax. As indicated above, however, GoB has been performing better in recent years generating close to 1.1% of GDP for the annual property tax and close to 3% of GDP for the annual property and the property transfer taxes combined.

[17] Bahl and Martinez-Vasquez (2008), "The Determinants of Revenue" in Bahl, Martinez-Vazquez and Youngman (eds) Making the Property Tax Work: Experiences in Developing and Transitional Countries (Cambridge, MA: LILP, 2008), p. 40.

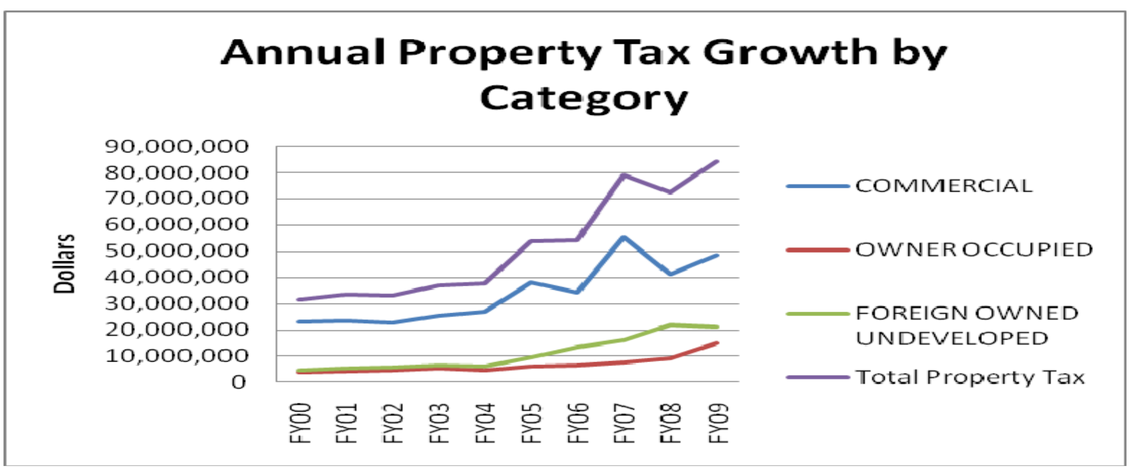
Table 3.2 Comparative Property Tax as % of GDP (2003)

Country	Annual Property Tax	Property Transfer Taxes	Total
Barbados	1.3	0.6	1.9
Bahamas	0.9	0	0.9
Montserrat	0.8	0	0.8
Guyana	0.6	0.1	0.7
Antigua & Barbuda	0.5	0	0.5
St. Kitts & Nevis	0.4	0	0.4
Suriname	0	0.4	0.4
St. Vincent	0.3	0	0.3
Anguilla	0.2	0	0.2
Belize (2002)	0.2	0	0.2
Dominica	0	0.2	0.2
Dominican Republic	0.2	0	0.2
St. Lucia	0.2	0	0.2
Trinidad and Tobago	0.1	0	0.1

Source: Adapted from Caricom, 2004

3.7 As Figure 3.3 indicates, the revenue trend from FY 2004 is upwards, largely driven by the commercial sector. Foreign-owned undeveloped property has shown a steady increase since 2004, with the owner-occupied property tax being largely stagnant from 2000-2008, with a dramatic 61% jump in 2009 from $9 million to $15 million.[18]

Figure 3.3 Annual Property Tax Revenue Growth by Property Category



[18] An analysis should be made of the 61% jump in real terms from FY 2008 to FY2009.

3.8 The Business License and Property Valuation Unit (also referred to in this report as the property Tax Department) indicates that the property tax roll has about 120,000 properties listed, from which 37,000 tax bills are issued annually. Of these 37,000 tax bills issued, the Unit receives payments from about 15,000 taxpayers (40%). The distribution profile of the properties on the tax roll was not made available for analysis.

3.9 As Table 3.3 indicates, the 15,000 taxpayers who paid their property taxes in 2009 paid about $87 million dollars. Half of this $87 million came from 4,775 commercial properties which paid an average of US$9,362 per property. The owner-occupied residential and the vacant land each contributed about US$21 million each. Over half of the paying taxpayers (8,177) paid property tax on vacant land, each paying about $2,500. There were only 2,336 owner-occupied housing taxpayers who paid an average $9,107.

Table 3.3: 2009 Distribution of Compliant Taxpayers by Type of Property

	Tax Bills	Tax Amts	%Tax Bills	% Tax Amts	AVG Tax Paid
Vacant Land	8,177	21,069,113	53%	24%	2,577
Owner Occupied	2,336	21,275,527	15%	24%	9,108
Commercial	4,775	44,703,568	31%	51%	9,362
Total	15,288	87,048,208	100%	100%	5,694

Source: Business Licensing and Property Valuation Unit

3.10 A further analysis of the 15,000 taxpaying taxpayers reveals that the majority of the tax revenue is paid by only very few taxpayers with high value properties. As Table 3.4 indicates, over 50% of the tax revenue is paid by only 415 taxpayers, paying slightly more than $100,000 on average. The property tax bills for these highest property tax liabilities ranged from $39,500 to $2.3 million. There are 117 taxpayers who paid more than $100,000 per year in property taxes, consisting of 22 owner-occupied, 20 vacant land, and 75 commercial property taxpayers.

3.11 Table 3.4 shows that the top 25% (only 86 taxpayers) paid an average of about 250,000, while the next quartiles paid $66,052, 20,436 and 1,607, on average. Over 90% of the taxpayers paid only $1,600 on average, about $133 a month in taxes.

Table 3.4: 2009 Distribution of Total Compliant Taxpayers by Property Tax Revenue Paid

% of Revenue	No. of Taxpayers	% of Taxpayers	Amount of Taxes	Average Tax
25%	86	0.56%	21,380,781	248,614
50%	329	2.15%	21,730,988	66,052
75%	1064	6.96%	21,744,301	20,436
100%	13,809	90.33%	22,192,139	1,607
Total	15,288	100.00%	87,048,208	5,694

Source: Business Licensing and Property Valuation Unit

3.12 An analysis of the annual property tax in the Bahamas indicates that the property tax has tremendous potential for further growth. The Bahamas is currently collecting 1.1% of GDP despite taxing a narrow tax base, full of generous exemptions, with low and out of date property valuations, and a very low collection rate estimated to be between 30-50% with virtually no enforcement against non-compliance.

3.13 With administrative improvements alone, it is estimated that the annual property tax revenue could be increased by almost 100 percent over the next 5 years. From 1.1% of GDP, Bahamas should be able to increase property tax revenues to about 2% of GDP through implementing administrative reforms which more effectively capture the tax base, gradually reducing the number of exemptions, updating the valuations, improving the collecting rate and adopting and implementing effective sanctions and penalties to deal with noncompliance.

3.14 This will require mobilizing political will, expanding taxpayer education / taxpayer service, and garnering administrative and financial resources to ensure that the fiscal cadastre is complete and that valuations are up to date and to enhance collections and implement enforcement proceedings against non-compliance. To ensure sustainability, the government must develop and adopt standard operating procedures on all aspects of property tax administrative linked to fiscal cadastre maintenance, valuation, billing, collection and enforcement, dispute resolution and appeals and taxpayer services. The priority focus must be on improving the three key administrative ratios of coverage, valuation and collection which will be outlined in the following section.

The Conceptual Framework for Property Tax Revenues

3.15 The effectiveness of the property tax to generate government revenue source is a function of both policy decisions and tax administration decisions.

1. The policy decisions focus on issues of tax base definitions (what is and what is not included in the tax base) and the structure and level of the tax rates as well as the valuation standards, and collection/enforcement provisions.

2. The administration decisions affect how much of the tax base is captured on the tax roll, the level and accuracy of each property valuations, the accuracy of the tax liability assessment, the collection efficiency and the enforcement effectiveness.

Ultimately the combination of the tax policy and the tax administration variables affect the revenue yield, equity and efficiency of the property tax system.

3.16 Property taxation by its structure is not automatically a buoyant revenue source. Property tax revenues stagnate primarily because of lags in maintaining the tax base coverage, inaccurate property valuations, and ineffective collection/enforcement. To be effective, property taxation must rely extensively on active government participation to ensure that tax base information and property values are kept up-to-date and that taxes are properly assessed, billed, collected and enforced. Thus, any property tax reform strategy must recognize this administrative-intensive nature and the importance of direct and active government administration for its revenue buoyancy, equity and efficiency objectives.

3.17 A property tax system involves six major functions: (1) tax base identification, (2) tax base valuation, (3) tax liability assessment, (4) tax collection, (5) tax enforcement, and (6) dispute resolution and taxpayer service. As summarized in Table 3.5, each of these administration functions is linked to the four critical ratios of coverage, valuation, tax and collection. The property tax revenues which can be collected is equal to the size of the tax base multiplied by the tax rate, adjusted for the administrative efficiency in capturing the complete tax base (coverage ratio), the property values (valuation ratio) and the collections (collection ratio). That is, the amount of revenue collected is not only determined by the policy variables of tax base definition and tax rate structure, but largely by the effectiveness of the tax administration to accurately ensure that the various properties are recorded on the tax roll, that the properties recorded accurately reflect their relative and absolute values and that the amount of the tax liabilities issued in tax bills are actually collected, with enforcement taken against those in noncompliance.

The Property Tax Revenue Model

3.18 The following conceptual model of property tax revenue illustrates the relationship between total revenue collection and these various ratios.[19] As the formula indicates, tax revenue is a function of two variables related to policy choices, namely Tax Base definition and the Tax Rate (TR) and three variables related to administrative action, namely increasing the Coverage Ratio (CVR), Valuation Ratio (VR) and Collection Ratio (CLR).

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[19] Adapted from Johannes Linn. 1980. "Property taxation in Bogota, Columbia: an analysis of poor revenue performance," Public Finance Quarterly 8(4): 457–476.

Tax Revenue = [Tax Base * TR] * [CVR * VR * CLR]

[Policy Variables] [Administrative Variables]

Definition of Model Variables

The Policy Variables:

a. The **Tax Base** variable is defined by government policy in terms of what is and what is not taxed. Countries typically include a combination of land and/or buildings, depending largely on historical precedent and administrative feasibility.

b. The **tax rate (TR**) variable is defined as the property tax rate struck for the taxing jurisdiction, measuring the tax amount per value of the property that is to be paid as property tax under an ad valorem property tax system or by the amount per unit in those countries using an area based unit rating system.

The Administrative Variables

3. The **Coverage Ratio** (**CVR**) variable is defined as the amount of taxable property captured in the fiscal cadastre, divided by the total taxable property in a jurisdiction. This Coverage Ratio, which measures the completeness of the tax roll information, is determined by the administrative efficiency of identifying and capturing data on all properties by using field surveys, secondary property information, or taxpayer-provided information.

4. The **Valuation Ratio** (**VR**) variable is defined as the value on the valuation rolls divided by the real market value of properties on the valuation roll. This measures the accuracy of the property valuation level (i.e., what percent of market value is being captured through the valuation process).[20] This valuation ratio is important for ad valorem systems when tax rates are not easily adjustable. The valuation ratio level is determined primarily by the frequency of property valuations which can be improved by using simple and cost-effective mass valuation techniques.

5. The **Collection Ratio** (**CLR)** variable is defined as tax revenue collected over total tax liability billed for that year. This collection ratio measures the collection efficiency on both current liability and tax arrears. This Collection Ratio is largely determined by political will and the effective use of incentives, sanctions and penalties.

3.19 As this simple conceptual model indicates, tax revenues depend on both tax policy choices and administrative efficiency. Tax policy choices affect tax base definitions, exemptions, valuation standards, tax rates and collection and enforcement provisions while tax administration choices affect the fiscal cadastre completeness, property valuation accuracy, tax billing and collection efficiency and the ability to enforce against noncompliance.

[20] The valuation ratio measures the absolute valuation level not the relative valuation accuracy which is measured by the coefficient of dispersion. It is the relative valuation that determines the equity of a property tax system.

3.20 Although tax policy decisions can improve or decrease revenue yield, the key to increasing revenue buoyancy is largely through improved administration. Regardless of the tax policy choices, governments must ensure that all property is captured on the tax rolls (coverage ratio) , that all property is valued close to market value (valuation ratio) , that the tax liability is assessed, billed accurately, and that the tax revenue is collected and enforced (collection ratio). Thus, the coverage, valuation and collection ratios are the critical administrative variables that ultimately determine effective tax rates, the tax burden for each property, the total revenue yield, economic efficiency and overall equity. As Table 3.5 indicates, there is a direct link between the property tax administrative activities and the key coverage ratios.

3.21 Using this revenue model, it is possible to estimate the potential revenue yield from improved administration. For example, if a country successful captured 50% of the property in the fiscal cadastre, accurately valued the property to 50% of the market value, and collected 50% of the tax liabilities, that country would be administratively capturing (0.50 coverage * 0.50 valuation * 0.50 collection) 12.5% of the potential property tax revenues. That is, the country would be collecting 50% of the 50% of the property value of the 50% of the properties which could be in the tax roll according to the tax base definition and tax rates expressed in tax policy.

3.22 Improving administrative efficiency by expanding the coverage ratio, the valuation accuracy and the collections would dramatically improve property revenue yield without any necessary changes to the tax policy definitions for the tax base or the tax rates. For example, if a country could increase its coverage from 50% to 75%, the valuation accuracy from 50% to 75% and the collections from 50% to 75%, the country would be able to collect 42.2% of their potential property tax revenue.

3.23 These administrative improvements could increase the property tax yield by 237% % (i.e., [(42.2% – 12.5%) / 12.5%] without any changes to the property tax variables (tax base definitions or tax rates). Assuming these three ratios could be increased from roughly 50 percent to 75 percent, the revenue yield could increase by over 200 percent.[21] Improving administrative efficiency alone will generate important revenues needed for government finance while simultaneously improving the resulting equity and efficiency.

[21] This 337 percent change is derived from the percentage change from the current ratios (i.e., 0.5*0.5*0.5 = 0.125) to the improved ratios (i.e., 0.75*0.75*0.75=0.422). The percentage change from 12.5% to 42.2% is 237% (more than 2 times the current revenue yield.

Table 3.5: Property Tax Administration Functions and the Four Critical Ratios

Property Tax Function	Objectives	Actions	Critical Ratios
Tax Base Identification	To determine what will be taxed	Identify tax base (land, building and/or machinery and equipment). Identify exemptions from the tax base.	Coverage Ratio
Tax Base Valuation	To determine how tax burden will be distributed among the taxpayers	"Weight" the tax base (either by area, other characteristics or value) Influence distribution of tax burden among taxpayers	Valuation Ratio
Tax Assessment	To determine how much tax will be levied To determine how tax burden will be distributed among taxpayers	Determine the overall tax level Influence tax burden distribution among taxpayers through varying effective tax rates	Tax Ratio (Tax Rate)
Tax Collection	To collect tax	Issue and Deliver Tax Bills Collect tax	Collection/ Enforcement Ratio
Tax Enforcement	To determine how much revenue will be collected though enforcement	Enforce against noncompliance using sanctions and penalties	Collection/ Enforcement Ratio
Tax (and Valuation) Appeals Resolution	To ensure that the tax is equitably administered	Resolve disputes concerning property information, valuation or tax assessment	(linked to Coverage, Valuation, and Tax Ratio)
Taxpayer Service	To provide service to the taxpayer	Taxpayer Education Taxpayer Service	Linked to Collection Ratio (i.e., good taxpayer service will encourage higher collection ratio)

Source: Kelly, Roy, "Designing a Property Tax Reform Strategy for Sub-Saharan Africa: An Analytical Framework applied to Kenya," Public Finance & Budgeting, 2004.

The following section will apply this conceptual model to identify a set of possible parameters and lessons for developing an appropriate property tax reform strategy for the Bahamas.

Property Tax Policy and Tax Administration Ratios in the Bahamas

3.24 As the conceptual model illustrates, the ability of the property tax to generate revenues depends on tax base definitions, tax rate structure and effectiveness of property tax administration in terms of the coverage, valuation and collection. This section reviews these various revenue determinants to identify current practice, how that relates to international practice and suggests ways to improve each component to enable the Bahamas to generate additional property tax revenues.

The Property Tax Base

3.25 In the Bahamas, the Real Property Tax (Chap 375) defines the property tax base to include all land and improvements unless otherwise exempted. This is consistent with international practice which typically levies the property tax on land and improvements (buildings).[22]

3.26 However, the property tax exemptions are quite broad, exempting a large portion of the potential property tax base, affecting revenue yield, equity and efficiency. The Real Property Tax Act provides a number of exemptions and tax relief measures; some consistent with international best practice and others quite generous and unique to the property tax environment in the Bahamas.

Consistent with international practice, the Bahamas provides:

- Exemptions for religious places of worship, education, and non-profit, charitable / public service properties. The justification everywhere is to provide tax relief to offset the positive externalities (public/social benefits) offered by these properties. The key policy issue is whether these properties should be 100% tax exempt or whether these properties should be offered a level of tax relief more commensurate with the generated social externalities. For example, some countries offer reduced tax rates for private schools and hospitals, rather than allowing for 100% tax exemption

- Exemptions for property owned by foreign States used for consular offices or consular residences. The justification everywhere is based on the Vienna Convention where

[22] The majority of countries tax both land and improvements (buildings) (e.g., the countries of North America, Western Europe, East and Southeast Asia and Latin America) although there are a few countries which tax only land (e.g., Jamaica, Bermuda, Kenya, and New Zealand), and others which tax only buildings (e.g., Tanzania and Ghana). (Bird and Slack, 2004)

countries exempt the Embassies, Consulates and other property owned and used for diplomatic purposes, based on reciprocity. Malawi is unique in the world where their law is structured to provide for an exemption "upon request."

- Exemption for government property[23]. The justification everywhere is to minimize administrative costs, avoiding the government to be paying itself. However, to encourage greater property use efficiency, some governments do not exempt all government land but do provide a tax relief to reduce the level of effective tax (e.g., South Africa) or provide for a Contribution in Lieu of Rates (Kenya) or allow a Payment in Lieu of Tax (PILOT program) (USA). In this way, government agencies are required to budget for their property tax taking into account the "opportunity cost of land use", potentially encouraging government agencies to rationalize their land use to avoid the holding cost of property (i.e., the property tax).

3.27 The Bahamas also offers several unique and generous tax exemptions and relief schemes based on ownership and/or tenure as follows:

- A broad exemption is given to all owner-occupied housing up to $250,000 (Art 42 (1) (f)), both to Bahamians and foreigners.[24] To receive the owner-occupied exemption, foreigners must occupy their house for 9 months a year, while there is no residency requirement for Bahamians. The exemption from 1991-1993 was $50,000, from 1994-2003 was $100,000 and from 2004 onwards was $250,000.

  Based on the US experience, $250,000 is a very generous exemption, roughly 2 ½ times the highest homestead exemption amount in the US (e.g., California and Arizona). Homestead exemptions in the US range from $7.500 to about $100,000 (e.g., Arizona and California).

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[23] Although most countries exempt government property, some countries explicitly tax government land like private property (e.g., Kenya through its "Contributions in Lieu of Rates") or tax government land preferentially (e.g., South Africa and Namibia which provide a 20% reduction in the tax rate or Zimbabwe where central government is to make a ex-gratia payment equal to 66% of ratable value). In other countries, the central government will make a lump sum ad hoc contribution to local authorities for services rendered to government in lieu of paying explicit property taxes (e.g., United States). In the United States, there are a variety of voluntary "Payment in Lieu of Taxes" (PILOT) programs. Even in countries where the property tax is a central tax, the taxation of government property may lead to improved land use efficiency by forcing government agencies to explicitly budget for the property taxes on their property, encouraging each government agency to use their allocated land more efficiently to avoid the "holding cost" of a property tax.

[24] In addition to the generous owner-occupied exemption, the Real Property Tax Act (Article 3(2)) provides for an additional tax relief scheme for Bahamians based on income and family size. In addition, taxpayers can apply for a "relief certificate" for total or partial exemption or deferment of taxes based on the impoverished condition of a person (Article 33-35).

This “homestead” exemption is given to owner-occupied properties to reduce their effective property tax rate. However, having such a high exemption level reduces the number of taxpayers, eliminating the “social governance contract” implicit in residents paying a property tax for services. In addition, increasing the exemption levels, while not systematically adjusting the property assessed values to be closer to market values means that many properties drop off the property tax roll through reverse “bracket creep” (i.e., the bracket increase without a commensurate readjustment to the property values.)

It is reported that the increase in the exemption level from $100,000 to $250,000 reduced the number of taxpayers substantially, eliminating many properties from the tax roll. Due to the lack of an effective reassessment process, many of the owner-occupied houses have not been revalued in many years. Thus, increasing the exemption by 150%, while not reassessing the properties to keep up with real market value, meant that many houses fell below the valuation threshold.

In addition to the level of the exemption, a major problem with the homestead exemption is that the exemption is granted to all owner-occupied houses and does not differentiate on the basis of homeowner income. Thus, the exemption is equally available for the rich and the poor. And, as the exemption is based on an absolute dollar amount, the exemption does introduce a degree of progressivity into the property tax system.[25] The exemption is worth proportionally more for a lower value house than for a higher value house.

To avoid this equity problem, rather than providing an exemption on a per parcel basis, some countries (e.g., Canada) provides a tax credit through the income tax system.[26] In this way, the subsidy to low-income owner-occupied housing can be targeted through the income tax system. Since there is no income tax in the Bahamas, this tax credit approach is not an option. It also may be possible for the Bahamas to offer a dollar credit per person against property tax so that the owner of many properties would only get it once.

It was not possible to estimate the impact of the $250,000 exemption since data on the number of exempted from the property tax roll was not made available from the Business Licensing and Valuation Unit.

[25] Progressivity in a tax system is usually measured with respect to income, not to housing value. If we assume that housing value is correlated with homeowner income, then the homestead exemption would be considered progressive with respect to income. However, there is not information available linking the housing value with income therefore it is only possible to say that the exemption makes the property tax system progressive with respect to housing value, not income.

[26] See http://www.canadataxcredit.ca/refundable-property-tax-credit/

- A significant, generous tax exemption is currently being given to Bahamian-owned property located on the Family Islands (Article 42(1)(h)). [27]

  This exemption is overly generous and does not distinguish between rich and poor, low value and high value properties. Both rich and low income Bahamians are tax exempt from the property tax, thus not directly contributing to the payment for government services on the family islands. There is no good reason why richer Bahamians (owning expensive properties) on the Family Islands should not be contributing to the payment for government services.

  Exempting property based on the nationality of the property tax owner is not in accordance with international practice. This nationality-based exemption will need to be changed when the Bahamas joins the WTO since the Bahamas will not be allowed to differentially tax based on nationality.

- A significant, generous tax exemption is also currently being given to all unimproved property owned by Bahamians (Article 42 (1)(g)).[28] This exemption applies to all unimproved land owned by Bahamians both on the family islands and New Providence/Paradise Island.

  This clause protects the Bahamian citizen from being forced to sell unimproved property due to the possible "property holding cost" of the property tax liability. As land values go up due to domestic and foreign demand for land, the property tax bill could go up rapidly forcing Bahamians to see their unimproved land, "pushing them" off the land, forcing them to sell.

  Vacant land is defined as land where the value of the improvement is less than $50,000. Because there has not been a revaluation for a number of years, there are many properties in the country with substantial improvements but which are still considered to be vacant.

  As with any exemption, the policy question is should the unimproved land owned by Bahamian s be 100% exempt or should a form of tax relief be given, such as a reduced tax rate, a partial valuation deduction, and/or a tax deferral, be given. Under this proposal, the unimproved land owned by Bahamians would be paying some amount towards government services and encourage greater land use efficiency.

[27] The Law provides these broad exemptions to property owned by Bahamians with the proviso that "the Minister may, subject to the provisions of subsection (5), if at any time he thinks fit, by order provide that the exemption granted by this paragraph shall cease to apply in related to all such property."

[28] The Law provides these broad exemptions to property owned by Bahamians with the proviso that "the Minister may, subject to the provisions of subsection (5), if at any time he thinks fit, by order provide that the exemption granted by this paragraph shall cease to apply in related to all such property."

- All commercial farming (Art. 42(1)(i) is exempt. Agriculture property in many countries is not taxed so as not to bias against small subsistence agricultural property owners. The extent and impact of this exemption should be studied, but the data on the number of commercial farming properties was not made available from the business Licensing and Valuation Unit. As with all exemptions, there is a policy question as to whether agricultural property (especially large commercial farms) should not be required to contribute towards the costs of government services through paying some property tax.

- Hotels are exempt from property tax up to 20 years under the Hotel Encouragement Act (Chapter 289). It is expected that the revenue loss from this hotel exemption may be quite large. The amount of the revenue loss should be evaluated with administrative mechanisms put in place to automatically capture the tax base upon expiration of these exemptions.

- Countries do provide a number of tax exemptions to stimulate economic development. These tax exemptions should be costed and monitored to evaluate the impact from the exemption and to ensure that the property is brought on to the tax roll at the conclusion of the exemption. In accordance with international best practice, all property tax exemptions should be included in the property tax act to encourage greater transparency.

- All property located in Freeport, Grand Bahamas is tax exempt up until at least 2015 under the Hawksbill Creek Agreement[29]. As with the exemption granted to hotels, the Hawksbill Creek Agreement provisions on property taxation should also be reviewed, with property brought into the tax net upon expiration of the current agreement.

3.28 To mobilize increased property taxes in an equitable and efficient manner, the Government must review existing tax base exemptions potentially leading to a broadening of the tax base. As identified above, the tax base currently has very generous and perhaps unnecessarily generous exemptions which dramatically reduces the potential property tax revenues and introduces possible, un-intentional impacts on the equity and efficiency of the tax system.

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[29] See (http://islands.thebahamian.com/grandbahama.html). The Hawksbill Creek Agreement was an agreement signed in 1955 between the Government of the Bahamas and the Grand Bahamas Port Authority Ltd to establish a city and free trade zone on Grand Bahama Island with an aim of spurring economic development in the region. The Authority was granted 50,000 acres (200 km²) of land with an option of adding an additional 50,000 acres (200 km²). To encourage investment, the agreement also freed the Port Authority from paying taxes on income, capital gains, real estate and private property until 1985—a provision that has since been extended to the year 2054. For more details, see http://gbpa.com/home/index.php?option=com_content&view=article&id=2:hawksbill-creek-agreement&catid=5:about-us and http://en.wikipedia.org/wiki/Hawksbill_Creek_Agreement

3.29 These various tax base exemptions are essentially tax subsidies which are provided to taxpayers based on their nationality (Bahamian/non-Bahamian), tenure (whether owner-occupied or land use (commercial, unimproved, residential). These tax exemptions (subsidies) are provided to achieve a variety of social objectives. For example, tax exemptions are typically provided:

- to offset the tax burden on the poor by exempting low value owner-occupied residential properties,
- to offset positive externalities generated from properties such as schools and hospitals,
- to provide economic incentive for investing in certain sectors such as the hotel sector, to protect Bahamians from rapidly rising property prices through exempting their ownership of unimproved properties on New Providence and from property taxes on the family islands.

3.30 In addition to reducing the property tax revenue potential, these exemptions also affect both efficiency and equity.

- Property tax exemptions on unimproved property can encourage inefficient land use and speculation. In fact, to counteract this, many countries intentionally tax vacant land at a higher rate to encourage vacant land owners to bring their vacant land into development.

- Property tax exemptions can affect equity as exemptions are not linked directly to the income of the taxpayers. Property tax exemptions in the Bahamas are given based on tenure, land use, nationality, without any direct correlation with taxpayer income. Thus, the benefits of the exemptions help both the poor and the rich. For example the owner-occupied exemption applies to both lower and higher value properties and applies to both high income and low income taxpayers. Thus, although perhaps well intentioned, the owner-occupied exemption introduces inequity among homeowners. For equity purposes, a means-tested exemption would be more appropriate to assist the low income homeowners.

3.31 To expand the property tax base, the Government will need to consider the possibility of reducing the owner-occupied exemption level, phasing out and/or reducing the property tax exemptions on hotels, rental pooling and time shares, and exploring the costs and benefits of expanding the property tax to properties owned by Bahamians in the medium to long term. These recommendations will be discussed further in Chapter 4.

Property Tax Rates

3.32 The tax rate on the annual Real Property Tax is centrally determined, structured as a progressive tax rate (see Table 3.6).[30]

Table 3.6: Real Property Tax Rate Structure (as of July 2008)[31]

Property Category	Rate	Property Category	Rate	Property Category	Rate
OWNER-OCCUPIED	**(%)**	**COMMERCIAL**	**(%)**	**UNIMPROVED LAND**	**(%)**
$250,000 or less	0	Up to 500,000	1%	$3,000 or less	$30.00
250,001-500,000	0.75%	Over 500,000	2%	3,001-100,000	1.0%
500,001-$5 million	1.0%			Over 100,000	1.5%
Over $5 million	0.25%				

3.33 The use for progressive rates is rationalized as a way of shifting the property tax burden to those properties which have a higher "ability to pay." The validity of this argument is questionable in practice since it depends on whether a property's assessed value is a good measure of the taxpayer's income and wealth.

- This logic is problematic with respect to taxpayer income, since there is little to no direct correlation between a property and the taxpayer income. That is, there are many low value properties owned by wealthy taxpayers while there are some higher value properties which are owned by "asset rich-cash poor" taxpayers.

- This logic is also problematic with respect to taxpayer wealth, since there is little to no direct correlations between an individual property value and total taxpayer wealth. First, taxpayer wealth is also held in non-property wealth (e.g., stocks and bonds, precious metals, etc.). Second, taxpayers can hold multiple properties of varying value. Therefore, to progressively tax wealth, it would be necessary to apply the progressive rates not to a single property but to all owned properties based on cumulative value. In terms of taxing wealth progressively, the progressive rate structure would need to be applied to all wealth, not to just the value of an individual property (i.e., precious metals, stocks and bonds, and all other movable properties, etc.).

[30] As explained in Annex C, the stamp duty rate on immovable property is also structured as a progressive rate structure.

[31] In 2008, the following changes were also introduced: (1) The maximum annual tax cap of $35,000 was removed, (2) to receive owner occupied exemption, applicants must reside in property for at least 9 months per year, and (3) first time homeowners in homes valued from 250,001-500,000 are eligible for 5 year tax exemption

3.34 Most countries do not use a progressive tax rate structure for their property taxes, but reserve the use of progressive rate structures to their income taxes.[32] The only country that has successfully applied the property tax progressively on the comprehensive value of all owned properties is the Republic of Korea under their national-level Comprehensive Property Tax Law. The Korean government is able to link the property ownership records with their family registration records to aggregate total property for progressive taxation. In most countries, comprehensively linking properties to individual owners is highly problematic and thus it is administratively impossible to progressively tax immovable property in a comprehensive manner.

3.35 Countries typically do not tax properties under a progressive rate structure. Countries tend to adopt simpler property tax rate structures to ensure transparent and accountable revenues. Even those countries which previously applied progressive rates are shifting to simpler tax rate regimes. For example, in 2005, Jamaica shifted from its complex, progressive rate structure for its annual property tax to a simple flat rate structure to remove the tax rate complexity and improve tax payment compliance. The new system was simplified by:

- Removing the bands and caps,
- Introducing a flat rate of J$600 for values up to a threshold of $300,000, and
- Introducing a flat rate of 0.5% on the amount in excess of $300,000.[33]

In 2010, the rates were adjusted upwards to a flat J$1,000 for values up to $300,000, with a flat rate of 0.75% for amounts in excess of J$300,000. [34]

3.36 Progressive rates applied to single properties have several negative impacts: **First**, it encourages property owners to subdivide properties to minimize tax burdens. This can discourage

[32] The property tax in Singapore is a central government tax. To supplement their progressive income tax, Singapore in 2010 introduced a progressive rate for the highest value owner-occupied residential properties. This extra tax would apply to about 3 percent of private property owners or 0.4 percent of all property owners in Singapore. The new property tax regime is a three-tiered structure at 0 percent, 4 percent and 6 percent, and replaces the current flat 4 percent concessionary rate for owner-occupied residential homes. The first S$6,000 of a home's annual value (AV) will be exempted from property tax — saving owners S$240. The next S$59,000 will be taxed at 4 percent and any AV above S$65,000 will be taxed at 6 percent. Shifting the property tax to higher value residential properties is expected to save the average property tax payer about US$170 in taxes per year.
https://www.chinapost.com.tw/business/asia/singapore/2010/02/24/245733/Singapore-shifting.htm

[33] These changes mean that a person with a parcel of land valued at $600,000 would be required to pay $2,100 for the tax year 2005-2006 which is calculated as follows:

• Value of land	$600,000
• Less threshold	$300,000
• Flat rate tax	$ 600
• Balance $300,000 x tax rate 0.5%	$1,500
• Property Tax payable	$2,100

[34] See http://www.jamaica-gleaner.com/gleaner/20100425/business/business4.html

the holding of large land parcels, encouraging parcel fragmentation. **Second**, it can encourage tax evasion for the highest value properties. **Third**, it can put pressure on the property valuers to intentionally undervalue the highest value properties to keep the tax within reasonable amounts.

3.37 To simplify the property tax rate structure, it is recommended that Bahamas shift to a single rate or classified tax rate structure. A single rate structure would apply a uniform rate against the property valuations to determine the property tax liability. Any differences in the property tax liabilities would result from the differences in the relative property values, not by the type of property per se. A classified tax rate structure would apply different rates to different classes of property, usually differentiated by land use type, such as, agriculture, residential, and non-residential properties. Typically a lower tax rate is applied to agricultural property, with a slightly higher rate applied to residential and the highest rate applied to non-residential (e.g., commercial and industrial).

3.38 Shifting away from a progressive rate structure would have a number of advantages: **First**, it would reduce the incentive to sub-divide property for purely tax purposes. **Second**, it would lower the tax burden on high value properties which may encourage greater levels of tax compliance. **Third**, it would eliminate the problem with bracket creep where properties would naturally fall into the higher tax brackets as property values naturally increase unless the brackets are indexed to the general property value increases. **Fourth**, a single rate would be easier to adjust the rate overtime than a multiple rate structure.[35]

3.39 Simplifying the property tax rate would improve the transparency and accountability of the property tax system to taxpayers. Rather than having a progressive rates structure, it is recommended to simplify the tax system to either a single rate or a classified rate which would apply a single rate to standard categories of property such as commercial, owner-occupied and unimproved properties. See Chapter 4 for details.

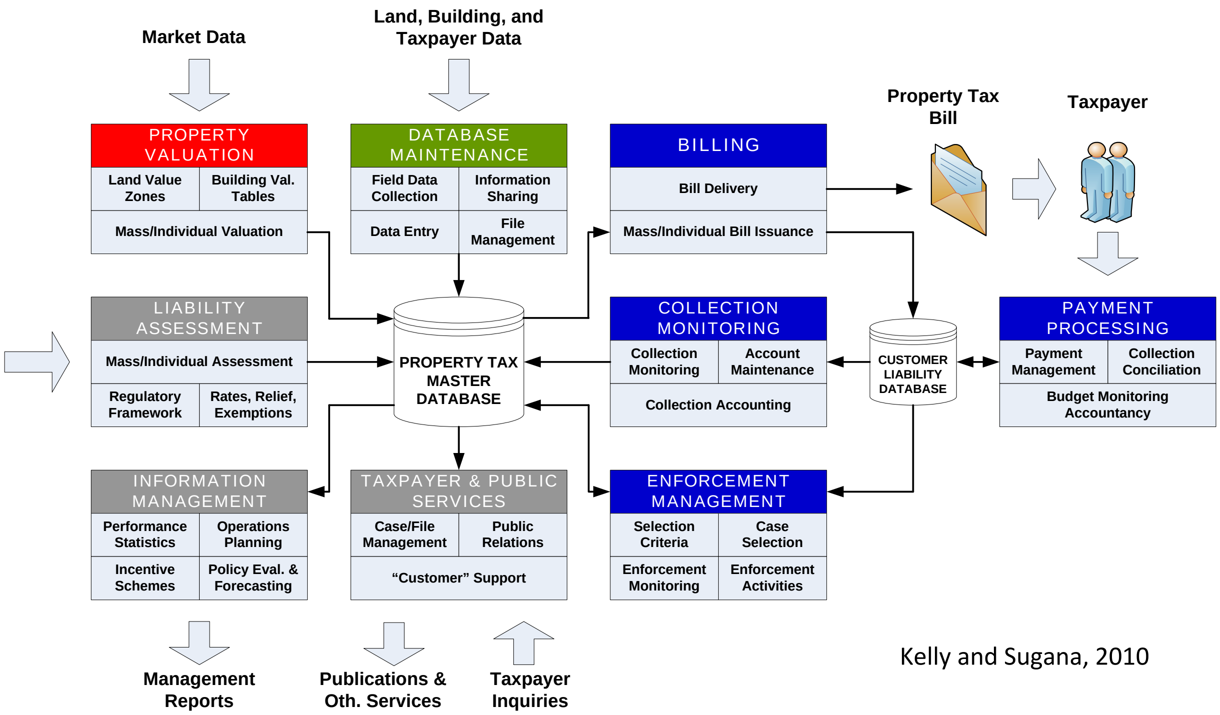
Property Tax Administration Ratios

3.40 As Figure 3.5 indicates, a property tax administration system includes an integrated set of administrative procedures linked to data base maintenance functions (linked to the coverage ratio), property valuation functions (linked to the valuation ratio), liability assessment functions (linked to the tax rate liability assessment), and the billing, collection and enforcement functions (linked to the collection ratio) and the taxpayer and public service (linked to taxpayer service and dispute resolution).

[35] See same arguments as applied to Jamaica property tax as presented in Sjoquist, David, "The Land Value Tax in Jamaica: An Analysis and Options for Reform" AYSG Working paper 04-26 (2004)

3.41 These administrative procedures are typically linked through a computer-based information management system to effectively manage the information-intensive nature of the property tax. The property tax system typically involves the management of numerous individual property characteristics such as the property identification number, location, address, land size, location, land use type, land tenure, building size, building characteristics related to construction, number of bedrooms, bathrooms, building type, building use, as well as characteristics about the taxpayer including name, address and taxpayer identification number, among others.

Figure 3.5 Integrated Property Tax Administration System



The following sections discuss these various administrative components and their respective administrative ratios.

Property Tax Coverage Ratio

3.42 Within the policy framework of the tax base definition and tax rate structure, the first step in property tax administration is to assemble and maintain property tax base information. This compilation of property-related information, called the "fiscal cadastre", includes the collection, recording and management of property information on both land and improvements. The challenge for all governments is to ensure that this basic information is up-to-date and accurate—that is, to maintain the coverage ratio as close to 100 percent as possible, capturing the total potential tax base.

3.43 Although the legal basis for ensuring a full coverage ratio is usually adequate—the low property tax base coverage ratio is largely a problem with administration. The government must properly identify the property, collect the relevant property information, and maintain and manage the information in a timely manner to keep it up-to-date. This involves having a system of simple maps, unique property identification numbers, property information collection forms, and data collection and information management procedures.

3.44 The property information assembly and maintenance process includes both passive and active approaches, both of which are essential for maintaining up to date, comprehensive property tax rolls.

3.45 **Passive Approaches:** The Real Property Tax Act (Article 10) requires every owner to provide an annual declaration (not later than 31 December of each year) on property-related information needed by the CVO to provide an accurate assessment for property tax purposes. The information is to be reported as determined by the CVO on a prescribed form. The taxpayer must have their property information form declared as having accurate information before an authorized person (e.g., religious leader, government officer, justice of the peace, etc.). Based on this declared information, the CVO is authorized to use this information to determine an assessment to be used for levying the property tax.

3.46 The Real Property Tax Act provides penalties for non-submission (a fine not exceeding $3,000) or false declaration (a fine not exceeding $3,000 and/or a prison term not exceeding 6 months). To date, the penalties have not been used thus property owners tend to only submit the declaration when selling the property or applying for a mortgage.

3.47 The Property Tax Act does not explicitly require other third-parties responsible for property-related information to report this information to the Tax Department. Third party information exchange seems to happen on an ad hoc and incomplete manner making it difficult for the Tax Department to ensure a comprehensive tax base coverage. Most countries require all agencies and individuals who deal with real estate transactions to submit relevant information to the Tax Department as well. For example, countries typically require information to be submitted from real estate agents, rental agencies, notaries, lawyers, banks, and others to submit information on transactions in a timely manner as prescribed by the Ministry of Finance/Tax Department.

3.48 In addition, the Tax Department should have access to other location-specific information such as the issuance of building and occupancy permits from the Ministry of Public Works, certificates and permits from the Bahamas Investment Authority (BIA), electricity and water hookups from the BEC and Water Department, business licenses from the Business Licenses and Property Valuation Unit, and registration of deeds and property related activities from the Registrar General. This information currently seems to be submitted to the Tax Department in a non-systematic manner.

3.49 Taxpayer should be required to submit a tax clearance certificate to show that all property taxes have been paid before the service can be granted (see section on property tax collection/enforcement).

3.50 As the law is structured, taxpayers are required to submit a return annually, which in turn is used by the CVO to "compile and maintain accurate assessment lists." The passive approach depends on taxpayer and/or third party compliance to be effective. The Tax Department currently relies largely on the passive approach to update the fiscal cadastre information, depending on the taxpayers to take the initiative to report their property-related information to the Tax Department.

3.51 Ultimately the Government must improve the effectiveness of the passive approach to ensure the quality and completeness of the fiscal cadastre information. As outlined in Chapter 4, the Government will need to expand use of third party information: BEA, Water, BIA, Public Works, to capture changes in the tax base, redesign the Real Property Tax reporting form (to capture relevant data and linking the reporting form to the IT system for easy data entry), and expand the real property tax reporting requirements to other third parties: lawyers, notaries, registrar, etc.—not just taxpayers,

3.52 **Active Approaches:** In addition to relying on the passive approach for fiscal cadastre maintenance, the Tax Department should also take an active approach to ensure that the property tax information is complete and up to date. This active approach requires the Tax Department to systematically go out into the field to update the fiscal cadastre information. This active approach is normally what is needed to complete a general reassessment and will require the Tax Department to proactively go out into the field to systematically gather property information, to ensure that property (or revisions) previously not on the tax roll is captured and to check existing information to ensure correctness of land/building information.

3.53 To maximize the impact at minimal costs, there are various possible approaches: **First**: the Tax Department could do a complete field canvass systematically covering all properties in the jurisdiction, phasing in the data collection exercise. **Second**, the Tax Department could prioritize field canvassing by targeting higher value geographic regions to capture the higher value properties. Subdivisions which typically contain lower value housing (less than $250,000) could be given second or third priority. Third party information (e.g., electricity installed capacity, consumption and billing status) could also be used to target those areas which will maximize revenues and equity at minimal costs. **Third**, the Tax Department could take a combination approach by undertaking field data collection and valuation for those higher value zones (beachfront, Paradise Island, high value commercial areas, etc.); while using aerial photographs to identify properties which could be flat rated based on simple per square meter figures for land and buildings. Using simple area based values for lower income properties would reduce the administrative costs, while capturing these properties on the tax roll for equity and accountability purposes (Almy, 2007).

3.54 Fiscal cadastre maintenance, combined with valuation reassessment, is the most labor intensive aspect of property tax administration. Although the Tax Department should rely to the extent possible on the passive approach to data collection and data maintenance, the Tax Department will be required to undertake active fiscal cadastre maintenance to ensure comprehensiveness and accuracy in the information. This will require the development and implementation of cost effective, strategically targeted field data collection/valuation exercises to broaden the tax base coverage and accuracy and to simplify fiscal cadastre data capture to expand the base to include all land and buildings. The tax roll information should start to include property owned by Bahamians since it will not be possible to differentially treat Bahamian and Non-Bahamian property once Bahamas joins the World Trade Organization (WTO). These recommendations will be discussed further in Chapter 4.

Mapping Issues:

3.55 Base maps are critical to ensure that the property information is complete and can be referenced by a unique property identifier. The property tax unit does have a set of cadastral maps and a cadastral numbering system; however, the mapping seems to be limited to New Providence and there are large areas on the maps that are not clearly delineated (Almy 1999). The BNGIS project and the recently-completed LUPAP project were designed to improve the mapping available for property tax administration system. Discussions with the Property Tax Department indicate that these other mapping efforts have not yet been systematically incorporated into property tax administration. These various maps would be very useful to use as base maps and “block” maps for any field reassessment exercise.

3.56 The key therefore is to establish a simple but effective fiscal cadastre to collect and maintain only the essential property information to the quality standard necessary for property tax administration. Relevant information would include the legal information needed for tax assessment and billing as well as the physical property characteristics and valuation-related information. All mapping standards and information needs should be tailored specifically to the property tax objective.

3.57 In the Bahamas, various attempts have been made to create a broader based multipurpose cadastre, involving the collection and maintenance of massive and high standard information to be used for physical, legal and fiscal cadastre purposes.[36] An earlier attempt was the BNGIS (Bahamas National GIS) project, followed by the LUPAP project. The objective of the LUPAP project was to link physical cadastre information from the Department of Survey and Lands, with legal information from the Registrar General and with property tax information from the Business

[36] Ideally it would be advantageous to have a multi-purpose cadastre to avoid data and administrative duplication. Rather than trying to initially create a single multi-purpose cadastre, technology now allows the construction of separate cadastres which can be linked through distributive information processing.

Licenses and Property Valuation Unit. Coordinating committees and various efforts were undertaken to merge this information. Discussions indicate that this sharing of legal, physical and fiscal cadastre related property information is still in process, with the result that the tax department continues to rely extensively on its own information for improving property tax administration.

3.58 International experience with the creation of multi-purpose cadastre is mixed. These attempts largely fail due to lack of funds, qualified staff and institutional incentives. The measurement and data quality standards for a fiscal cadastre are less than those required for a legal cadastre. The key is to ensure that the fiscal cadastre for property taxation purposes collects only timely, relevant and reliable information in a cost effective manner.

3.59 Although existing property information should be used to the extent possible, it is often more cost effective to undertake a separate field data collection exercise to build and/or update the fiscal cadastre. Simple, cost effective approaches to field data collection have been used successfully in Indonesia and the Philippines, as well as, more recently, in the transitional countries. Although policy measures adopted by the Government can facilitate the systematic maintenance of property-related information, the coverage ratio can only be substantially improved through adopting appropriate administrative procedures, providing the training and incentives to the administrative staff, and ensuring that the procedures are followed systematically.

3.60 Given the dynamic nature of the land markets, this is a continuous and information intensive activity. Therefore, countries are increasingly depending on computers, linking the administrative procedures with the data processing capabilities of computers. Combined with simplifying the field data collection procedures and reducing the amount of property information being collected, computers can allow the government to maintain their fiscal cadastre information in a cost effective and timely manner to ensure a high coverage ratio.

3.61: Ensuring that all properties are accurately captured on the tax roll is critical to maximize revenue collection, ensure equity and achieve efficiency objectives. As further explained in Chapter 4, the Tax Department will need to rely on a combination of improved passive and active approaches to ensure an up to date fiscal cadastre. This will require a strategic field canvassing of properties to capture the highest value properties, using third party information (e.g., electricity and others) to identify those areas of fastest growth and highest value to ensure that 100% of these are captured accurately on the tax rolls.

3.62 In accordance with the Rating Act, it will be important for the Tax Department to develop a medium term plan to enable completion of the first general reassessment and to be able to undertake a periodic updating of the fiscal cadastre roll every five years. This will require adoption of a multiyear work plan, adequate human and financial resources, and a performance management structure, along with revised field data collection procedures including a revised property information form. In the medium term (within 5 years), the Tax Department will be responsible for preparing a baseline fiscal cadastre (tax roll) for the family islands. These various recommendations are further elaborated in Chapter 4.

Property Tax Valuation Ratio

3.63 Within the framework of valuation policy decisions, the government must use the fiscal cadastre information to determine the tax burden allocation among the properties. Under the Real Property Tax Act, the Bahamas uses an ad valorem structure applying a progressive tax rate against the estimated capital market value of a property.

3.64 Valuation accuracy is critical to maintain the revenue, equity and efficiency objectives of the property tax. The valuation ratio is the total assessed property value over the total property market value.[37] In the United States, this is often referred to as the assessment/sales ratio, and is used as one measure on the quality of the property valuations performed by the Tax Department. The closer the assessments are to the actual market value, the more accurate the equity of the valuations used for property taxation.

3.65 The valuation accuracy is measured both in terms of the absolute valuation level (i.e., as measured by the assessment to sales ratio) as well as to the relative valuation level between properties (i.e., as measured by the coefficient of dispersion). Experience shows that the more accurate the assessment to sales ratio, the more accurate the relative valuations across properties.

3.66 To maintain valuation accuracy, tax departments are required to update their valuations rolls on a periodic basis, typically every 3-5 years. Property tax rolls represent a stock of relative property values, not a flow of property values. The property tax roll is a snapshot of values at a particular time known as the "assessment basis" ("tone" of the roll). To maintain accuracy requires the Tax Department to be proactive in updating the valuations included in the tax rolls. This is done through relaying on passive and active property information updating (as discussed under the coverage ratio above) as well as a separate, but integrated set of activities related to the collection and analysis of property market trends, linking the property characteristics to the changes in the property value over time. This market trend information is then used to update the property tax roll on a periodic basis.

3.67 For property taxation, the property valuation process is to determine the equity of the property tax system not the absolute amount of the revenue to be collected. It is to determine the relative property tax amounts that each taxpayer will be expected to pay based on the relative

[37] Quality control of valuations is critically important. Thus, in addition to a system of appeals, many countries institute a system of quality control by having oversight of the local level property tax administration and valuation. In the United States, for example, many states have a Board of Equalization or equivalent to provide some quality standards and control (e.g., New York, California). In other states, the state-level Department of Revenue is responsible for certifying the valuations (e.g., Massachusetts).

property value vis a vis other taxpayers. Property valuation is not primarily undertaken to determine the total level of tax liabilities. The absolute amount of the property tax revenue is decided through a policy choice linked to the property tax rates. If the government needs additional tax revenue in a particular year, the government should increase the tax rates rather than adjusting the absolute or relative property valuations.

3.68 The relative and absolute accuracy in property valuation can only be maintained through a systematic, periodic updating of the property tax valuation roll. Without periodically updating the valuation roll, property values remain static, falling in real value and in relation to the normally upwards movement of property values. Tax systems throughout the world typically have legal provisions to update their property values once every 3-5 years.

3.69 In the Bahamas, the property tax act (Article 8) provides that a general reassessment be conducted no more than once every 5 years, rather than at least once every 3-5 years as would be the international practice. As part of this general reassessment process, the Chief Valuation Officer (CVO) is to determine a fixed date of reference to ensure that all properties are valued consistently and fairly. Unfortunately, to date, there has been no general reassessment undertaken in the Bahamas.

3.70 In practice, the property tax valuation roll is a compilation of assessments determined by the Chief Valuation Officer (CVO) on various properties at various times based on various reference dates. This means that the assessment roll is neither up to date nor consistent which creates problems of equity, efficiency and revenue yield. The property valuations are out of date, and inconsistently out of date. In general properties are valued closer to market value as properties are declared to the Tax Department. The reference date being used in the Bahamas is the day that the assessment is made, therefore ensuring inconsistence in the relative values across properties. Some assessment valuations were done this year, others were done several years ago and some have not been valued for many years. This creates a property valuation roll which does not ensure equity in the taxes being levied. The effective property tax rates will vary considerably across taxpayers, not based on government policy decisions but based on the valuation / assessment administration. The Bahamas needs to adopt a common valuation reference date (tone of the roll) to ensure consistency in the relative equity among property valuations.

3.71 From experience and the limited information available, however, it is estimated that the valuation ratio for properties ranges between 20 and 80 percent of real market values, depending on the age of the valuation roll. Overall the valuation ratio may be about 40%. Although valuations may be accurate when first produced, this accuracy erodes over time due to shifts in relative and absolute market values. These low valuation ratios and the variation among the property values create efficiency and equity distortions, which impact the compliance level and the overall revenue yield from the property tax.

3.72 The only way to improve the accuracy and level of the valuation ratio is to systematically update the valuation rolls to reflect changes in the relative and absolute changes in property market values. This can be done effectively through a combination of simplifying the valuation system (using a simple mass valuation technique), computerizing the maintenance of the fiscal cadastre and the valuation process, allocating manpower and financial resources to rating roll maintenance and having an open and transparent valuation appeals system.

3.73 The Real Property Tax Law provides that the CVO may value (assess) each property based on the information provided on the property information form. Although the law does not prescribe any specific valuation methodology for property taxation, the Tax Department relies heavily on the market approach to determine the basic value of land per unit and a cost-replacement approach to determine the cost per unit of different building construction types.[38]

3.74 The department currently uses the replacement cost method for all types of properties and this has led to an incorrect level of assessments both within sectors and similar genres of properties. Although the Department should continue to use the existing land value zone and replacement cost approach for residential properties, it may be more advantageous for the department to utilize a mixture of the three basic property valuation methodologies (cost, income and comparable sales) to arrive at the values for commercial properties. For example, the income approach would typically provide a more "fair" property value assessment for commercial properties.

3.75 The CVO has reported instances where commercial properties have been valued at considerably less than small residential houses because of ineffective referencing and application. Information for the commercial properties can be discerned by questionnaire and inquiries.[39] Respondents would be required to submit information pertaining to their rental revenue and expenses and a discounted cash flow analysis would be determined. This would give a general indication as to the rental market rates.

[38] The three commonly used approaches to property valuation are: (1) **the comparative method**. In this method sales of similar properties are used to determine a standard value for properties. This is usually employed where there are many instances of sales evidence and is mostly used in properties such as residential or vacant land; (2) **the income method or investment method.** This method is predominantly used in income producing properties and those properties where ownership and occupation are separate and distinct. It is used for those properties such as office buildings and other major rental properties; and (3) **the replacement cost method (commonly called the depreciated replacement cost method).** This is used in those circumstances where the buildings are purpose built and there aren't any instances of sales transactions between them. This would encompass buildings such as hospitals, schools, libraries and properties of that nature.

[39] According to records obtained from the RPT, there have been payments from 4,775 respondents categorized as Commercial Properties. It is therefore not an insurmountable task to capture this data. It is also noteworthy that this sector has contributed 51% of the total tax revenue from the payments received.

3.76 To simplify the administrative procedures and improve transparency, the Tax Department should codify this current approach of using the market value for land and the cost approach for buildings. This can be done through developing a set of similar land value zones for land assessment and a set of building cost tables. The land value zones could be translated to a map showing the relative valuations per unit with the parcel information capturing the relative location by zones which can be easily updated through a simple computer-assisted valuation module. Similarly, the building cost tables should be developed, published and applied to the building information characteristics to assist the property valuer to quickly determine a more consistent set of relative assessment values for each property. These improvements would allow the Tax Department to introduce a simplified system of mass valuations.

3.77 Property valuations are typically conducted either though a system of single property appraisal or through a system of mass appraisal. A single parcel appraisal is conducted by a valuer who personally visits each property to determine an individual valuation for each property. These single parcel appraisals are typically used for bank mortgages, companies going public, and for insurance claims. Although this approach may produce a very accurate valuation, it is manpower and time intensive thus creating a backlog of out-of-date and incomplete valuation rolls.

3.78 To overcome these problems, many countries have adopted mass valuation approaches for property tax valuation purposes (e.g., United States, Canada, Denmark, Sweden, Chile, Indonesia, Estonia, and United Kingdom). Property mass valuation has been shown to produce equitable, up-to-date values in a manner that is more transparent, cost effective, timely and sustainable. These mass valuation techniques separate the field data collection activities associated with the coverage ratio from the valuation activities associated with the valuation ratio, which allows the scarce and more expensive valuation resources to focus on market data analysis, valuation models and specific property valuations rather than on collecting and maintaining property data in the field.

Access to Valuation-Related Information:

3.79 The Law provides the CVO adequate discovery powers to have access to properties to determine the property characteristics needed to adequately value a property. Property owners can be required to fill in property information returns. The Tax Department has the power to collect other information including valuation information to determine the correct property valuation assessment.

3.80 The law does not include reporting requirements for other non-taxpayer parties to submit property related information. As identified above, the Tax Department should have the power to require third parties (notaries, registrar general, treasury, banks, lawyers, etc.) to submit relevant property ownership, physical characteristics and valuation information needed to update the fiscal cadastre and valuation assessments.

3.81 The Tax Department does not appear to be systematically collecting property value information needed for updating the land value and building cost tables. As further discussed in Chapter 4, the Tax Department needs to access, collect, manage and monitor market information on land and property prices on New Providence and Paradise Island and in the Family Islands. This information will largely come from third party sources. Such sources would include, among others, conveyance documents, other government departments, banks and mortgage institutions, newspaper and other sources. As discussed above under the property coverage section, it is critical for the Tax Department to develop administrative procedures to also systematically collect market value information from a variety of third party sources. Such sources would include, among others, the Department of Lands and Survey, Registrar Conveyance Documentation, Treasury-related stamp duty information, and the Ministry of Public Works building cost tables. This information must be analyzed for consistency then used to develop the land value zone information and building cost tables which can be applied for property valuation purpose.

3.82 A valuable source of property value information is the transaction information from conveyances registered at the Registrar General. This information is on the conveyance documents, with the value used to determine the basis for the stamp duty on property transactions. Given the relatively high stamp duties (up to 10% for those properties over $250,000), there would be a natural inclination to under-report the actual transactions values to minimize tax payments. In the Bahamas, there seems to be no ex post verification of the valuations declared for the payment of stamp duties. Sales-ratio studies could be conducted periodically to confirm the accuracy of the valuation information to ensure greater equity.

Appeals and Dispute Resolution:

3.83 To ensure transparency and accountability in the property valuation and assessment process, all property tax systems must include an appeals and dispute resolution component. Taxpayers must have access to a system and procedures to allow them to lodge an objection to the assessment value determined by the Tax Department or to the tax liability calculations based on that valuation. These appeal systems give the taxpayer the right to challenge the estimated property value both administratively and through the court systems. These appeals systems are essential to help ensure that property valuations are fair and close to market value, which produces a more accurate and high valuation ratio

3.84 The Real Property Tax Act provides for an appeals process, but discussions with the Tax Department suggest that the appeals process has not been extensively tested in practice. There appears to be a very low number of appeals against the property valuations which could imply either a very accurate, fair valuation system but probably implies that the valuations are so below the market value that taxpayers do not object for fear of a possible higher reassessment adjustment.

3.85 As the Bahamas moves to improve the quality and accuracy of the property values for tax purposes, it will be important to improve the taxpayer services related to access to information and dispute resolution. This can be done through improving the transparency and accessibility of the dispute resolution procedure, making standard forms available to the general public. This would outline their rights and obligations under the act and simplify the procedures for interacting with the Tax Department. Discussions with the Tax Department suggest that there may be a breakdown in managing taxpayer correspondence, leading to delays in handling the taxpayer relations related to property tax assessment and collection. It was suggested that this is an issue of staffing levels and office systems and procedures.

3.86 The valuation absolute and relative levels are critical variables which affect the revenue yield, equity and efficiency of the property tax system. As outlined above, there are a variety of steps which can be undertaken to improve the valuation ratio and these steps are further discussed in Chapter 4.

Property Tax Collection/Enforcement Ratio

3.87 Ultimately the most important step in property tax administration is tax collection and enforcement against noncompliance since the property tax is essentially a fiscal instrument designed to provide government revenue.[40] Given that revenue is the primary objective for property taxation, it is clear that identifying and valuing the tax base are only supportive activities—important as they may be. Thus, maps, property information and valuations are only intermediate outputs used to obtain the revenue objective. This emphasizes the prime importance of the collection and enforcement function.

3.88 The collection level in the Bahamas is quite low. In 2009, the Tax Department collected revenues from about 40% of the tax bills which were issued from the property tax roll (i.e., 15,000 from the issued 37,000 tax bills). From these 15,000 taxpayers, the government collected about $84 million in 2009. The Tax Department reports that the tax roll has an estimated 120,000 properties registered on the tax roll. From experience, it is estimated that these 15,000 compliant taxpayers may represent the higher value properties, thus could represent up to 60% of the total property tax

[40] The property tax can also be used to improve efficiency (e.g., through using vacant land taxes or betterment taxes), and/or improve equity (e.g., through taxing real estate capital equally). These objectives can only be obtained however if the property tax is uniformly and effectively collected and enforced. That is, the various property tax objectives (i.e., revenue, efficiency and equity) in law cannot be realized unless the revenue is actually collected and enforced.

potential liability.[41] If so, then the Tax Department would have an estimated property tax collection ratio of between 40-60 percent.

3.89 The low collection level could be attributed to such factors as (1) lack of taxpayer's confidence or understanding in how the tax is levied, collected, and enforced, and used, (2) lack of legal and administrative collection and enforcement mechanisms, and/or (3) lack of political will, among others. Table 3.7 outlines some typical reasons for the low collection ratios and possible policy and administrative options to improve the collection ratio.

3.90 To improve the collection ratio, the Bahamas must adopt various policy and administrative provisions related to tax collection. In addition to improving taxpayer service and education to encourage greater voluntary compliance, the Government must also actively encourage voluntary compliance through stricter enforcement measures in the form of sanctions and penalties (e.g., the imposition of late payment penalties, possible interest payments, various sanctions such as the use of tax clearance certificates, tax liens, and penalties).

3.91 Voluntary compliance is the preferred approach to maximize revenue collections. Under this approach, governments must provide positive incentives to induce taxpayers to voluntarily pay their property tax liabilities (e.g., providing public relations and taxpayer education programs stressing the importance of the property taxes to public services and explaining the payment procedures and processes, linking tax payment to service delivery, simplifying the tax payment procedure to lower compliance costs and providing frequent and accurate information on tax collections and enforcement). In addition to reducing the compliance costs for voluntary compliance, some governments have adopted a policy to provide for a small discount for those taxpayers paying in a timely and complete manner (Philippines, Barbados, Ecuador, and Kenya).[42] To date, the Bahamas does not provide any form of early payment discount.

3.92 To reduce administrative and compliance costs, many countries provide multiple payment alternatives. Rather than forcing taxpayers to pay their taxes physically at the Tax Department (or treasury departments), countries have introduced options for tax payments to be made through various convenient physical payment points such as banks, post offices, and ATM machines and/or providing payment options through the internet for electronic checks and/or credit card payments. Some countries are even experimenting with payment through cell phones credit transfers. The Bahamas currently requires payment to be made through the Property Tax Department, in cash or

[41] This collection ratio estimate would need to be verified by an analysis of the detailed tax roll information.

[42] Although several countries employ a system of discounts, it is recommended that discounts not be given for property taxation. Discounts introduce administrative difficulties that could be avoided. For example, if penalties are credible and systematically enforced, taxpayers will have a positive incentive to pay in a timely manner to avoid the penalty. In inflation-prone regions, it is better to simply index the tax system rather than complicate the system with a system of discounts (e.g., Chile). To reduce compliance and administration costs and cash flow problems, Bahamas, like many countries, encourages a one-time installment tax payment procedure.

with a certified check. The Tax Department is considering the costs and benefits of opening up regional sub tax department offices on Grand Providence to improve taxpayer service and reduce the compliance costs for tax payments.

3.93 In the event taxpayers do not comply voluntarily, government must adopt policies involving sanctions and penalties. Sanctions, which are the withdrawal of government services due to noncompliance, can be applied to location-specific government services related to the issuance of building permits, business licenses, and/or the withholding or suspension of utilities. These sanctions are often enforced through a system of "tax clearance certificates" which must be issued by the Tax Department to the taxpayer prior to any property-related transactions or service.

3.94 A formal system of tax clearance certificates is currently not being used in the Bahamas. A tax clearance certificate should be required from all taxpayers for all premise-based services. For example, a tax clearance certificate should be required by the electricity company prior to connecting electricity service, by the Bahamas Investment Authority prior to issuing any permit or certificate, and the Registrar prior to recording the conveyance. In addition, a tax clearance certificate should be required by the private sector in the case of financial institutions issuing mortgages or extending a loan using property as collateral.

3.95 In addition to sanctions (i.e., the withholding of service for non-payment of a tax), governments use a range of penalties to encourage tax payment compliance. These include the imposition of a lump sum late payment penalty and/or a monthly interest payment for late payment. The Bahamas uses a lump sum annual late payment penalty of 5% on the outstanding tax liability.[43] The law provides that the penalty be applied within 30 days after the due date of tax payment. Since tax bills come out in November for payment by 1 January each year, the 5% penalty should legally be applied from 1 February in cases of non-payment. In fact, however, the 5% penalty is only applied if the tax payment has not been paid within the full calendar year. Thus, taxpayers are given an implicit administrative grace period of 11 months in which to pay before the penalty is applied in practice.

3.96 Applying a late penalty charges and/or interest can encourage taxpayers to resolve their outstanding liabilities by increasing the "potential" cost for non-payment. Those penalties are only "potential" penalties which must be "realized" through enforcement by the government to legally recover the tax debt inclusive of penalties. Without the option of "forced" recovery of the tax and the related interest and late penalties, the property tax collection, even with the imposed late penalties, may never be realized. These penalties can only be realized through the possible legal options such as garnishing wages, garnishing rents, seizure and sale of movable property and/or the seizure and sale of immovable property.

[43] Previously the property tax applied a 5% late penalty the first year and a 10% late penalty the second year. This was changed in 2008.

Table 3.7: Reasons for Low Collections and Options for Improving the Collection Ratio

PROBLEM	OPTIONS
People refuse to pay because they have no faith in how the government will spend the collected revenue. They feel that the collected revenues will be misused and therefore refuse to or are reluctant to pay.	Increase government credibility by improving the budgeting and expenditure decisions. Improve public relations between the government and the taxpayers--correct misinformation about expenditures decisions.
People refuse to pay because they have no faith in the ultimate equity of the property tax system. Outdated property information, unequal property valuations, wrong assessments, mismanaged collections, unsystematic enforcement, and lack of fair appeals procedures create mistrust.	Improve property tax policy and administration. Reexamine the policies related to tax base definitions, exemptions, rates, deductions and assessment ratios, incentives, sanctions and penalties, and appeals. Administration improvements may need to focus on property information, valuation, assessment, collection, enforcement, and appeals.
People are willing to pay but do not pay because of poor tax administration. For example, tax bills are late, tax bills are never delivered because of inadequate bill distribution systems, taxpayers are uninformed about the payment procedures, payment procedures are complicated and payment points are inconveniently located. Compliance costs for payment are very high in relation to the amount of the tax or the penalty for noncompliance.	Improve the tax administration. Use computers to calculate and issue tax assessment notices, change the legal concept of notification, institute an effective bill delivery system, improve the taxpayer education program and simplify the payment system.
People do pay but the tax revenue collected may be mishandled and incorrectly managed. This is especially a problem in cash-based societies.	Transfer teller function to the banking system; install a carefully-designed payment control system.
People do not pay because they know the government ultimately will not enforce the tax obligation. There is a lack of enforcement measures (incentives, sanctions or penalties) and/or there is a lack of political will to use the available enforcement measures. Often the taxpayers will use the court system to effectively forestall any attempt at enforcement.	Ensure that the payment control system generates a prompt and accurate delinquency list to enable enforcement, reevaluate the incentives, sanctions and penalty structure and mobilize political will to enforce. Effectively develop and utilize non-court options for encouraging compliance
People do not pay because there is a lack of tax payment mentality. Some cultural/political systems have a recent history of free services from the government and thus do not understand the rationale for taxation in general. In rural areas, customary land tenure systems make it difficult to enforce through seizure and auction of property.	Taxpayer education program to explain the importance of property taxation. Carefully evaluate the cultural/political norms and implement creative alternatives means to stimulate compliance.

3.97 The specific structure of these enforcement options depends on whether the land is held under freehold or leasehold rights. If freehold, the taxpayer holds the title/deed to the property—thus, the government can take action against the property itself through placing a lien against the property and ultimately selling the property to recover the outselling property tax debt. On the other hand, if the properties are under leasehold, the government's only option is to take action against the individuals or businesses owing the tax such as through attaching taxpayer wages, seizing taxpayer assets, or canceling the property leases.

3.98 Effectively using social pressure to encourage property tax payment compliance has been effective in many countries. Publishing names of top compliant taxpayers publicly recognizes outstanding compliant taxpayers as positive role models, thereby helping to encourage voluntary compliance. At the same time, publishing the names of the largest non-compliant taxpayers can possibly force them to pay their taxes and encourage other noncompliant taxpayers to pay in order to avoid the possibility of being shamed in public. Both approaches of mobilizing social pressure can encourage voluntary compliance. To date, this publishing of either the compliant or noncompliant property taxpayers has not been used in the Bahamas.

3.99 The Real Property Tax law was amended in 2009 to allow for the seizure and auction against foreign-owned unimproved property; but not on owner-occupied or commercial property. This amendment strengthens the ability of government to take final action against noncompliance. To date, the law has not been applied. In accordance with international best practice, the Tax Department should have the power to seize and auction any property which is in non-compliance.

3.100 The Bahamas is estimated to have over $633 million in outstanding arrears, which is more than seven times the annual property tax liabilities. The individual files will need to be cross-checked and amounts verified to ensure the accuracy of the arrears. It must be recognized that some of the outstanding arrears may be uncollectable debt, needing to be written off the accounts. Others, however, may be collectable and could bring in considerable amount of tax revenue on a one time basis with an appropriate collection/enforcement strategy. See Chapter 4 for a possible collection strategy for these outstanding arrears.

3.101 As Table 3.8 indicates, there are 47,596 outstanding taxpayers who owe a total of over $633 billion. The majority of outstanding arrears are owed by the commercial properties (61%), followed by vacant land (25%) and owner-occupied properties (15%). On average, the commercial taxpayer owes $23,000; while the owner-occupied taxpayer owes $10,490 and the vacant land taxpayer owes $7,096.

Table 3.8 Distribution of Outstanding Property Tax Arrears by Property Type as of 2009.

Property Type	No of Tax Payers	Tax Amts ($)	% Tax Bills	% Tax Amts	AVG Taxes
Vacant Land	22,073	156,623,337	46%	25%	7,096
Owner Occupied	8,915	93,519,861	19%	15%	10,490
Commercial	16,608	383,272,737	35%	61%	23,078
Total	47,596	633,415,936	100%	100%	13,308

Ministry of Finance, 2010

3.103 As Table 3.9 indicates, the property tax arrears are heavily concentrated in only a few taxpayers. Only 168 taxpayers (0.6% of total taxpayers in arrears) owe 25% of the arrears, for an average of $943,040 each. 10% of the taxpayers owe more than 75% of the outstanding arrears amounts.

Table 3.9 Distribution of Outstanding Property Tax Arrears by Amount of Arrears as of 2009

% of Revenue	No of Taxpayers	% of Taxpayers	Amount of Taxes	Average Tax
25%	168	0.6%	158,430,670	943,040
50%	1,283	2.2%	158,297,516	123,381
75%	4,419	7.0%	158,306,938	35,824
100%	41,727	90.3%	158,380,811	3,796
Total	47,597	100.00%	633,415,936	13,308

Ministry of Finance, 2010

3.102 To encourage greater compliance, there is need to design and implement a tax arrears collection strategy to improve revenues, equity and efficiency in the short term, mobilize the policy will for enforcement, and send a signal to taxpayers to improve voluntary compliance in the future. As outlined in Chapter 4, the Government should undertake a comprehensive collection and enforcement approach structured around a combination of payment and collection incentives, sanctions and penalties, combined with the necessary political will to ensure follow up action be taken against noncompliance to the full measure of the law.

Property Tax Reform Implementation Strategy

3.103 Strong political support is critical to implement such property tax reform activities as improving the collection ratio through using active enforcement provisions (e.g., fines, liens and foreclosures), the coverage ratio when compiling often sensitive land information into a more visible fiscal cadastre roll, and the valuation ratio when shifting towards a more cost-effective mass valuation approach.

3.104 The property tax is perhaps the most politically sensitive tax because it is visible, requires lumpy payments on a periodic basis and is most closely linked to the delivery of local services. The property tax usually affects a larger and broader group of citizens than the other dominant taxes. And assuming effective administration, the property tax will tend to fall most heavily on wealthier property owners who tend to be politically active.

3.105 Strong political commitment is therefore necessary to enact policy and administrative reform. Senior policymakers must be able to mobilize the necessary political, financial, managerial and technical resources to sustain a successful reform. Policy reform does not occur solely with the passage of a new law or the issuance of new procedures. Rather, reform is an ongoing process realized only through effective and sustained tax administration.

3.106 International experience confirms that it is very difficult to mobilize and sustain the "political will" necessary for successful property tax reform alone. Due to this highly visible and political nature of the property tax, it is almost imperative to structure any property tax reform to take advantage of the momentum of other ongoing reforms (e.g., reforms related to broader taxes, fiscal decentralization, governance, or municipal development). Successfully linking (or piggybacking) property tax reform to these other efforts will increase the probability of successful implementation. In this sense, linking property tax reform to reforms linked to ongoing governance reforms to create more responsive and accountable government and linking property collections to improving location-specific, local public services may help the government to justify expanding the property tax base to cover all property throughout the Bahamas.[44]

3.107 Successful property tax reform requires a strategic approach to mobilize the necessary political will, the human and financial resources, the legal, procedural and IT systems support and the incentives needed to design, enact and sustain the reform effort. As explained earlier, the key to property tax administrative reform can be broken into how best to improve the coverage, valuation and/or coverage ratio. Where does one start? Does one start from the beginning by focusing on expanding the coverage ratio or increasing the level and accuracy of the valuation or

[44] Theory and international practice confirm that the property tax is typically considered an ideal "local tax". Currently the property in the Bahamas is a central tax, with policy and administration under central government control and with revenues included as general government revenues in the national budget. In some countries, the property tax is structured as a "shared tax" where the policy and administration continue to be under central government control but with the tax revenues shared with local governments (eg, Chile, Indonesia up to 2009), As a central government shared revenues, the property tax could be "earmarked" for local government budgets in the various islands giving strong incentives and some justification to those residents for the imposition of the property tax in the family islands as well as encouraging local engagement in ensuring improved revenue mobilization through improving the coverage, valuation and collection ratios.

does one start by focusing on the collection and enforcement first? Or does one try to strike an even balance between the two approaches.

3.108 In a stylized fashion, there are two basic strategic approaches to undertaking a property tax reform process. Countries either tend to start with strengthening the collection/enforcement ratio through a "collection led" strategy or countries tend to start with strengthening the coverage/valuation ratios through a "valuation-pushed" strategy.

3.109 **Collection-Led Reform Strategy**: This approach places priority on improving the collection and enforcement ratios while improving the quality of property information and the accuracy of property valuation. The focus is on revenue collection which is the ultimate objective of a tax, recognizing that the mapping, fiscal cadastre and property valuations are only intermediate objectives needed to support revenue collection itself. This approach also recognizes that the actual "collection" process is what "realizes" the revenue, equity, efficiency and accountability objectives of the property tax. And finally, this approach recognizes that the actual collection is the catalyst (incentive) to needed to encourage the improvement of all other aspects of property tax administration (i.e., tax base information, valuations, and overall administration).

3.110 Once the property tax is actually collected and enforcement is a reality, then taxpayers have a very keen interest to ensure that the property tax physical information and property values are accurate. Taxpayers then worry about appealing the property values to ensure they are not forced to pay taxes based on an inaccurate valuation. Without tax enforcement, taxpayers have the option just to ignore inaccurate property information and valuations by ignoring property tax payment itself. Focusing on property tax collections sets the incentives up for higher voluntary compliance, more active taxpayer participation exerting pressure on tax administration to ensure accuracy in the property and valuation information.

3.111 The classic example of the collection-led strategy was the highly successful property tax reform in Indonesia which began with the introduction of an effective payment collection system, followed by an improved property tax administration management system which covered all aspects of property tax administration management—including valuation (Kelly, 1993, 2004). A more recent example is Quezon City (Philippines) from 2001-2004 where the Government introduced strict enforcement (property tax seizure and auction for non-payment rather than periodic amnesties), improved taxpayer service to lower compliance costs, introduced more accountable collection reporting and audit, followed by improvements in the coverage and valuation accuracy (Kelly, 2008).

3.112 **Valuation Pushed Reform Strategy:** This approach places priority on updating the property tax roll through improving the accuracy of the property valuation. This approach stresses that the major improvements property tax yield will result from improving property valuations. The assumption is that the non-valuation administrative systems are fully functional, thus the major constraint is the low and inaccurate values.

3.113 In country environments which may lack strong political will for enforcing property tax collections, this valuation-pushed approach usually leads to beautiful maps, up to date fiscal cadastres, more equal property valuations, high potential tax revenues recorded on the tax rolls, but may lead to little to virtually no increase in actual collected tax revenues. With no effective collection enforcement, taxpayers have the option to ignore the more accurate tax bills based on the improved property information and property values. Tax compliance can actually go down, as taxpayers realize the lack of effective enforcement. Taxation without enforcement is not taxation, but only becomes a voluntary contribution depending on moral persuasion.

3.114 The classic example of a valuation-pushed strategy was the USAID Real Property Tax Administration project in the Philippines in the 1980s. This project saw property tax revenues increase by less than 1 percent following a multi-million dollar project (Dillinger, 1988). Most of the ongoing property tax reforms around the world have been structured as valuation-pushed reforms, typically designed by property valuers/assessors rather than by property tax administration reformers.

3.115 Focusing on only property valuation—e.g., solely creating up-to-date valuation rolls —is not necessarily useful when there is a primary problem of inadequate political will, collections and enforcement. At the same time, relying on a one-time valuation roll creation exercise even by the private sector may be expedient but not necessarily useful unless institutional capacity is simultaneously developed to ensure that the coverage and valuation ratios can be maintained over time. All administrative reform must be comprehensive, targeted strategically to ensure success in increasing the various ratios, leading to sustainable property revenue mobilization.

3.116 As will be subsequently discussed in Chapter 4, the Government of the Bahamas should follow a proactive, collection-led strategy to enhance equity, efficiency and revenues while establishing the right incentives and synergies for encouraging the updating of the fiscal cadastre and the property values through a periodic general assessment and updating as required. Without the political will and effective collection and enforcement systems, any effort to improve the property information and property values will be ineffective in generating the desired revenue, equity and efficiency gains.

Chapter 4: Recommendations and Way Forward

4.1 The Government of the Bahamas (GoB) is interested in improving the revenue yield from the annual property tax. In 2009, the annual property tax generated about 1.1% of GDP, despite having a narrow property tax base, out of date property valuations and a low revenue collection rate. With improved administration, along with some minor adjustments to the property tax policy, it is expected that the property tax yield could be increased up to 2.0 % of GDP over the next five years.

4.2 International experience confirms that the primary obstacle to increasing property tax revenues is the lack of strong political will and ineffective property tax administration. Based on international experience, the mobilization of the political will require GoB to (i) make amendments to the property tax legislation, (ii) support and require the Tax Deparments to prepare and publish manuals on property tax administrations and compliance procedures, (iii) support the training of officials on new procedures and taxpayer education programs concerning compliance with these procedures and (iv) back-up enforcement actions of the Tax Department to ensure fair and consistent property tax administration.

4.3 As identified in Chapter 3, Bahamas is facing a number of institutional and systemic property tax administration constraints. The property tax roll coverage and valuation is incomplete and inconsistently out-of-date. To date, a general property reassessment as per the law has never been undertaken in the Bahamas—any assessment updating has been done in an inconsistent manner. This has created major inequity among taxpayers with similar properties, but different valuations, and a major loss in potential property tax revenues. In addition, the property tax collection effort has been weak, with little to no enforcement against non-compliance. There is tremendous potential for improvement.

4.4 **To address these various administrative constraints, the Government should adopt a comprehensive, multi-year strategy to improve the coverage, valuation and collection ratios.** All properties should be accurately captured on the property tax roll, with up-to-date and fair property values. Appropriate tax liabilities should be assessed and levied, tax bills should be delivered in a timely manner, property tax liability should be collected, noncompliance should be addressed with strict follow up and enforcement and taxpayer service and dispute resolution must be handled in an equitable and effective manner. Broadening the tax base, improving the level and accuracy of the property valuations and improving the property collection rate will enable the Government to improve property tax revenue yield, equity and efficiency of the annual property tax system.

4.5 The current property tax situation did not become a problem overnight; neither will the problem be solved overnight. The property tax system will not "naturally" generate the required increase in government revenue. The Government must pursue a consistent, multi-year, proactive approach if the Government is seriously interested in generating the equity, efficiency and revenue from the property tax.

4.4 **The Bahamas should follow a "collection-led" reform strategy focusing on improving the collection ratio, while incrementally improving the coverage and valuation ratios.** The Government should focus initially on dealing with the property tax arrears, putting into place improved collection and enforcement mechanisms, enhancing taxpayer service, awareness and education, followed by ensuring a complete and up-to-date property tax registry and improving the accuracy of the property valuations.

4.5 **The Government needs to mobilize the political will and to strengthen the administrative capacity and administrative willingness to proactively improve revenue collection and to take decisive action against non-compliance**. Currently there appears to be little to no enforcement against non-compliance, which has generated property tax arrears of over $500 million, more than 7 times the annual property tax liabilities. This lack of enforcement against non-compliance affects both the immediate revenue yield and taxpayer equity as well as reduces the overall credibility of the property tax system leading to reduced levels of voluntary compliance in the longer run.

4.6 Successful adoption and implementation of this proposed "collection led" strategy will require an investment of strong political will and adequate financial and administrative resources to the Tax Department, combined with an effective taxpayer awareness campaign. A detailed implementation work plan should be adopted to phase in the reform process in order to create the synergies needed to mobilize and sustain the property tax reform process.

4.7 **The collection-led, multi-year property tax reform strategy should be linked to ongoing local governance reforms aimed at enhancing government accountability and improved local public service delivery.** Theory and international practice confirm that property tax is an ideal local-level tax, providing a direct and indirect link to improved local services. Local identity with the property tax could increase collection efficiency and help justify expanding the property tax coverage to all property in the family islands to cover the various locally-based island services. The property tax could be restructured as a central government "shared tax" revenue with 100% of the revenues allocated to the local governments throughout the Bahamas. Overall horizontal equity in government expenditure across the islands would be handled through adjustments in the budgeting process.

As international experience confirms, mobilizing the required political support for a stand-alone property tax reform is virtually impossible. Therefore successfully linking (piggybacking) the property tax reform to governance reforms will increase the probability of successful implementation by tapping into the political will and political imperative necessary to undertake the required property tax reforms.

4.8 **The Government needs to adopt an annual work plan linked to the property tax strategic implementation plan.** Annual work plans are needed to identify the tasks, related resources, and performance targets needed to implement the property tax strategic implementation plan. These work plans will enable the Tax Department to proactively implement a strategic “collection led” implementation strategy aimed at increasing the property tax yield. The Ministry of Finance should design the reporting format and cause to be produced the Annual Report on Property Taxation as per Law. This annual report can be used to monitor the implementation of the 3-5 year strategic “collection-led” implementation plan and the annual work plans. The current “reactive” style of property tax administration will not generate the needed increase in property tax yield for the Bahamas. The government must be intentional, proactive and aggressive if the country is going to realize the increase in property tax from 1.1% of GDP to 2.0% of GDP within the next five years.

4.9 **To ensure consistency, equity and sustainability of the reform implementation, the Government needs to revise, and then codify the various property tax administrative system procedures into “standard operating procedures (SOPs)” for each of the administrative procedures** (e.g., property identification, data collection and maintenance, property valuation, revenue collection, tax enforcement, appeals and taxpayer service. A property tax administration manual should be adopted to guide the day to day operations of the Tax Department.

4.10 The Tax Department currently operates its property tax administration in the absence of published standard operating procedures which can systematically guide the department staff in their administrative responsibilities. The currently-used administrative procedures appear to be passed informally from older to younger staff through on-the-job training and “learning by doing” observations. The only written document, which does not seem readily available to the staff, is an unofficial operational manual written in 2007. To improve administrative performance, consistency and service, it is critical that the property tax administrative procedures be codified.

4.11 The following sections focuses on the key recommendations linked to the policy and administrative variables discussed in Chapter 3.

Policy Variables:

The Property Tax Base

4.12 As identified in Chapter 3, the property tax system in the Bahamas includes very generous exemptions which should be reduced to improve property tax revenue yield, equity and efficiency. These exemptions include, among others, those for owner-occupied housing, hotels under the Hotel Encouragement Act, and Bahamian-owned property. These exemptions should be reviewed and adjusted as follows:

4.13 **The Owner-Occupied Housing exemption threshold should be reduced** for several reasons: **First,** the current owner-occupied exemption of $250,000 is substantially higher than those in the neighboring United States. **Second,** the exemption is not means-tested, meaning that the exemption is given to rich and poor alike perpetuating inequity. **Third,** the level of exemption was increased without a systematic updating of property tax roll values. **Fourth**, the exemption is difficult to administer to ensure that second homes are not also receiving a second exemption. As a first step, it is recommended that the owner-occupied exemption be shifted back to the previous $100,000 level to be more consistent with the home owner exemption used in neighboring countries, such as the United States and to allow the valuation tax roll time to be adjusted upwards consistent with increases in actual market value.

4.14 The recent increase in the exemption from $100,000 to $250,000 appears to have been largely a politically-driven ad hoc adjustment, not directly linked to actual changes in relative property value increases. If the Government was interested in maintaining the owner-occupied exemption amount in real terms, the exemption level should have been adjusted in line with the relative increase in property values as captured on the valuation roll. For example, if the property values captured on the valuation roll had increased by 100% over a five year period, then the exemption could have been adjusted by 100 % over the same period (i.e., from $100,000 to $200,000 to continue protecting the owners living in that valuation bracket of houses).[45]

4.15 Due to the lack of a general reassessment process, the property tax roll does not accurately reflect increases in market property values. It has been estimated that the valuation ratio is less than 0.5, meaning that the property values on the tax rolls are less than 50% of the true property market values. Since property values have not been adjusted upwards to reflect the real change in market values, the increasing of the property tax exemption from $100,000 to $250,000 dramatically reduced the number of properties liable for the property tax. Properties that should not be receiving the owner-occupied exemption are now receiving the exemption because their properties have not been revalued to reflect the changes in market values.

[45] If the government objective is to keep a high owner-occupied exemption and would like to adjust it consistent with increases in relative property values, then the exemption level should be adjusted only in line with the relative property valuation increases as captured in the assessment rolls. For example, if the relative property values increased by 100%, then the exemption level could be increased by 100% to keep the relative value of the home-owner exemption. If the increased market values are not captured on the assessment roll, then the exemption level should also not be increased. If the exemption level is increased while the property valuation roll is not increased, then the government is dramatically (and perhaps unintentionally) increasing the exemption levels, dramatically reducing the number of taxable properties, thus affecting the property tax yield.

4.16 To address this issues (and to achieve the original government policy objective), the exemption should be reverted to the original $100,000 level or the new $250,000 exemption should only be applied to those owner-occupied housing that were recently revalued to realistic market values. If the property still reflects the old market value as its assessed value, then the increased $250,000 should not be applied.

4.17 **The property tax exemption for hotels, rental pooling, and time shares should be reviewed and reduced**. Although perhaps well intentioned, the generous property tax exemption on hotels and other tourist related investments may be extravagant and unwarranted. It will be important to evaluate the impacts of this exemption on investment cash flows and possibly phase down the exemption to a more reasonable level. This hotel exemption seems extremely generous, potentially allowing hotel investments to be property tax exempt for up to 20 years. This exemption provides a major subsidy to the hotel investors and to users of those hotels who receive government services without paying the property tax and the true costs of government funded services.

4.18 **These hotel-related property exemptions are perhaps over generous and not a major contributing factor influencing investment decisions**. Although hotel investors may argue the need for the property tax exemptions to make an investment financially attractive, it will be important for the Government to evaluate these claims, undertake some cash flow analysis to determine the relative importance of the property tax exemption on the financial rate of return on a hotel investment. It may be possible to eliminate these exemptions for future hotel investments. The government should track the expiration date of these hotel exemptions to immediately be able to tax these properties as their exemption periods expire.

4.19 These hotel-related exemptions have also been inappropriately used by property investors to escape property taxation in the Bahamas. Through the hotel "rental pool" arrangement, for example, many private home owners were able to evade their property taxes. The Government changed the Hotel Encouragement Act in 2009 to enable to enable these private homes (included in "rental pools") to be properly taxed.

4.20 **The current property tax exemptions for Bahamians should be reviewed**. When the Bahamas joins the WTO, it will be necessary for the Government to change its tax system to eliminate the property tax distinctions given to Bahamians and foreigners. This means that the current exemption on unimproved land owned by Bahamians on New Providence will need to be restructured. In addition, the current exemptions given to Bahamians on all property on the family islands will need to be restructured.

4.21 One option would be to treat all property equally without any difference due to land ownership. This would mean that all property owned by Bahamians would be liable for property tax on both New Providence and the family islands. Expanding the property tax to all Bahamian-owned properties will accomplish several important objectives: (1) it would strengthen the Government accountability to Bahamian citizens through establishing a taxation to public service linkage[46]; (2) it will provide important government revenues to pay for improved levels of public services; and (3) it will improve land use efficiency by putting a holding cost on property encouraging citizens to bring land into "higher and better use" purpose.

4.22 If taxing all Bahamian property on the outer islands is not desired, then it will be necessary to restructure the exemptions to allow exemption for Bahamians without identifying the exemption as linked to the nationality of the owner. For example, it may be possible to set differential exemption thresholds for commercial, owner-occupied and vacant properties which would largely exempt Bahamians citizens. However, this approach would allow those exemptions to be given to foreign owned properties that met the exemption threshold as well, while those Bahamians who owned properties above the exemption threshold would be required to pay the property tax. Unfortunately information on property owned by Bahamians is not on currently recorded on the tax roll so it is impossible to design and simulate possible changes in tax exemption policies at this time.

Property Tax Rates

4.23 **The Government should simplify the property tax rate structure to improve the transparency and accountability of the property tax system to taxpayers**. Rather than having a progressive tax rate structure, it is recommended to simplify the tax system to either a single rate or a simple classified rate structure which would apply a single rate to standard categories of property such as commercial, owner-occupied and unimproved properties. As identified in Chapter 3, Jamaica shifted from its progressive property tax to a flat rate structure in 2005.

Administrative Variable:

Coverage Ratio

4.24 **The Government should undertake a number of reforms to improve the Coverage Ratio to ensure that all properties are accurately captured on the tax roll, with accurate information on the property characteristics needed to determine an accurate property valuation**. These reforms would include the following:

4.25 **Passive Data Capture:** The Government needs to expand the use of third party information from the Bahamas Electricity Company, Water Company, Bahamas Investment Authority, and Public Works to update the property records. These agencies have varying property related information on such characteristics as property location, names of occupants

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[46] See Taxation and State-Building in Developing Countries, (eds) Brautigam, Fjeldstad and Moore, 2008

and/or taxpayers, property size, property types, property building characteristics and property values. This information should be systematically collected by the Tax Department through the use of a standardized property information sheet (insert example form?).

4.26 The current property tax reporting form is designed to be used by the taxpayer to report changes in property tax information. This form needs to be streamlined to capture a broader range of information, such as other third party information like the electricity meter number and other parcel-base identifiers which might facilitate later data cross referencing. The form should be redesigned for easy computer data entry.

4.27 The law currently requires only property owners to report their information systematically to the Tax Department. This should be changed to require all third parties handling property-related information to report this information to the Tax Department. This would include such third parties as lawyers, notaries, banks and lending institutions, as well as third parties such as the Ministry of Public Works, the Registrar General, Treasury and others. The reporting format should be in the manner and form prescribed by the Tax Department.

4.28 The third party regulations should be changed to force customers to submit a property reporting form when applying for the property-related service. A copy of this form should be given to the Tax Department to be used for updating the property tax files. For example, the Bahamas Investment Authority (BIA) should require the customer to submit a property reporting form and a tax clearance certificate when applying for either a BIA permit or a BIA certificate.

4.29 **Active Data Capture:** the Government should take a more active data capture strategy to supplement the data collected through the passive data capture mechanisms. The Tax Department must undertake a strategic and systematic field updating of property information using cost effective, strategically targeted field data collection/valuation to broaden the tax base coverage and valuation accuracy. This can be done by targeting higher value neighborhoods. Creative use of the electricity installed capacity and electricity usage can help target those geographic zones which would have the higher value properties.

4.30 In addition to this selective, targeted approach to active data capture, the Government should have a strategy to conduct a general reassessment every 5 years as provided for in the law. This will require the Tax Department to develop a work plan strategy to systematically update property information and property values across the taxing jurisdiction. This field work should be undertaken in accordance with the “standard operating procedure” for property roll updating process discussed earlier. This updated data on housing characteristics will be used to determine the relative assessments used for determining property tax liability.

Valuation Ratio

4.31 The Government should continue using a simplified valuation approach for determining the relative property value for each property. This **simplified valuation approach should be systematized and made more transparent, allowing the system to be adopted as a computer-assisted valuation method**. This will require the Tax Department to develop value zone maps and building cost tables which can be updated easily through the computer. The land value zone maps should be determined using any and all available market land transactions. Information from the Department of Lands and Survey on land prices should be made available to the Tax Department to make these land value maps. Information from the Ministry of Housing should be made available to make the building cost tables. The Tax Department needs to systematically gather these and other market-related information to refine these land value maps and building cost tables which can be used for property tax valuation purposes.

4.32 **As part of the Standard Operating Procedures for Valuation, the Government needs to design a standard property market information collection form which can be used to capture the property related valuation information**. As indicated under third party information collection (?), regulations should be changed to force government agencies linked to land transactions and land issues to fill in these forms (e.g., DOLS, Registrar General, Treasury, etc.). Completed forms should be a requirement for the conveyance of properties and a copy should be submitted to the Tax Department.

4.33 **Field work related to either the coverage or valuation ratio should be targeted initially to those higher value zones**. This will allow the Tax Department to target their scarce resources on those neighborhoods which will generate the maximum revenues and have the greatest equity impact at minimum administrative costs.

4.34 **As per the Real Property Tax Act, it is critical that the Tax Department begin to value properties based on a common valuation date.** Currently the valuation is estimated based on the date of the actual valuation. This means that properties are being valued and taxed upon values which are inconsistent, generating inequity. For equity purposes, it will be important to establish a common valuation date for all valuations.

4.35 Although the property Tax Department should undertake a general reassessment every 5 years, it may be advisable for the Tax Department to index property values to inflation during the interim years to avoid “sticker shock” when properties are valued after a five year period. This indexation approach is used in several countries as a way of keeping the property tax roll relatively up to date during the intervening years between the periodic updating of general assessments.

4.36 The Government currently uses the cost approach to estimate the property assessments for taxation purposes. Although this is a simple, cost effective approach to property valuation, the cost approach does not capture the accurate property value for all types of properties. It is recommended that the **Government consider using the income approach to value commercial property** to improve equity and more accurate valuation levels. It is recommended that a pilot effort be undertaken to estimate a sample of commercial properties using the income approach in order to compare the relative results as compared to the market value. Based on the analysis, the Government can adopt the more appropriate valuation approach. There would be no need for any legal change as the Real Property Tax Act allows for either method of valuation.

Collection Ratio

4.37 Property tax collection is critical for realizing enhanced property revenues and equity goals. The property tax roll only represents the "potential" revenue which must be ultimately "realized" through the collection and enforcement process. The current property tax collection is quite low. In 2009, out of 37,000 tax bills issued, only 15,000 taxpayers paid the tax. This is clearly an area needing dramatic improvement if the Government is going to increase its revenue yield from the property tax.

4.38 **The Government should design and implement a tax arrears collection strategy to improve revenues, equity and efficiency** in the short term, mobilize the policy will for enforcement, and send a signal to taxpayers to improve voluntary compliance in the future. Once again, with a strong, intentional, proactive collection and enforcement strategy implementation, it will not be possible to generate the desired property tax revenue improvements.

4.39 **The Government should expand its taxpayer awareness, taxpayer service and taxpayer education to reduce the compliance costs to taxpayers**. Taxpayers require information on tax payment responsibilities, requirements and rights. Taxpayers should be informed on the purpose of property taxation, reasons for the amounts, the payment procedures, and how to handle disputes and appeals. To the extent possible, the Tax Department should stress and deliver taxpayer service to encourage voluntary compliance.

4.40 To reduce compliance costs, the Tax Department should consider options to allow multiple tax payment installments to facilitate payments. The Tax Department should also consider options of payment through the banking system, internet, credit cards, ATM machines, and phone payment as a way of improving taxpayer service and convenience for payment. All of these efforts should be undertaken to reduce the compliance costs to the taxpayers, while recognizing the possible implications for increases in tax administration costs. The costs and benefits of each alternative should be carefully considered.

4.41 In addition to stressing taxpayer service and reduction of compliance costs, the Tax Department needs to fully inform the taxpayer of the consequences of non-compliance. Taxpayers should be informed about the late payment fee of 5%, the possibility of garnishment of wages and rents, the option of placing an encumbrance on the property title, and more recently, the possibility of the seizure and auction of unimproved property (as per the 2009 Real Property Tax Act amendment). Taxpayers should be given full information to encourage them to voluntarily comply with their tax obligations. Effective government-taxpayer communication is vital.

4.42 Although the Tax Department should stress and promote voluntary compliance, the Tax Department must be willing to and must exercise the enforcement provisions for non-compliance. Without enforcement, the tax becomes a voluntary contribution with only those civic oriented taxpayers paying the required taxes (or the politically weak), essentially subsidizing those taxpayers who do not pay the property taxes. This noncompliance reduces tax revenues, introduces major inequity and stimulates a culture of non-compliance into the tax system.

4.43 **Enforcement provisions should be implemented through sanctions and/or penalties**. Sanctions are actions which "withhold a privilege." Sanctions for property taxation should be linked to location-specific services such as building permits, electricity and water connection, BIA permits or certificates, the registration of deeds and/or other property-related conveyances at the Registrar General, business license fees and/or the transfer of property through the Treasury Stamp Duty process. Countries typically impose these sanctions through the formal use of a "tax clearance certificate" system. The rule is that the various agencies involved with property related transactions are not allowed to process any transactions and/or provide any service without the presentation of a Tax Clearance Certificate.

4.44 **The Government should develop an explicit policy and require a tax clearance certificate for any and all transactions and/or services related to property**. This would require taxpayers to obtain an official tax clearance certificate from the Tax Department which states that the property in question has paid its taxes in full and has no outstanding charges. Taxpayers would then be required to pay their property tax in full prior to receiving any property-related government service. This would be an effective way to indirectly encourage tax compliance.

4.45 In addition to the tax clearance certificate, the **Government should institute a system of tax liens** (also known as caveats, encumbrances) on the property deed/title at the Registrar General. Under this approach, the Tax Department would provide a list of outstanding charges by property identification number to the Registrar General for recording on the deed/title. This first charge on the property would take precedent over any private liens (such as mortgages) thus putting pressure on banks and other lending agencies to follow up with their clients for tax payments. The tax lien would need to be cleared before the title could be transferred. The tax lien would also encourage tax compliance in the event that the property was to be used as collateral for a loan. International experience shows that tax liens are a very effective way to encourage tax compliance. To date, the Bahamas has not used the option of tax liens to encourage property tax compliance.

4.46 Use of the tax lien should be strategic to maximize its effectiveness. The following incremental strategy should be considered:

- A tax awareness / information campaign should be undertaken to inform the public that the government will be taking strict enforcement against non-compliance to improve the equity of the property tax system. In addition to a late payment penalty, the Government will be instituting a system of recording a tax lien on the title of a property to ensure that taxpayers will pay the tax should the property be sold or transferred under an inheritance. The public should be informed that the tax lien amount with be the outstanding tax plus the late payment and a separate administrative fee for filing the tax lien.

- A selection of delinquent taxpayers should be chosen, strategically both for revenue and for publicity objectives. A letter should be sent to the taxpayer informing them of the outstanding tax amount, asking them to pay in full by a certain date. The letter should mention that, in the event of non-payment, the Government will be putting a tax lien on the property title. The letter would explain that the tax lien will remain on the property to be cleared prior to any property transaction. The letter would inform the taxpayer that their names and amounts will be published in the local newspaper prior to the tax lien to ensure that all taxpayers are fully informed.

- After the payment due date, the Government would publish in the newspaper the list of names and amounts of outstanding taxes, informing those on the list and all other parties who may have an interest in the property to pay their property tax by a certain date, otherwise a tax lien will be put on the properties. This public publishing of the names and properties and amounts may encourage third parties (such as banks, lending institutions or other interested parties) to get involved to put pressure on taxpayers to pay the outstanding tax and/or to pay the property tax on the property itself to avoid the tax lien.

- After the payment due date, send the list to the Registrar General for recording the tax lien on the property. Follow up the sending with a press release to let taxpayers know that the tax liens have been placed on the properties in accordance with the law. This will encourage other taxpayers towards voluntary compliance and show the political and administrative commitment of the Government for enforcing against noncompliance.

4.47 In addition to the effective use of sanctions (tax clearance certificates and tax liens), the Government must begin utilizing all other legal options to encourage compliance such as the option to garnish rents and wages as well as utilizing the strategic seizure and sale of unimproved property (2009 Amendment). All enforcement measures must be accompanied with effective public relations campaigns and be implemented strategically to maximize the impact to encourage voluntary compliance. The Government should maximize publicity, while providing taxpayer service to ensure equitable and efficient treatment in the enforcement process.

4.48 Under the 2009 Amendment of the Real Property Tax Act, the Government was given the explicit right to seize and sell unimproved property for noncompliance. To maintain government credibility, it will be important for the Government to take some symbolic action to enforce noncompliance against unimproved property. According to the arrears information from the Tax Department, there are 22,000 vacant land taxpayers who are in arrears for a total of $156 million, with average arrears of $7,000.[47]

4.49 A further analysis of the vacant land arrears shows that there are 38 vacant land taxpayers who owe more than $500,000 each. There are 237 vacant land taxpayers who owe more than $100,000 each. These are the logical taxpayers to target for the enforcement sequence. Once again, the strategy should follow the same sequence as the tax lien above. Hopefully, most will pay based on that strategy. If not, a further sequence of activities using tax awareness, individual letters, and newspaper publication should be followed prior to the actual seizure and possible auction of the property. International experience suggests that taking action on only a few cases will confirm the government's commitment to enforcement, establishing the political credibility and the impact on improving voluntary compliance.

4.50 The Tax Department should explore the possibility of seizing movable property instead of movable property. In some countries, tax departments are allowed to seize such movable property as furniture, air conditioners, vehicles, etc. rather than being required to seize and sell immovable property for the recovery of property tax arrears. This may have some advantages that should be explored.

Systems and Institutions

4.51 In addition to the specific recommendations to improve the coverage, valuation and collection ratios, **the Government should consider how to improve the property tax information technology systems and to rationalize the property tax administration institutional structure**.

4.52 To overcome administrative constraints, countries everywhere are increasingly using computers to improve fiscal cadastre maintenance, valuation, assessment, billing, collection and enforcement, dispute resolution and taxpayer service. Simple, narrowly-focused systems focused on basic operations tend to do better than complex systems. A property tax information management system must be to support all functions related to property tax administration—property information

[47] See Table 3.8 for details on outstanding arrears on vacant land.

management, valuation, assessment, tax billing, collection and enforcement monitoring and taxpayer service. The property tax administration management system should stay focused on tax administration and not try to provide extensive geographic information for regional planning, urban redevelopment, transportation, or environmental planning to the neglect of basic property tax administrative functions.

4.53 The Tax Department currently uses a SunGard Public Sector System for managing its property tax administration. This system appears to be essentially an accounting, billing and accounts receivable management system, but not a comprehensive property tax administration management system per se. The SunGard IT system itself does not seem to manage the property information itself nor does it help in determining / calculating the property valuations. These property information management functions are largely performed manually using property cards ("green cards"). The property information management and the property valuation functions seem to be are done exogenous to the SunGard Public Sector IT System. The SunGard system takes the property value as entered into the computer, applies an appropriate tax rate and calculates the tax liability. The tax liability is then issued as a tax bill and sent out for revenue collection.

4.54 Countries are increasingly developing computer systems which manage the actual property information and perform computer assisted valuation.[48] These systems typically have an interface to existing treasury systems or have built in billing and collection monitoring module which manages the account receivable functions. It may be that the SunGard Public Sector System has such property information and computer assisted valuation module. This needs to be explored. If not, it may be advisable to consider developing a more integrated property tax administration management system, building on the BNGIS or LUPAP funded property information systems.

4.55 A final area for consideration is the redesign of the institutional structure for property tax administration generally. Various recommendations have been made to create an Inland Revenue Department which would merge property taxation, business licensing, stamp duties, and excises. It is expected that this would facilitate the exchange of information, allow for a more functional reorganization and establish the strong basis for the Government to more effectively manage and coordinate inland revenue collection. This needs to be further explored to identify the advantages

[48] Unfortunately, there is a tendency to use property taxation to justify tremendous investment into sophisticated computerized geographic information systems, emphasizing digitized parcel mapping often based on a Global Positioning System (GPS). These systems are usually supply driven by the technology rather than demand driven by real needs of property tax administration system. Expectations are usually not realized because these expensive high-technology solutions fail to consider the broader aspects of property taxation, especially the administration interface between tax officials and taxpayers.

and disadvantages of the proposed organizational structure as it relates to enhancing property tax administration and ultimately property tax revenues.

4.56 The critical thing for property tax administration system is to maintain the objectivity of the property valuation function. Tax systems around the world do this by maintaining a separation between the fiscal cadastre/valuation functions and the more treasury-related functions of billing, collection and enforcement. In addition, the valuation appeals section must also be separated from the property valuation function to avoid a conflict of interest situation.

4.57 With minor adjustments to the policy framework through adjustments in legislation, but with major changes to the property tax administration, it should be possible to enhance the property tax revenues in the Bahamas. The current system is plagued with problems of incomplete property tax coverage, out of date and inconsistent property valuations, low property revenue collection levels, with little to no enforcement against non-compliance. This creates a source of major revenue loss and generates inequity throughout the system encouraging greater non-compliance.

4.58 Government should adjust the tax legislation to reduce exemptions and simplify the tax rate structure, while placing major priority on strengthening property tax administration. A combination of institutional and systems development is needed to empower the Tax Department to effectively expand the tax base coverage, improve the accuracy of the property valuations, and enhance property tax collections.

4.49 Standard operating procedures covering the property data collection, valuation, assessment, collection, enforcement, appeals/dispute resolution, and taxpayer service should be developed, field tested and codified into a Property Tax Administration Manual. The IT system should be designed to facilitate the systematic implementation of these administrative procedures. The Property Tax Administration Manual should provide the basis for a systematic capacity development program for the tax department and other key stakeholders. A systematic taxpayer education program should also be undertaken to explain the reforms, letting taxpayers understand their rights and responsibilities for paying the property tax. The combination of capacitated Tax Department with an educated taxpayer public will enable tax revenues to be collected in an efficient, equitable and accountable manner.

4.50 It is clear that a strategic, collection-led property tax reform will be able to enhance property tax revenues and the equity of the property tax system. This will lead to greater voluntary compliance and citizen/government accountability framework. In combination with improved taxpayer service and an updating (a general reassessment) of the property tax roll, the property tax system in the Bahamas should provide the basis for a strong source of government revenues in the future.

Annex A

Debt dynamics

For debt in aggregate with a constant composition or for single class of debt

$$\boldsymbol{D_t} \quad = \quad \boldsymbol{D_{t-1} - R_t + N_t} \qquad (1)$$

where $\boldsymbol{D_t}$ = stock of debt at end of year t

$\boldsymbol{R_t}$ = repayments of principal by end of year t

$\boldsymbol{N_t}$ = new disbursements of debt by end of year t

What is $\boldsymbol{N_t}$?

Required new disbursements are determined by :

$$\boldsymbol{N_t} = \quad \boldsymbol{R_t + D_{t-1} i_t - PS_t \ - \ OF_t} \qquad (2)$$

where $\boldsymbol{i_t^n}$ = effective nominal interest rate on debt in year t

$\boldsymbol{PS_t}$ = primary balance in year t

$\boldsymbol{OF_t}$ = Increase in other financing including decrease in cash balances, increase in short - term bank credit, increases in the check float, and proceeds from asset sales devoted to debt reduction.

From (1) and (2)

$$\boldsymbol{D_t} = \quad \boldsymbol{D_{t-1} \ + D_{t-1}\, i_t^n - PS_t \ - \ OF_t}$$

$$\boldsymbol{D_t} = \quad \boldsymbol{D_{t-1}}\,(1+\boldsymbol{i_t^n}) - \boldsymbol{PS_t} \ - \ \boldsymbol{OF_t} \qquad (3)$$

$$\boldsymbol{d_t} = \quad \boldsymbol{d_{t-1}}\,(1+\boldsymbol{i_t^n})/(1+\boldsymbol{g_t^n}) - \ \boldsymbol{ps}_{\mathrm{t}} - \boldsymbol{of_t}$$

where all variables are expressed relative to the GDP prevailing in the time period.

Alternatively,

$$\boldsymbol{d_t - d_{t-1}} = \quad \boldsymbol{d_{t-1}}\,(\boldsymbol{i_t^n - g_t^n})/(1+\boldsymbol{g_t^n}) - \ \boldsymbol{ps}_{\mathrm{t}} - \boldsymbol{of_t} \ = \ \boldsymbol{d_{t-1}}\,(\boldsymbol{i_t^r - g_t^r})/(1+\boldsymbol{g_t^r}) - \ \boldsymbol{ps}_{\mathrm{t}} - \boldsymbol{of_t} \qquad (4)$$

where $\boldsymbol{i_t^r}$ is the real interest rate and $\boldsymbol{g_t^r}$ is the real growth rate.

For stationary debt burden $\boldsymbol{d_t - d_{t-1}} = 0, \quad \boldsymbol{ps}_{\mathrm{t}} = \boldsymbol{d_{t-1}}\,(\boldsymbol{i_t^n - g_t^n})/(1+\boldsymbol{g_t^n}) - \boldsymbol{of_t}$ (5)

or for $\boldsymbol{d_t - d_{t-1}} < 0$, then $\boldsymbol{ps}_{\mathrm{t}} > \boldsymbol{d_{t-1}}\,(\boldsymbol{i_t^n - g_t^n})/(1+\boldsymbol{g_t^n}) - \boldsymbol{of_t}$

If single class of debt and interest rate on new debt is different from existing debt, and $\boldsymbol{i_o^n}$ is nominal interest rate on old debt, but future rates vary at $\boldsymbol{i_t^n}$, then

$$\boldsymbol{D_{t+1}} = \quad \boldsymbol{D_t} + (\boldsymbol{D_{t-1} - R_t})\boldsymbol{i_o^n} + \boldsymbol{N_t i_t^n - PS_{t+1} - \ OF_t} \qquad (6)$$

Annex B.
Revenues of Government of Bahamas

Table B1. Central Government Revenue, Calendar Years, 1993-2009

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
TAX REVENUE	**482,108**	**552,587**	**577,480**	**615,270**	**665,831**	**681,442**	**793,259**	**871,844**	**820,124**	**799,204**	**822,817**	**853,331**	**983,132**	**1,156,224**	**1,191,124**	**1,277,585**	**1,060,746**
Property Tax	19,994	19,214	14,558	32,037	28,379	30,453	29,659	31,324	32,307	35,731	39,378	49,404	45,311	59,054	90,451	73,924	90,730
Selective Tax on Services	22,129	22,514	27,495	28,924	28,798	27,435	34,561	42,656	38,669	36,795	31,365	35,283	51,027	37,700	45,509	45,650	35,217
of which: Gaming Tax	*15,085*	*15,601*	*19,038*	*20,056*	*19,488*	*17,988*	*20,205*	*21,771*	*15,732*	*14,823*	*11,946*	*13,044*	*24,570*	*14,433*	*13,767*	*13,877*	*10,740*
Hotel Occupancy Tax	*5,716*	*6,062*	*8,457*	*8,868*	*9,310*	*9,448*	*14,355*	*20,885*	*22,937*	*21,973*	*19,420*	*22,240*	*26,457*	*23,266*	*31,743*	*31,774*	*24,478*
Business and Professional Licence	26,337	23,745	33,523	34,093	34,735	39,066	54,216	57,994	50,022	59,297	54,188	56,978	62,459	69,400	76,583	90,245	92,303
of which: Company Fees & Registration	*4,278*	*4,231*	*5,710*	*7,683*	*4,112*	*4,515*	*4,652*	*4,476*	*3,501*	*5,798*	*5,107*	*5,608*	*4,642*	*5,023*	*5,885*	*6,918*	*5,992*
Int'l Business Companies	*2,725*	*3,650*	*3,586*	*2,238*	*7,325*	*8,523*	*16,863*	*14,114*	*11,089*	*19,215*	*14,967*	*15,682*	*14,681*	*13,489*	*15,227*	*21,333*	*20,054*
Motor Vehicle Tax	13,761	15,323	11,510	12,315	13,591	12,502	14,914	15,343	14,223	17,927	16,490	15,118	18,604	20,311	21,064	23,290	22,644
Departure Tax	53,486	56,847	50,148	51,104	56,301	50,871	59,588	64,220	57,270	66,188	63,711	69,527	73,867	80,101	77,464	70,530	69,271
of which: Passenger Ticket Tax	*1,520*	*1,658*	*1,601*	*1,552*	*4,162*	*2,463*	*3,513*	*2,428*	*1,944*	*1,660*	*1,579*	*1,502*	*2,222*	*1,397*	*3,856*	*1,839*	*1,667*
Taxes on International Trade & Transactions	n.a	n.a	388,594	404,774	437,028	448,059	502,685	522,276	528,294	506,637	529,056	483,636	607,153	669,963	681,462	674,807	561,717
Import Tax	*255,119*	*303,907*	*309,176*	*319,645*	*345,586*	*347,438*	*398,359*	*405,756*	*411,347*	*396,196*	*421,834*	*377,488*	*464,318*	*514,138*	*521,541*	*473,178*	*357,655*
Stamp Tax from Imports	*49,546*	*65,230*	*69,332*	*73,916*	*80,976*	*87,880*	*94,207*	*103,127*	*103,471*	*97,180*	*95,297*	*92,470*	*127,806*	*142,489*	*146,994*	*86,937*	*14,602*
Excise Tax	*n.a*	*n.a*	*n.a*	*n.a*	*n.a*	*n.a*	*n.a*	*n.a*	*n.a*	*n.a*	*n.a*	*n.a*	*n.a*	*n.a*	*n.a*	*101,094*	*174,087*
Export Tax	*8,279*	*9,099*	*9,880*	*11,031*	*10,392*	*12,165*	*9,840*	*13,102*	*13,365*	*13,120*	*11,786*	*13,202*	*15,463*	*13,283*	*12,758*	*13,591*	*15,363*
Stamp Duty on Exports	*n.a.*	*0*	*206*	*181*	*73*	*577*	*278*	*291*	*111*	*141*	*138*	*476*	*(435)*	*53*	*53*	*6*	*10*
All Other Stamp Tax	33,037	38,662	51,066	52,264	59,705	70,586	71,369	84,786	68,230	78,273	81,407	104,346	161,731	176,290	235,168	253,095	173,468
Other Tax	5,263	5,544	5,885	5,446	6,653	12,847	29,350	41,264	32,220	2,892	15,452	48,050	(24,536)	30,823	(22,211)	42,167	10,335
NON-TAX REVENUE	**54,699**	**62,061**	**66,333**	**70,623**	**69,922**	**79,452**	**75,534**	**78,837**	**100,082**	**89,716**	**78,060**	**91,687**	**123,184**	**138,149**	**130,289**	**158,029**	**270,968**
Income	16,251	19,637	19,795	25,439	23,302	28,817	25,468	29,801	21,203	35,478	10,299	27,888	30,085	52,732	39,264	46,729	176,836
Public Enterprises	*1,436*	*1,591*	*2,709*	*2,165*	*1,506*	*8,021*	*2,627*	*3,655*	*5,979*	*4,866*	*2,200*	*2,274*	*4,468*	*4,954*	*1,913*	*303*	*2,293*
Other Sources	*14,815*	*18,046*	*17,086*	*23,274*	*21,795*	*20,796*	*22,841*	*26,145*	*15,226*	*30,612*	*8,100*	*25,614*	*25,616*	*47,778*	*37,350*	*46,426*	*174,544*
Fines, Forfeits & Admin. Fees	37,080	40,827	46,061	44,461	46,064	49,847	49,604	47,655	78,137	52,903	67,067	63,267	90,550	84,038	90,258	107,417	93,440
Sales of Government Property	158	555	447	676	525	760	432	1,348	716	1,296	667	506	2,512	1,316	710	3,853	651
Other	1,210	1,042	30	47	31	28	30	33	26	39	27	26	37	63	57	30	42
CAPITAL REVENUE	0	0	9,000	22	804	452	306	15	63	2	0	15,160	12,196	(2,094)	40	107	95
GRANTS	0	3,588	4,081	500	500	0	0	0	0	0	0	0	1,000	0	0	0	0
TOTAL	**536,807**	**618,236**	**656,894**	**686,415**	**737,057**	**761,346**	**869,099**	**950,696**	**920,269**	**888,922**	**900,877**	**960,178**	**1,119,512**	**1,292,279**	**1,321,453**	**1,435,721**	**1,331,810**

SOURCE: Table 5.2 , Quarterly Statistical Digest, Central Bank of Bahamas. Based on Treasury Accounts and Treasury Statistical Summary Printouts

Table B2. Central Government Revenue, Fiscal Years, 1993/94-2009/10

(Bahamian dollars, thousands)

	21	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
TAX REVENUE	**534,669**	**568,920**	**587,480**	**623,681**	**684,333**	**727,957**	**849,322**	**856,965**	**772,169**	**814,960**	**830,960**	**924,417**	**1,094,065**	**1,197,466**	**1,267,349**	**1,129,878**	**1,109,027**
Property Tax	21,697	17,223	24,558	29,105	28,739	29,688	31,622	33,364	33,204	37,110	37,810	53,891	54,271	79,023	72,500	84,577	91,732
Selective Tax on Services	21,715	21,094	27,495	25,250	31,963	30,585	40,053	40,641	36,866	33,387	35,790	50,054	37,435	38,859	46,075	39,540	35,439
of which: Gaming Tax	*15,600*	*15,447*	*19,038*	*16,883*	*21,919*	*19,338*	*19,874*	*17,045*	*16,087*	*12,821*	*13,523*	*25,176*	*11,084*	*13,860*	*13,266*	*13,332*	*10,319*
Hotel Occupancy Tax	*6,063*	*5,646*	*8,457*	*8,366*	*10,044*	*11,247*	*20,178*	*23,596*	*20,779*	*20,566*	*22,267*	*24,878*	*26,350*	*24,999*	*32,810*	*26,209*	*25,120*
Business and Professional Licence	23,456	30,970	33,523	32,908	33,678	58,504	55,061	54,661	55,778	53,776	56,334	60,558	74,289	71,013	88,462	97,150	102,308
of which: Company Fees & Registration	*4,324*	*3,826*	*5,710*	*6,255*	*4,407*	*4,522*	*4,773*	*3,854*	*4,907*	*5,237*	*5,504*	*5,083*	*5,402*	*4,853*	*6,904*	*6,147*	*5,244*
Int'l Business Companies	*3,054*	*3,826*	*3,586*	*3,891*	*8,010*	*17,381*	*17,247*	*13,290*	*18,000*	*16,604*	*15,835*	*15,055*	*14,855*	*12,693*	*21,718*	*19,743*	*18,571*
Motor Vehicle Tax	13,635	12,990	11,510	13,085	13,588	14,689	13,834	15,933	16,838	16,234	14,535	17,899	20,156	20,142	23,291	22,684	20,551
Departure Tax	58,883	52,036	50,148	50,471	54,991	57,923	64,092	61,202	63,317	61,716	71,952	69,408	76,446	76,686	74,411	70,041	70,452
of which: Passenger Ticket Tax	*1,672*	*1,679*	*1,601*	*1,725*	*5,014*	*2,088*	*3,246*	*2,222*	*1,860*	*1,307*	*1,672*	*2,551*	*1,209*	*4,053*	*1,360*	*1,480*	*1,940*
Taxes on International Trade & Transactions	362,923	385,877	388,594	412,853	455,678	459,608	549,469	538,724	493,343	529,129	519,037	537,668	636,691	661,680	694,171	594,789	566,038
Import Tax	*293,894*	*305,194*	*309,176*	*325,089*	*356,560*	*362,411*	*434,788*	*415,241*	*384,688*	*421,019*	*409,252*	*412,741*	*487,910*	*505,018*	*529,714*	*379,498*	*348,483*
Stamp Tax from Imports	*59,391*	*71,572*	*69,332*	*77,233*	*87,000*	*88,927*	*101,717*	*109,424*	*94,225*	*95,765*	*96,327*	*112,298*	*134,562*	*142,481*	*149,781*	*15,374*	*15,110*
Excise Tax										--	--	--	--	--	--	*187,171*	*188,430*
Export Tax	*9,638*	*9,111*	*9,880*	*10,464*	*11,526*	*8,016*	*12,658*	*13,931*	*14,308*	*12,224*	*13,396*	*12,615*	*14,166*	*14,011*	*14,669*	*12,738*	*13,997*
Stamp Tax from Exports	*n.a.*	*n.a.*	*206*	*68*	*592*	*254*	*306*	*128*	*122*	*121*	*62*	*13*	*53*	*53*	*7*	*8*	*18*
All Other Stamp Tax	36,532	44,017	51,066	55,005	62,564	77,361	74,354	80,656	71,652	78,987	91,610	135,454	161,738	226,432	258,184	194,398	162,228
Other Tax	5,278	6,243	5,885	5,187	7,361	9,858	6,799	34,346	5,932	11,354	10,804	14,647	15,229	32,288	18,802	21,606	49,357
NON-TAX REVENUE	**59,393**	**65,046**	**66,333**	**67,265**	**78,497**	**75,779**	**82,370**	**100,480**	**84,669**	**86,829**	**97,798**	**104,773**	**126,318**	**130,381**	**156,705**	**194,229**	**193,453**
Income	17,712	21,503	19,795	22,906	27,673	27,607	25,001	29,608	24,332	24,370	28,292	27,089	42,029	51,900	46,783	92,450	105,732
Public Enterprises	*1,178*	*2,080*	*2,709*	*1,356*	*5,196*	*4,687*	*3,425*	*6,926*	*2,374*	*4,162*	*2,723*	*2,308*	*6,718*	*2,629*	*233*	*1,156*	*1,984*
Other Sources	*16,534*	*19,423*	*17,086*	*21,551*	*22,476*	*22,920*	*21,576*	*22,682*	*21,957*	*20,208*	*25,569*	*24,781*	*35,311*	*49,271*	*46,550*	*91,294*	*103,749*
Fines, Forfeits & Admin. Fees	40,026	41,941	46,061	43,597	50,389	47,348	56,024	70,123	59,508	61,358	68,786	75,610	82,510	78,026	105,989	100,815	87,307
Sales of Government Property	610	97	447	717	405	794	1,309	722	809	1,060	693	2,045	1,727	387	3,891	933	352
Other	1,045	1,505	30	45	30	30	36	27	20	41	27	29	52	68	42	31	64
CAPITAL REVENUE	--	4,000	5,028	555	704	32	290	63	--	2	15,003	10,186	70	26	54	111	63
GRANTS	--	7,669	--	500	500	--	--	--	--	--	--	--	1,000	--	--	--	--
TOTAL REVENUE & GRANTS*	**594,062**	**645,635**	**658,841**	**692,001**	**764,034**	**803,768**	**931,982**	**957,508**	**856,838**	**901,791**	**943,761**	**1,039,376**	**1,221,453**	**1,327,873**	**1,424,108**	**1,324,218**	**1,302,543**

SOURCE: Table 5.2 , Quarterly Statistical Digest, Central Bank of Bahamas. Based on Treasury Accounts and Treasury Statistical Summary Printouts

Annex C: The Stamp Duty in the Bahamas

This Annex focuses on the Stamp Duty applied to immovable property in the Bahamas under the Stamp Duty Act (cap 370). As Table C-1 indicates, the Stamp Tax on immovable property generated B$132 million in FY 2009, more than 50% higher than the annual property tax which generated B$84 million in the same year. This tax is levied on the transaction value of property transfers based on a progressive rate structure, ranging from 2 to 10 percent.

Table C-1: Stamp Duty on Immovable Properties (FY 2009)

Property value bracket (B$)	**FY2009 Revenue(B$)**	**% of Revenue**	**Stamp Duty Rate**
Properties under 20,000	759,244	0.6%	2%
Between 20,000 - 50,000	2,342,770	1.8%	4%
Between 50,001 - 100,000	4,857,215	3.7%	6%
Between 100,001 – 250,000	11,077,031	8.4%	8%
Properties over 250,000.	113,463,082	85.6%	10%
Total Property Stamp Duty	132,499,342	100%	

The stamp duty generates substantial revenue at little administrative costs. The stamp duty is levied by the Treasury Department (MOF) based on the declared value on the conveyance documents. The stamp duty must be paid in full before the conveyance can be recorded in the Property Registry by the Registrar General. The stamp duty is essentially based on self-assessment system, incurring little administrative costs.

The stamp duty is paid only by those who are transferring property, not by the broader set of taxpayers in the property tax roll. The duty is a one-time tax paid at the time of transfer, linked to the registration of the deed. As registration of the deed is not mandatory, the stamp duty, if too high, can encourage the non-registration of property deeds or the under-reporting of the transaction value. Crown grants and leases do not pay the stamp duty.

The stamp duty provides an excellent source of government revenues and generates an important source of property information which can be used to update the annual property tax roll information regarding the owner’s name and the property value. The property value information can be used in updating the absolute and relative values of all properties in the annual property tax roll.

In the Bahamas, unfortunately, there is little to no connectivity between the Stamp Duty collected by the Treasury and the property tax information needed by the Business Licensing and Valuation Unit for updating and maintaining the property tax roll information. The Stamp Duty office does not collect systematic information on the immovable property (name of buyer and seller, property identification number, and price of the conveyance. That information is kept with the basic information contained on the conveyance papers retained by the transferring agent (normally lawyers).

As the following table indicates, the property transfer tax (property stamp duty) in other countries can range from 1-13%.

Table 13: Property Transfer Taxes on Real Estate: Selected Countries

Country	Tax Rate
Jamaica	13 percent[a]
Portugal	Graduated rate ranging from 2 percent to 6.5 percent. Rate varies by value and land use.
Germany	3.5 percent
Slovakia	1 percent to 6 percent, depending on value
Czech Republic	3 percent
Netherlands	6 percent
Pakistan	5 percent
Bhutan	5 percent
Taiwan	7.5 percent
Mauritius	Between 5 percent and 10 percent
Swaziland	Between 3 percent and 4 percent, depending on value
Costa Rica	1.5 percent
El Salvador	Up to 3 percent depending on value
Kenya	4 percent

Sources:
Portugal, *Tax Notes International*, April 21, 2003, p. 227
Germany, *Tax Notes International*, January 14, 2002, p. 102.
Slovakia, *Tax Notes International*, March 8, 2004, p. 915.
Czech Republic, *Tax Notes International*, January 5, 2004, p. 26.
Netherlands, *Tax Notes International*, June 16, 2003, p. 1093.
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Mauritius, *African Tax Systems*, Supplement No. 117, 2000, International Bureau of Fiscal Documentation.
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Costa Rica, *Latin American Taxation Database*, Supplement No. 122, 2000, International Bureau of Fiscal Documentation.
El Salvador, *Latin American Taxation Database*, Supplement No. 113, 1998, International Bureau of Fiscal Documentation.
Kenya, "Land Value Taxation: A Case Study Approach," McCluskey and Franzsen, 2001

a) includes Stamp Duty.
b) Stamp Duty only.

Bahl, 2004, p. 41

International experience suggests that high property transfer taxes (stamp duties) can be detrimental to the long-run sustainability of the annual property tax. That is, rather than serving as an important source of property tax information, high tax rates can encourage value underreporting, evasion and avoidance. Countries throughout the world are reducing their stamp duties to 1-2 percent. In the United States, thirty-five (35) states plus Washington DC impose a real estate transfer tax, ranging from 0.1 percent in Colorado to 2.2 percent in D.C. In about

2/3rds of the states which impose the tax, the rate is below 0.5% of the transfer value (FTA, 2006). Progressive transfer taxes are used in 5 states. In DC, the tax rate jumps from 2.2 to 2.9 percent for values above $400,000. Connecticut tax rate jumps from 0.5% to 1% for values above US$800,000 (Sexton, 2008). The transfer tax in the US is seen largely as a regulatory fee to cover the cost of administration of property transfer and registration, not as a major source of revenue.

A recent analysis of transfer taxes in the US argues that transfer taxes would be a poor replacement for the annual property tax for several reasons: (1) transfer taxes are more volatile than the property tax and thus would not provide a stable source of revenue, (2) the transfer tax would have to be extremely high to mobilize the same amount of money, and (3) higher rates would increase the "lock in" effect, reducing mobility and creating greater excess burden (Sexton 2008).

In the UK a Stamp Duty Land Tax is paid on property such as houses, flats, other buildings and land. The Stamp Duty Land Tax is not paid on properties whose purchase price is £125,000 or less (US$200,000), otherwise the tax rate ranges from 1-4 percent. In government-determined 'disadvantaged' areas, the Stamp Duty Land Tax exemption is £150,000 or less. http://www.taxconsultantslocal.co.uk/types_of_tax.asp

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TERMS OF REFERENCE

CONDITIONS FOR IMPROVING THE PROPERTY TAX IN THE BAHAMAS

TERMS OF REFERENCE: CONSULTANCY

I. BACKGROUND

The Bahamas is a small open economy, tightly linked to the U.S., whose main economic activities concentrate on tourism, FDI, and offshore financial activities. The country has the third largest income per capita in the region. Tourism accounts for almost half of GDP, with over 80 percent of tourists from the United States. FDI, mostly related to tourism and second-home buyers, fuels construction, domestic employment and services. The financial sector, including the offshore sector, accounts for about 20 percent of economic activity. The country's location implies a high incidence of natural disasters that compound the negative effects of terms of trade shocks, which in turn are accentuated by the structure of the economy[1].

Over the years, macroeconomic policy has been geared to sustain sound fiscal policies, attract investment and support an exchange rate peg that has brought relative stability to the country. More recently though, the economy has struggle to boost fiscal revenue growth, averaging a comparatively low 17% of total revenues as percent of GDP (see Table 1). This situation has worsened in the last three years, as its two main economic engines, tourism and financial services remain weak after last year's economic turmoil in the U.S. As a result, real GDP declined in 2008 by 1.7 percent and further contracted in 2009 by some 3.9 percent. Despite relatively low levels of debt compared to regional peers, public debt has grown significantly over the last decade, with a pronounced increase due to the global crisis in most recent years. Debt dynamics are not favorable going forward, with total debt projected to increase to at least 57% of GDP by 2013.

Table 1. Selected central government, total revenue 2000-2010*

Country	00	01	02	03	04	05	06	07	08	*09*	*10*
Bahamas, The	18.5	17.9	16.2	15.9	17.1	17.7	18.0	18.0	17.5	*16.5*	*16.6*
Jamaica	30.9	28.0	28.1	30.0	31.0	30.4	29.9	28.2	23.7	*20.4*	*20.1*
Trinidad & Tobago	24.6	25.7	26.2	25.7	28.6	33.4	33.9	33.3	31.5	*26.6*	*27.1*
Suriname	25.8	35.4	25.4	27.7	26.6	27.7	27.3	30.1	26.9	*29.4*	*25.5*
Barbados	34.7	35.2	37.4	35.6	33.0	35.5	32.4	31.7	30.1	*29.0*	*28.4*

* As percent of GDP. Projected for 2009 and 2010. Source: WEO

[1] On average, loses associated to hurricane disasters account for 1.06% in terms of GDP.

Tax revenue framework

Tax revenues in the Bahamas account for nearly 89 percent of the total revenues. The tax regime is excessively reliant on trade taxes (38 percent of tax revenues), stamp taxes (18 percent) and excise taxes (16 percent). Together, these three taxes account for 82 percent of the total tax revenues for the fiscal year 2010/11. Property, selective services, and motor vehicle taxes contribute the remaining major shares. Despite being a significant component of the service sector, tax on the banking sector amounts only for 1.2 percent of tax revenues in 2008.

There is no personal, corporation or value-added tax (VAT) in addition the current tax policy regime, grants numerous concessions to large projects in the tourism sector[2]. Fines, forfeits, and administrative fees supply the majority of non-tax revenue. A key problem with the actual revenue structure is that any decline in imports puts enormous pressure on the public finances. The revenue base is narrow compared to the rest of the Caribbean countries, with over 70 percent of tax revenues accruing from import duties and taxes[3]. This situation increases vulnerability, given the unpredictability of tourism and the high elasticity of imports to the economic cycle. A natural consequence of the fiscal structure is the difficulty to estimate future tax revenues.

In addition, responsibility for collection of these various taxes and fees is fragmented across many ministries and agencies. There are currently more than 30 departments and agencies collecting a variety of taxes and fees that constitute both tax and non-tax revenue for the government of The Bahamas. This structure is basically a series of unrelated transactional taxes, fees and service charges. Many of these taxes and fees are directly related to the particular government program that collects the fees or service charges, such as motor vehicle licenses. This situation results in: i) a lack of focusing on integrated tax collection strategy and hence no real operational framework for ensuring that current taxes and fees are effectively and efficiently collected; ii) a lack of overall compliance enforcement of the laws governing taxes and fees, with a resulting limitation for assessing the performance of the current revenue structure; iii) no single integrated technology system linking the overall operations and allowing for cross-checking to support compliance programs and an effective management information system; and iv) no strategic and operational plans for management, assessment and monitoring of the tax administration operations.

[2] The government also grants import tax concessions to encourage FDI. In recent years, the Hotel Encouragement Act has been expanded to include entertainment venues. This essentially grants import tax concessions on equipment and building materials. For more information see: Revenue administration, a program for reform. IMF 2009

[3] For more information see Villasmil, R. “Preconditions for establishing structural fiscal balances in Latin America and the Caribbean” IADB. 2010

Table 2. Summary of Revenue in million Bh Dollars					
TAX REVENUE	Revenue* 2007/08	Revenue* 2008/09	Rev (est) 2009/10	Rev (est) 2010/11	% Tax rev
Import and Export Duties	544	392	457	490	37.77
Excise Tax	0	187	189	208	16.03
Property Tax	73	85	106	106	8.17
Motor Vehicle	34	31	33	42	3.26
Gaming Tax	13	13	16	16	1.19
Tourism tax	107	96	97	137	10.60
Stamp Tax	408	210	225	234	18.08
Company fees	29	26	31	25	1.95
Bank & trust company fees	10	17	20	22	1.72
Insurance company fees	19	22	22	15	1.18
Other taxes	3	3	1	1	0.04
SUB-TOTAL	**1,241**	**1,082**	**1,197**	**1,297**	**100**
NON-TAX Revenue					
Fees & Serv Charges	146	149	139	151	
Rev from Gov Property	19	16	16	16	

* Provisional. Source: Ministry of Finance Budget 2010/11

To help strengthen tax revenue collection, the authorities have, in recent years: (i) introduced a taxpayer identification number; (ii) encouraged arrears payments; and (iii) increased the floor on exempt property values and strengthened enforcement payments of property tax arrears in the real estate market. In addition, the authorities are considering implementing the VAT, seeking to improve revenue collection through the strengthening of the customs administration and the modernization of the collection system in other taxes. In the near future, additional revenue reforms will likely be needed to stem a rising debt trajectory, given constraints to expenditure consolidation and the need to sustain appropriate levels of social and infrastructure services.

II. OBJECTIVES AND EXPECTED RESULTS

As part of the government efforts to improve its tax revenue system, the Ministry of Finance has requested the Bank to conduct a study on how to strengthen the Real Property Tax (RPT) administration. The objective of this study is to analyze the constraints and challenges posed and ways to improve tax collection of the RPT. This includes the analysis of the current tax administration structure and the institutional requirements needed to collect the tax in a more cost-effective manner. From the perspective of the country, the study is expected to contribute towards national policy, competitiveness and tax administration objectives.

All property in the Bahamas is governed by the RPT Act of 1969. RPT is an annual tax charged on the market value of property[4] and applies to all real property[5] not exempt from taxation[6]. The RPT is collected centrally by the government. The RPT administration poses several challenges. The first one is related to the undervaluation and lack of documentation[7] on of property titles. Undervaluation leads directly to lower revenues, and also over time to lower buoyancy of revenues.

Current land management in the Bahamas gets its underpinnings from 1920's English Law. Land tenure is dominated by the issues of commonage and generational lands making for the lack of

[4] In respect of owner occupied property, the first $250,000 of market value is tax exempt. Between $250,000 and $500,000, market value is at ¾%, more than $500,000 and not exceeding $5,000,000 market value is 1%. More than $5,000,000 of market value is .25%

[5] In addition to the RPT, there is the Government Stamp Duty (tax on the conveyance of real property). This is a graduated tax. The total amount of the tax is calculated as follows: a) when the value of the consideration is less than or equal to $20,000, the rate is 4%; b) when the value of the consideration is greater than $20,000 and is less than or equal to $50,000, the rate is 6%; c) when the value of the consideration is greater than $50,000 and is less than or equal to $100,000, the rate is 8%; d) when the value of the consideration is greater than $100,000 and is less than or equal to $250,000, the rate is 10% and; e) when the value of the consideration is greater than $250,000, the rate is 12%. The usual practice in the Bahamas is for the tax to be shared equally between buyer and seller unless otherwise agreed upon. First time buyers may be exempted from stamp tax on a dwelling house or vacant land purchased for a dwelling house, up to the value of $500,000.

[6] Property owned by Bahamians and situated in the Family Islands is exempt from property tax. Property approved as commercial farm land may be eligible for property tax exemptions. Unimproved property , meaning property without physical additions or alterations, or any works benefitting the land which have not increased the market value thereof by $5,000 or more; Places of religious worship; school buildings and their gardens and playing areas; Property owned by foreign governments; Property owned by foreign nations used for consular offices or residences of consular officials and employees and; Property used exclusively for charitable or public service from which no profit is derived

[7] Land is optionally recorded at the Registrar Generals Office in a deeds registry and there is no Title Registry. Surveys of properties are not required (apart from Crown Grants), the Real Property Division records are incomplete, and the Physical Planning Department struggles to provide planning.

clear documentation. It is estimated that twenty five percent (25%) of all land is in dispute and the main reason is the lack of clear documentation. The administration of important records needed for clear and secure documentation of property ownership is separated among multiple agencies including the Ministry of Agriculture, the Ministry of Public Works, the Registrar General, the Department of Lands and Surveys, the Department of Physical Planning, the Real Property Tax Department, and the Treasury Department. Data are largely paper based and records are incomplete and weakly managed in most cases. Each of the government agencies in charge of the land administration have the same core functional problems, namely: a) outdated legislation and manual processes that have not kept up to date with modern methods of land administration; b) inefficient collection of fees that do not reflect current cost of processing nor the value of the transaction; c) many of the land recording processes are optional and not mandatory; d) financial disincentives to record land i.e. high transfer taxes; e) lack of coordination and integration among the different agencies managing land resulting in a lack of information available for each department to complete its task effectively and; f) lack of funding for staffing, training, core data set development and maintenance, and equipment modernization.

Lack of accurate land information has created an environment where serious inefficiencies have been introduced and where the real property market is operating at a fraction of its potential. The lack of an adequate recording of land interests and information related to land hinders the government's ability to effectively plan for future growth and development.

The study will be in close coordination with the Caribbean Technical Assistance Center (CARTAC), which is conducting a technical assistance program to help the government of The Bahamas implement a new tax administration structure. In the first phase of the program, CARTAC is helping the government to establish a Tax Administration Division (TAD) in the Ministry of Finance (MoF) that will administer current and future taxes. The second phase consists of positioning the MoF to be able to deal effectively with any changes that may be made to the tax regime for The Bahamas, including the possible introduction of a broad- based national VAT tax.

III. ACTIVITIES AND THE METHODOLOGICAL FRAMEWORK

The study is divided in four chapters. The first chapter presents an introduction to the fiscal situation and evolution in the last twenty years, including: (i) the analysis of the current structure and the evolution of the most important public sector revenues and expenditures; (ii) the main factors that explain the volatility of fiscal revenues and expenditures (iii) the evolution of the primary, total or global fiscal balance results and debt sustainability. The second chapter conducts an in-depth analysis of the current tax system structure of the country, its weaknesses and strengths. This chapter will take into consideration previous work carried out by other multilateral agencies, as well as the IMF, in the area of tax administration and tax policy. The third chapter includes an in-depth analysis of the tax administration system, including: (i) the strengths and weaknesses of the RPT (e.g. cost effectiveness, administration and land registry and land valuation issues, central versus local tax collection, potentiality of the tax, etc.) and; (ii) lessons learned from other countries that have strengthen their property tax collection system. The fourth chapter will include conclusions and recommendations on how to improve property tax collection, including ways to broaden the tax base.

IV. DELIVERABLES

A preliminary report should be submitted to the Bank by October 30th. The first draft of the complete study should be ready and sent to the coordinator of the study by the November 30th. The final and revised version should be ready by December 15th of 2010.

V. CHARACTERISTICS OF CONSULTANCY

The Consultants should have a PhD or master's degree in economics or relevant field, or a Master's degree in economics or relevant field with experience in the area of fiscal policy with research capacity demonstrated by publications in the area.

Type of Consultancy: Individual (2)

Duration: 60 working days; 10 working days in the Bahamas