

A GUIDE TO
 THE
**PEOPLE'S
 BUDGET**
 2018/2019
 THE BUDGET

GUIDE CONTENTS

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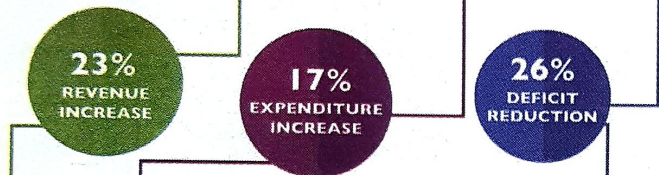
FISCAL SUMMARY

The Government's financial summary or **fiscal balance** is the difference between total revenue and total expenditure. In other words, the amount of money collected by the government in taxes less the amount of money spent on government services and initiatives.

When the Government's revenue is greater than its spending it is known as a **fiscal surplus**. When the government spends more money than it earns it is called a **fiscal deficit**.

DETAILS	2017/2018 (\$MIL)	2018/2019 (\$MIL)
Recurrent Revenue	2,150	2,649
Capital Revenue	2	2
Total Revenue	2,152	2,651
Recurrent Expenditure	2,243	2,589
Capital Expenditure	230	299
Total Expenditure	2,473	2,888
Fiscal Balance	-321	-237

*Minor differences are due to rounding.



In the budget, 24 of the 53 sections of the budget excluding interest payments, saw reductions in their budget allocations and three were given an increase under 1.5%. Still, there was an increase in overall expenditure due to: higher interest payments of \$89 million, and the provisions made for addressing outstanding arrears and under-budgeted commitments.

In the budget, recurrent revenue represents 20% of GDP, an improvement in the revenue yield of \$500 million. The VAT increase generates \$400 million in new revenue. Other revenue measures combined (improved collections, gaming tax, immigration and port fees increase, and other user fee increases and structural reforms) provided the balance of the increase.

In the budget, the \$237 million deficit represents 1.8% of GDP. This means the deficit will come in at the anticipated mandated fiscal responsibility target for FY2018/19. It will also be \$73 million lower than the estimated deficit for FY2017/18.

"In this Budget, we are giving Bahamians the unfiltered truth about the state of public finances. It might not be what any of us want to hear, but it is the reality, and we are addressing these matters with a level of transparency and fiscal responsibility that no other government has done before."

*K. Peter Turnquest
Deputy Prime Minister & Minister of Finance*

3 - YEAR FISCAL CONSOLIDATION PLAN

What is Fiscal Consolidation? This is the Government's plan to reduce the amount of money it borrows and that it owes, and its plan to reduce its deficit, or live within its means, in other words. The Government's three-year fiscal consolidation plan includes actions to restrain expenditure, enhance revenues and reduce government debt levels.

THE FISCAL PLAN

PROJECTED DEBT OUTCOME

Year 1 [FY2018/19]

- Fiscal deficit reduced to \$237 million (1.8 per cent of GDP)
- Right-budgeting for known commitments (\$76 Mil)
- Finance priority policy initiatives (Socio-Economic Development Agenda)
- Implement tax relief measures
- Adopt fiscal responsibility best practices

57% of GDP

Year 2 [FY2019/20]

- Fiscal deficit reduced to \$85 million (0.6 per cent of GDP)
- Begin Customs and Excise Duty Reductions

54% of GDP

Year 3 [FY2019/20]

- Fiscal Surplus of \$10 million achieved
- Further material cuts in Customs/Excise duties (Total reductions: \$100 Million)

52% of GDP

AT A GLANCE

- Projected Recurrent Revenue:** \$2,648 million
- Top 3 Revenue Sources:** VAT (40%), Trade Taxes - Customs Duty and Excise Taxes (24%), Stamp Taxes (6%)
- Planned Recurrent Expenditure:** \$2,589 million
- Largest Expense Categories:** Grants, other fixed charges and special financial transactions, wages and allowances, and other contractual services.
- Projected GFS Deficit:** \$237 million

OFFICIAL BUDGET DOCUMENTS

LOOK LIKE THIS

In other words, they contain hundreds of financial pages that are often difficult to understand with limited technical expertise.

RECURRENT EXPENDITURE BY BLOCK

TITLE OF ITEM	PROVISIONAL ACTUAL EXPENDITURE		PROVISIONAL ESTIMATES		APPROVED ESTIMATES		PRELIMINARY FORECAST		PRELIMINARY FORECAST	
	2016/2017	2017/2018	2016/2017	2017/2018	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	2020/2021
01 Personal Emoluments	463,126,455	355,398,780	741,758,938	718,475,517	737,477,810	790,941,412				
02 Allowances	43,008,217	32,821,835	48,203,771	54,727,824	54,823,101	54,863,672				
10 Travel and Subsistence	7,620,116	6,254,720	8,441,471	8,862,408	8,394,775	9,206,112				
20 Transportation	3,024,950	4,025,918	5,150,200	498,815	1,176,119	1,204,119				
40 News, Communications & Utilities	103,882,219	71,451,647	140,252,281	158,814,081	154,352,090	159,181,586				
42 Printing and Reproduction	2,648,541	1,464,454	2,795,200	1,751,036	1,751,534	3,746,656				
50 Other Contractual Services/Family Island Dev.	214,206,440	142,292,314	198,996,555	231,728,089	229,884,666	233,049,680				
60 Supplies and Materials	11,481,284	6,955,500	12,203,120	17,288,149	17,458,978	22,539,839				
70 Acquisitions, Construction & Improvement of Capital Assets	17,033,245	5,242,055	6,202,000	10,888,325	10,878,325	15,378,325				
80 Repairs, Maintenance & Upkeep of Capital Assets	53,048,189	4,233,412	9,937,244	15,618,548	15,528,793	21,851,829				
90 Grants, Road Charges & Special Financial Transactions	1,895,845,058	765,680,150	1,182,220,445	1,399,518,580	1,340,540,127	1,200,599,817				

HEAD 19 FEES AND SERVICE CHARGES

ITEM NO.	TITLE OF ITEM	PROVISIONAL ACTUAL REVENUE	REVENUE (PROVISIONAL)	APPROVED FORECAST REVENUE	FORECASTED REVENUE	PRELIMINARY FORECASTED REVENUE	PRELIMINARY FORECASTED REVENUE
		2016/2017	JULY - MARCH 2017/2018	2017/2018	2018/2019	2019/2020	2020/2021
919220	Customs Warehouse Fees	11,405	10,830	16,563	14,276	14,990	15,589
919221	Storage Fees	352,829	320,741	325,000	453,971	476,249	495,299
919232	Customs Service Charge	6,277,613	4,472,562	6,581,943	6,514,355	6,840,032	7,113,454
919224	Container Movement - Customs	3,554,094	2,648,732	3,600,000	3,808,389	3,998,808	4,138,701
		106,887	104,816	218,726	126,827	133,169	138,496
		633,842	300,695	494,041	472,879	496,523	516,384
		1,016,480	864,531	1,000,000	1,044,680	1,096,914	1,140,790
		163	0	0	0	0	0
		143,963	215,989	144,592	299,704	354,689	327,276
		201,848	214,385	180,517	307,233	322,595	335,499
		1,153,328	1,080,879	1,053,250	1,344,783	1,412,002	1,468,482
		1,107,720	595,264	1,088,176	930,288	976,803	1,015,875
		3,526,844	1,024,175	3,423,185	3,169,841	3,328,333	3,461,456
		26,738,650	19,443,949	26,668,756	28,815,217	30,255,878	31,466,317
		10,812,033	7,809,163	10,054,655	10,763,345	11,301,513	11,753,573
		57,749,489	41,009,679	56,649,424	59,798,247	62,747,211	65,257,099

Download all budget documents at: www.bahamas.gov.bs



DID YOU KNOW?

Governments all over the world generate money from taxes. They use that money to provide services to citizens, to develop local communities, and to stimulate economic growth. The Budget explains all of the government's **tax initiatives** and all of its **spending plans**. It also provides a snapshot of **past financial performance** and the Government's **current financial position**.

The Budget Guide is a simpler, less technical version of the Budget that draws inspiration from an international best practice of publishing "Citizen's Budgets".

The Budget Guide is not intended to replace the detailed budget communications, but to supplement the technical documents, presenting key information in simple language for the general public.

What does 'fiscal' mean?

The word fiscal is used a lot when talking about the budget: fiscal year, fiscal policy, fiscal plan, fiscal consolidation. It simply refers to financial matters of the government, including taxes, debt and policies governing public finances.

BUDGET OBJECTIVES

The Rhyme & Reason

*The government made its budget decisions to achieve a range of fiscal consolidation objectives and to advance a **socio-economic vision**.*

- To safeguard against future governments living beyond their means, racking up millions in unpaid bills, and piling more debt on future generations.
- To restore the country's financial health.
- To clear up millions in unpaid bills to small and large government vendors once and for all.
- To increase the government's revenue to sustainable levels to meet its financial needs through a variety of new tax measures.
- To meet fiscal targets in a structured way, eventually balancing the budget and reducing debt levels.
- To invest heavily in neglected communities and vulnerable populations so they might feel the benefits of inclusive growth.
- To cushion the impact on poorer families and vulnerable Bahamians as the country goes through a period of shared sacrifice and fiscal adjustment.
- To foster a culture of entrepreneurship and innovation so Bahamians can better create their own jobs.
- To improve the competitiveness of the Bahamian workforce, providing better opportunities for better work.
- To demonstrate leadership in adopting green technology, empowering Bahamians to do the same.

Learn more in *The Budget Guide*.

State of FINANCIAL AFFAIRS

The country is facing extraordinary and challenging circumstances, due to the state of public finances, which could overtime undermine the stability of the Bahamian economy.

\$7.2 B

Unsustainable Debt Level

\$381M

High interest payments on debt

\$360M

Sizeable unpaid bills accumulated

\$76M

Previously under-budgeted commitments

These fiscal realities have been signaled by Bahamian economists, international agencies and credit rating entities as worrisome trends that must be corrected.

If left unaddressed, they have the potential to:

- Trigger further credit downgrades
- Increase borrowing costs for the country
- Significant decrease in Bahamian standard of living
- Make the economy less competitive and attractive to investors
- Subdue economic growth
- Threaten the country's economic stability

We know from the experience of others that out-of-control fiscal management can snowball into a full-blown economic crisis.

To address the state of fiscal affairs, the government took the decision to raise additional revenue through increased taxation as well as enhanced revenue collection measures.

The Government's rationale for this policy direction is to provide the resources to fund all of the government's old financial commitments which, for the first time, have been disclosed in the budget communications.

THE NATIONAL DEBT

High debt levels threaten the country's economic stability.

Debt levels have been continuously climbing for the past ten years. Between 2008 and 2017, debt levels increased by 160%. The more money spent on servicing the debt means less resources are available for other purposes, such as spending on education, health care, and other important government services and special development projects.

At \$1.09 billion, Debt Service is 8.3% of GDP

(Debt Service = Total Interest + Principal Payments)

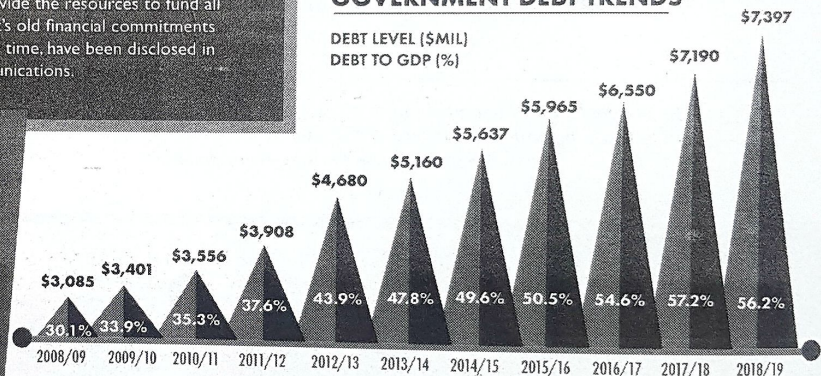
14% of revenue goes towards interest payments, which is equal to 14 cents out of every dollar earned.

2018/19 BORROWING

- **New Borrowing Authorization (loans, etc.):** \$183 million
- **Draw Down on Existing Loans:** \$54 million
- **Existing Debt Coming Due FY2018/19:** \$709 million, which the government plans to borrow to repay. This refinancing of the debt - as is customary - will not result in an increase in the government's overall debt levels.

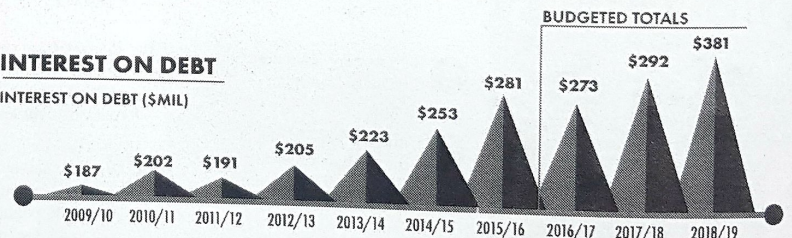
GOVERNMENT DEBT TRENDS

DEBT LEVEL (\$MIL)
DEBT TO GDP (%)



INTEREST ON DEBT

INTEREST ON DEBT (\$MIL)



"Facing the situation that we have, we could have presented a misleading budget as other governments have done, with under-budgeted allocations and hidden obligations. We could have borrowed more and kicked the can down the road. Playing this game would only delay the inevitable day of reckoning and make a bad situation worse."

K. Peter Turnquest
Deputy Prime Minister & Minister of Finance

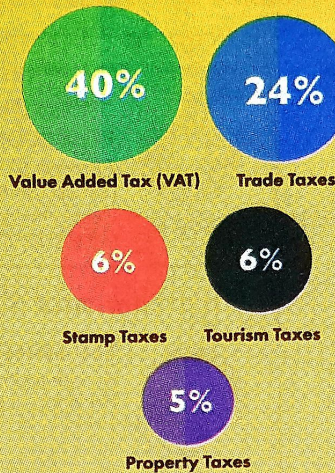
BUDGET BREAKDOWN

WHERE IS THE MONEY COMING FROM?

TAX REVENUE CHART

DETAILS	2018/2019 (\$MIL)
Value Added Tax (VAT)	1,062
Trade Taxes	644
Stamp Taxes	172
Tourism Taxes	147
Property Taxes	132
Business License Fees	102
Domestic Gaming Tax	70
Customs Department Fees	60
Dept. of Immigration Fees	74
Motor Vehicle Fees	50
Port Department Fees	17
Other Taxes	118
Total	2,648

Top 5 Sources of Revenue



SPENDING BY MINISTRY/DEPARTMENT

DETAILS	2018/2019 (\$MIL)
Ministry of Finance	\$360.7
Ministry of Health	\$293.9
Min. of Public Service & National Insurance	\$289.9
Department of Education	\$205.6
Royal Bahamas Police Force	\$127.9
Ministry of Tourism & Aviation	\$120.1
Treasury Department	\$100.9
Ministry of Education	\$92.7
Royal Bahamas Defence Force	\$59.9
Ministry of Public Works	\$48.7
Dept of Environmental Health Services	\$44.8
Department of Social Services	\$39.8
Ministry of Foreign Affairs	\$35.5
Department of Immigration	\$35.5
Customs Department	\$34.4
Ministry of Youth, Sports & Culture	\$28.2
Min. of The Environment & Health Services	\$26.8
Office of The Prime Minister	\$26.8
Dept. of Correctional Services	\$26.7
Dept. of Local Government	\$26.4
Ministry of Agriculture & Marine Resources	\$19.3
Department of Inland Revenue	\$19.0
Attorney General's Office	\$18.5
Department of Public Works	\$17.9
Department of Information Tech	\$17.7
Office of The Judicial (Courts)	\$14.5
Ministry for Grand Bahama	\$12.5
Min. of Social Services & Urban Development	\$11.6
Ministry of Transport & Local	\$9.6
Port Department	\$8.5
Ministry of National Security	\$7.5
Cabinet Office	\$7.4
Post Office Department	\$7.1
Ministry of Labour	\$6.5
Department of Agriculture	\$6.4
Department of Road Traffic	\$5.3
Department of Land & Surveys	\$3.7
Department of Statistics	\$3.6
Registrar General's Department	\$3.6
Department of Meteorology	\$3.0
Department of Marine Resources	\$2.8
Dept. of The Auditor General	\$2.8
Department of Housing	\$2.6
Department of Labour	\$2.5
Ministry of Financial Services	\$2.4
Court of Appeal	\$2.3
House of Assembly	\$2.2
Bahamas Information Services	\$2.0
Government Printing Department	\$1.7
Parliamentary Registration Department	\$1.4
Governor General & Staff	\$1.1
Department of Physical Planning	\$1.0
Department of Archives	\$0.7
The Senate	\$0.3

HOW IS THE MONEY GOING TO BE SPENT?

SPENDING BY MAJOR CATEGORIES

Grants, Fixed Charges & Other Special Transactions	53%
\$1,399 Million	
Personal Emolument & Allowances	30%
\$793 Million	
Other Contractual Services	9%
\$232 Million	
Rent	6%
\$156 Million	
Other	2%
\$55 Million	
Total	
\$2,636 Million	

\$620 MIL
Grants and Fixed Charges
 Includes UN & CARICOM membership fees, contributions to children's homes, the Bahamas Crisis Center; school boards; the Bahamas National Trust, the University of the West Indies, and hundreds of others important institutions, & other special transactions like the sinking fund.

\$398 MIL
State Owned Enterprises (SOEs)
 Subventions to 23 SOEs account for 15% of the government's total expenditure.

\$381 MIL
Interest on debt payments
 14% of total expenditure.

Central Government's Wage Bill
 The largest individual recurrent expenditure

Year	Wage Bill (\$M)	% Change
2009/10	586	
2010/11	587	0.1%
2011/12	614	4.6%
2012/13	641	4.4%
2013/14	659	2.8%
2014/15	664	0.7%
2015/16	689	3.8%
2016/17	756	9.7%
2017/18	790	4.5%
2018/19	793	0.4%

THE MINISTRY OF FINANCE

SPENDING PRIORITIES

ADVANCING A SOCIO-ECONOMIC AGENDA

The budget provides for spending on new programs targeted to advance a socio-economic vision of inclusive growth, social progress, economic development, public sector reform and modernisation, economic diversification, and environmental sustainability.

Inclusive Growth

Serving neglected communities



\$5 MIL

OVER THE HILL COMMUNITY DEVELOPMENT PARTNERSHIP INITIATIVE

Activities to strengthen e-learning, improve solid waste management and the availability of water, to manage and maintain public parks, and to stimulate investment.



\$2 MIL

AFFORDABLE HOUSING PROGRAM

Land subsidies and tax waivers worth \$120,000 per family for participants in the affordable housing programme.



\$15 MIL

FAMILY ISLAND AIRPORTS REDEVELOPMENT

Ongoing rehabilitation of Family Island airports, vital gateways for local and international transport between the islands.



\$1 MIL

PRIME MINISTER'S CULTURAL GRANT AWARDS

To provide small grants ranging from \$1,000 to \$25,000 to support Bahamian artists involved in projects related to promoting the culture of The Bahamas.

Economic Diversification

Creating a roadmap for economic diversification



\$500 K

DIVERSIFICATION THROUGH THE DIGITAL & BLUE ECONOMIES

Three-year technical cooperation project with the Inter-American Development Bank, focused on promoting economic diversification through the digital economy (information technology) and the blue economy (marine resources).

Environmental Sustainability



\$5 MIL

LED STREET LIGHT REPLACEMENT PROJECT

To begin funding the 4-year initiative; long-term savings from the street light project is projected at \$500k per month.



\$5 MIL

FAMILY ISLAND SOLAR FARM PILOT PROJECT

First major BPL solar farm in the Family Islands this fiscal year. Prototype for solar power generation around the country.

Public Sector Reform And Modernisation Growth



\$4 MIL

PUBLIC SECTOR YOUNG PROFESSIONAL RECRUITMENT INITIATIVE

To build up the professional capacity of the Public Service. The current number of young professionals is not sufficient to keep pace with the number of retiring professionals.



\$8 MIL

DIGITAL BAHAMAS INITIATIVE

Fostering the country's competitiveness by enhancing the digital infrastructure of the public service and reducing the cost of conducting business with the government.



\$1 MIL

FREEDOM OF INFORMATION (FOI)

To begin training in the Public Service and to establish the systems needed to implement the FOI Act, 2017.

Social Progress & Economic Development

Investing in workforce development and entrepreneurship so more Bahamians can increase their competitiveness, earn better wages and create their own jobs.



\$2.6 MIL

FULL-SCHOLARSHIPS FOR BTVI STUDENTS

Full-time degree and certification students to receive free tuition through scholarships. BTVI facilities also to be upgraded.



\$5 MIL

SMALL BUSINESS DEVELOPMENT INITIATIVE

Includes direct financing of micro, small and medium enterprises in the form of micro-loans, small loans and government guarantees, between \$5000 and \$250,000, as well as other business development and management support services.

TARGETED TAX INCENTIVES

ADVANCING A SOCIO-ECONOMIC AGENDA

VES

The government introduced a collection of tax incentives to advance its socio-economic vision. They are aimed at improving the quality of life for Bahamians: reducing the cost of retail shopping; increasing affordability of buying new cars and adopting green technology.



Economic Empowerment Zones

INCLUSIVE GROWTH

Proposed legislation will establish concessions in respect of real property tax, customs duties, excise duties, business license fees and stamp tax for designated Economic Empowerment Zones, beginning with the historic "Over the Hill" community.



Building an Airplane Registry

ECONOMIC DIVERSIFICATION

The Government's plan to create an airplane registry is based on a policy of promoting entrepreneurship, economic diversification and job creation.

- Duty-free entry on airplanes and helicopters in an effort to build an airplane registry industry.



Other Concessions Extended

- **For five years:** The first-time homeowners Stamp Tax Exemption.
- **For two years:** The duty exemption on materials used for the renovation, repair and upgrade of dilapidated buildings.
- **For one year:** The City of Nassau Revitalization Act.
- **For one year:** The Family Island Development Encouragement Act.

STIMULATING RETAIL CLOTHING & MANUFACTURING INDUSTRY

SMALL BUSINESS DEVELOPMENT

New duty concessions will help to reduce the retail cost of clothing and shoes to consumers, and empower small manufacturers of apparel, including tailors and seamstresses.



Duty free entry for clothing and shoe imports upon application by importers & retailers.



Duty removed from sewing supplies & notions, including: fabric, thread, zippers & buttons.



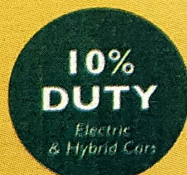
Duty free entry for processing & garment manufacturing equipment.

PROMOTING GREEN ENERGY

ENVIRONMENTAL SUSTAINABILITY

At the new duty rates, energy efficient vehicles and brand new small vehicles will be much more affordable.

- Duty-free entry on solar kits, upon application
- 10 per cent on electric motorcycles
- 10 per cent on rechargeable batteries, other than conventional car batteries.



*Valued at \$50k & under



*Engine sizes up to 1,500cc



DID YOU KNOW?

You don't have to wait to eat better. There is already a list of healthy food items that are duty free!

Duty Free Healthy Foods

The Government eliminated customs duty on several healthy food options last year and added three new items* in the new budget.

Almonds, Walnuts, Pecans, Peanuts & All Nuts
Honey • Veggie meat substitutes • Pasta
Coconut Oil • Sesame Oil • Soybean Oil
Tuna, Mackerel, Salmon & All Canned Fish
Spelt Flour, Coconut Flour, Cassava Flour & All Flour
*Tofu • *Whole and Filet Salmon
*Frozen Fish Fillets

GETTING THE FISCAL HOUSE IN ORDER

The Budget addresses a number of financial pressures, including the buildup of unpaid bills and other contractual obligations and the rising interest payments on government debt. The Government's rationale was to put the past practices of fiscal indiscipline behind and to draw a line in the sand. Additional revenue generated from new tax measures will help to achieve these objectives.

HOW WILL NEW REVENUES BE SPENT?



Other Outstanding Commitments:

This includes hundreds of other Bahamian businesses such as contractors, caterers and lunch vendors, among others.

What is right-budgeting? When the amount of money included in the budget is too little to cover the cost of government commitments, corrective action is needed. This is known as right-budgeting: The practice of properly budgeting for all of the government's contractual commitments.

EXAMPLES OF INADEQUATE FUNDING

- A \$4 million government food program only had a budget of \$2.5 million.
- A \$6 million commitment for immigration related software and hardware to support the passport office was never specifically budgeted for.
- Some \$9 million in commitments for hardware and software support contracts to maintain the critical core IT functions of the Bahamas Government were never specifically budgeted for.

OVERDUE PAYMENTS TO BE SETTLED

Vendors	2018/19 Payments (\$MIL)
Cruise Lines Operators	17
Settlement For Contingent Liability- BOB	17
National Drug Plan Arrears	14
Rent Arrears	14
B.E.C. Arrears Action Plan	12
VAT Refund Arrears	11
B.T.C. Arrears	10
Prov. For Resolve Interest Payment - BOB	9
Development Contracts(Canadian Bank Note)	6
Public Private Partnership (Arawak Homes)	6
Water	4
Capital Outstanding Commitments	2
Mortgage Relief Programme	0
Other Outstanding Commitments	50
TOTAL	172

3-YEAR PAYMENT PLAN

The Government developed a three-year payment plan to settle its \$360 million in arrears. As these bills are settled, the Government plans to reduce customs duty and Excise taxes on the order of \$100 million, bringing down the cost of imported goods. This plan is in alignment with the country's efforts to participate in the World Trade Organisation (WTO) framework.

YEAR 1

- Clear \$172M in arrears
- Right budgeting for known commitments

YEAR 2

- Clear \$106M in arrears
- Begin Customs and Excise duty reductions

YEAR 3

- Clear residual arrears of some \$75M
- Further significant cuts in Customs/Excise duties

PREVENTING FURTHER BUILDUPS

1 FISCAL RESPONSIBILITY

The implementation of fiscal responsibility legislation will create a legally-binding framework to prevent runaway government spending from occurring again. The law will cap government spending so that it cannot grow faster than the economy's overall growth rate.

2 STRUCTURAL REFORM

The Government's planned upgrade to its financial processes and accounting system, including the planned move from cash-based to accrual-based accounting, will provide the means to better track government spending on an ongoing basis.

NEW REVENUE MEASURES

A Package of Reforms

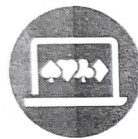
The government made the policy decision to increase VAT to 12%, based on a sober assessment of the country's financial position and its ability to achieve fiscal balance and economic sustainability. The VAT increase is part of an overall tax reform strategy that includes increased taxation as well as enhanced revenue collection measures.

- The government reassessed user fees and services that have not been adjusted for years.
- It considered other fees that do not cover the cost of operations.
- It looked at areas that have the potential to yield additional revenue, such as real property tax on foreign-owned vacant land and licensing fees on large commercial vehicles.



VAT TAX: +\$400M

Effective July 1, 2018, Value Added Tax will be charged at 12% on goods and services. The target VAT exemptions will take effect on August 1 to allow businesses to adjust their systems.



GAMING TAX: +\$33.5M

The Budget introduces a new tiered tax structure for the domestic gaming industry. Consistent with international norms, the Government's policy is that domestic gaming industries should provide a greater return to the state, while still permitting a fair return to the licensed operators.



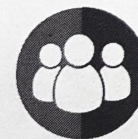
IMMIGRATION FEES: +\$21M

New immigration fees will ensure that the revenue generated is better able to cover operating costs.



PORT FEES: +\$8M

New port fees will now meet international standards and better cover operational costs.



REVENUE ENHANCEMENT UNIT: +\$80M

The Government has mandated the Revenue Enhancement Unit to increase its efforts to maximise collections from existing revenue. An amendment is being proposed to the Financial Administration and Audit Act to provide the authority to the Ministry of Finance to form an inter-departmental unit that will be assigned the task of revenue enhancement across the major areas of taxation.

As part of our three-year plan we intend to reduce taxes. When Bahamians go to a store they see the VAT on their bill. That is the relatively small tax for goods. The big, big taxes are hidden. The item someone is buying may have a 45% customs duty, or 65%. That's the hidden tax that makes things so expensive in The Bahamas.

- Before, governments could raise those taxes as much as they felt like. The people would not complain or protest because those taxes were not on their bills. They were hidden. We want to encourage shopping at home. We want that money to stay here and not go abroad.

Dr. The Hon. Hubert A. Minnis
Prime Minister

Regional comparisons show that **The Bahamas** will continue to have the **lowest VAT rate** in the Caribbean.

Country	VAT Rate
Barbados	17.5%
St. Kitts and Nevis	17%
Jamaica	16.5%
Antigua and Barbuda	15%
Caribbean Average	15%
St. Lucia	12.5%
Trinidad and Tobago	12.5%
The Bahamas	12%

REGIONAL TAX COMPARISON

*below the regional average

VAT COLLECTIONS

YEAR	REVENUE (\$)
2014/15 Actual	219,680,224
2015/16 Actual	628,051,966
2016/17 Actual	638,173,864
2017/18 Budgeted	663,561,987
2018/19 Budgeted	1,061,911,862

TARGETED TAX RELIEF

The government decided to target many of its tax relief measures to cushion the impact of the various tax reform measures on the poorest households. The Budget also reduces the cost of other goods and services through tax relief.

FOR INDIVIDUALS

- Personal travel exemption increased from \$300 to \$500 per person
- **VAT eliminated from:**
 1. Breadbasket items
 2. Prescription and Over-the-Counter Medication
 3. Residential electricity bills kept at or under \$200
 4. Residential water bills kept at or under \$50 per billing cycle
 5. Residential property insurance
- **Duty concessions:**
 1. **Duty eliminated from** art supplies, upon application
 2. **Duty eliminated from** grocery items, including whole salmon, frozen fish fillets, breadspreads, potato products, tofu and prepared and preserved tomatoes.
 3. **Duty reduced** to 25% on fabric softener

FOR BUSINESSES

- Business licence **concessional rate** of 0.75% granted to smaller hotels, in line with existing rate for large hotels
- Business license waiver for schools registered with the Ministry of Education
- **VAT Free** fundraising activities held by charitable organizations
- **Duty eliminated** for church buses less than 8 years (increased from 3 year-old requirement to make it more affordable and include more churches)
- **Duty free entry** for goods used in the commercial printing industry

“We recognise that any tax increase will have a particularly strong impact on poorer Bahamians. Hence, the move within the context of the budget to remove the VAT on breadbasket items, and other major consumption costs like electricity and other utilities.”

*K. Peter Turnquest
Deputy Prime Minister & Minister of Finance*

VAT Removed from the Breadbasket

Returning Savings to the Pockets of the Most Vulnerable

“The breadbasket is a longstanding list that has many basic grocery items that are culturally relevant. Growing up on grits and steam mackerel or fire engine is a part of life. or some, eating bread and mayonnaise was a necessity for survival. We do not want Bahamians to be financially constrained to eat from the current breakbasket but that is a reality for some and it is nothing to scorn. With the VAT reductions on the longstanding breadbasket, the most vulnerable, will find relief.”

K. Peter Turnquest, Deputy Prime Minister

After a period of public education, the government plans to reshape the breakbasket to include more healthy options, and lower the cost of adopting a more holistic lifestyles. The Ministry of Health is currently engaged in an active consultative process intended to sensitize Bahamians about healthy food choices.

VAT FREE GROCERIES

- Butter
- Sardines
- Baby Cereal
- Cooking Oil
- Other canned fish
- Baby Formula
- Mayonnaise
- Evaporated Milk
- Soup
- Grits
- Margarine
- Broths
- Cheese
- Rice
- Baby Food
- Corned Beef
- Flour
- Powdered
- Tuna
- Bread
- Detergents
- Mackerel
- Tomato Paste
- Condensed Milk
- Mustard
- Fresh Milk
- Soaps

Reducing & Managing THE COST OF GOVERNMENT

23 SOEs
account for 15% of total expenditure.

61% of SOEs
saw reductions in their allocations or no change.

SINKING FUND Paying down the debt

A sinking fund is a special interest-bearing investment fund that is formed by periodically setting aside money for the gradual repayment of a debt.

Instead of continuing to refinance existing debt obligations, which prolongs interest payments, the money set aside in a sinking fund helps to pay down on the debt.

The Government has two existing sinking funds to retire debt. The budget sets aside \$46 million, which includes \$6 million in contributions to the existing sinking funds, and \$40 million to invest in a new sinking fund to pay off a significant portion of the \$750 million it borrowed in FY2017/18 when that debt becomes due in 2028.

DIGITAL BAHAMAS Modernising government and improving efficiency

The Budget provides \$8 million for the "Digital Bahamas" initiative, designed to transfer more government services online, to streamline government processes and to improve the ease of doing business in a variety of ways.

PUBLIC FINANCIAL MANAGEMENT REFORM Fostering transparency and accountability

The Government launched an IDB-funded project to upgrade its financial processes and accounting systems, including a planned move from cash-based to accrual-based accounting. The budget allocates \$5 million to improve the hardware and software platforms for accountancy so the Government is able to keep comprehensive records, produce more timely information, and better track all government spending on an ongoing basis.

RATIONALISING STATE-OWNED ENTERPRISES

Improving efficiency and reducing costs over time

In the budget, state owned agencies (SOEs) account for 15% of government expenditure. The total allocation to SOEs only decreased by 3%. To improve efficiency and reduce the cost over time, the government has directed each SOE to review its operating model and to develop a 3-5 year plan that could include a mix of revenue enhancement initiatives, as well as measures to reduce expenditures in-line with industry benchmarks.

MAJOR INCREASES

Increases for the Bahamas Public Parks and Beaches Authority, the Gaming Board, and the Bahamas Civil Aviation Authority were made in keeping with the government's right-budgeting policy which reverses the practice of underbudgeting for known commitments. Right-budgeting was also applied to the Department of Public Health and the Public Hospital Authority; however, the Government also decided to increase allocations for health agencies to improve the delivery of health care throughout the country and to increase the allocation to BTVI to fund a scholarship initiative.

What is a state-owned enterprise (SOE)?

A state-owned enterprise (SOE), also known as a government-owned corporation, is a legal entity that is created by the Government in order to partake in commercial activities on the Government's behalf. It can be either wholly or partially owned by a government and is typically earmarked to participate in commercial activities. They are separate from government agencies established to pursue purely nonfinancial objectives.

State-Owned Enterprise	2018/19 (\$MIL)
The Clifton Heritage Authority	2.3
The Antiquities, Monuments & Museums Corporation	2.5
Broadcasting Corporation of The Bahamas	8.0
Water & Sewerage Corporation	25.0
Operation - College of The Bahamas	31.6
Bahamas Technical & Vocational Institute	8.1
National Sports Authority	3.0
National Art Gallery	1.6
Bah Agricultural/Food Safety Authority	0.7
Bahamas Agricultural & Industrial Corporation	4.0
School of Agriculture & Marine	7.0
Operation - Public Hospital Authority	216.0
Operation - Department of Public Health	6.5
National Health Insurance Authority	20.0
Operation - The Gaming Board	6.3
Bahamas Civil Aviation Authority	18.5
Airport Authority Operational	6.2
Bahamasair Holding Ltd.	13.4
Nassau Flight Services	1.8
Hotel Corporation of The Bahamas	0.6
National Training Agencies	1.0
Bahamas Public Parks & Beaches Authority	13.9
Straw Market Authority	0.5
TOTAL	398.3

HOLDING THE GOVERNMENT ACCOUNTABLE

5 Things You Need To Know

Things will be different after the Fiscal Responsibility Bill, 2018 is passed. If the government is irresponsible with public finances it will not simply be against standards of good governance, it will also be against the law.



Fiscal Balance

The law will force the Government to live within its means. The Government has three years to reduce its deficit. From FY2020/21 onwards, the deficit can be no more than 0.5% of GDP.



Debt Limit

The law will limit government debt to a maximum of 50% of GDP.



Spending Cap

The law will cap government spending so that it cannot grow faster than the economy's overall growth rate. The average long-run growth in nominal GDP is currently 3%, which takes into account the historical and projected path.



Fiscal Responsibility Council

Civil society will be given legal powers of oversight through a Fiscal Responsibility Council. Five professionals with specific expertise in law, business, economics, accounting, and finance will be independently selected by non-governmental stakeholders.



Transparency

The Government will have to produce new fiscal reports throughout the year for public and Parliamentary scrutiny. These include a Fiscal Strategy Report, Fiscal Adjustment Plan, and a Pre-election Economic and Fiscal Update.

What the Law Says About Good Governance

The Fiscal Responsibility Bill, 2018 is a forward-looking piece of legislation intended to reshape the culture of public accountability, by enabling more Parliamentary and public scrutiny of the fiscal performance of the Government. The law establishes six general principles of responsible fiscal management that the Government must live by.

6 General Principles for Responsible Fiscal Management

- 1 Accountability:** The Prime Minister, the Minister, all other Ministers and the heads of local governments are accountable to Parliament with respect to managing fiscal policies.
- 2 Inter-generational Equity:** The management of fiscal policies of the Government shall take into account the impact on the welfare of the current population and future generations.
- 3 Responsibility:** The management of public assets and liabilities, including natural resources and fiscal risks shall be conducted to maintain fiscal and environmental sustainability.
- 4 Stability:** Fiscal policy shall be conducted in a manner that does not cause destabilizing changes in the macroeconomic and fiscal indicators.
- 5 Transparency:** The roles and responsibilities of all government officials with respect to the management of fiscal policy are clearly established and defined; timely financial and non-financial information is made available so as to permit effective public scrutiny, and public officials and public office holders do not withhold financial or other performance information without lawful cause.
- 6 Inclusive Growth:** Economic growth benefits the whole population.