Caribbean Tax Authorities – embracing change

International Tax Tax voice

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Imran Ali examines some of the pressures (both domestic and international) that the Caribbean authorities face, and their responses to such challenges

As globalisation has continued apace in the early 21st Century, peoples' lives in the Caribbean region have been transformed by the digital revolution: changing how they buy goods and services and how their businesses operate. This change has influenced how they think they should be taxed and how their interactions with administrative authorities should be governed.

Many Caribbean revenue authorities have made significant changes in the last few years to respond to these shifts, but it is clear that there is more to be done, particularly concerning the taxation of the digital economy. Some of the best practice in this area has already been developed in countries which have faced this problem earlier, and there is a pressing need to consider how some of their changes could be implemented in the domestic sphere, as it is likely an international consensus on this issue is not forthcoming in the short term. Countries have acted unilaterally in a number of ways. For example, the UK has introduced a diverted profits tax for multinational enterprises. Italy has introduced a 3% levy on digital transactions. Other countries like Israel and India have gone with amending their permanent establishment tests.

Progress is also being made on how interactions with taxpayers are made. Striking the right balance between responding to taxpayers' requirements for efficacy and speed, and the revenue authorities' duty to ensure adequate scrutiny is, and will continue to be, a tricky balancing act.

Barbados is one example of an authority which is embracing the online revolution. In 2018, its Revenue Authority revamped completely its online system for tax returns to make it more user friendly and adaptive to taxpayer and their agents' needs. The speed at which they implemented this change was breathtaking (implementation phase was completed within three months) but it demonstrated that with a clear strategy and good communication with all stakeholders, what could be achieved. It has had an immediate impact with taxpayers and their representatives now having access to real time information - resulting in less pressure on Government resources. This should allow authorities to become more efficient and stream lined organisations that can focus on activities that really add value such as auditing of higher risk taxpayers. With budgets continually under pressure, this surely is a valuable end goal.

International focus

Tax transparency and concern over the operation of the rules governing international movement of capital has been a recurring theme over the last twenty years but it has really only been in the last five that jurisdictions have had to adapt to new obligations and standards. As this region is an increasing focus of examination, governments have realised that they need to not only react to changes but also be proactive in shaping them.

Most governments in this region have joined the Inclusive Framework on BEPS (the OECD/G20 Base Erosion and Profit Shifting initiative), which seeks to set new global standards in fifteen different areas of tax such as the taxation of intellectual property, transfer pricing and the digital economy. The EU also has a parallel body which looks at “non-cooperative” jurisdictions and sets additional benchmarks that must be met in order for countries to not be adversely impacted by EU investment decisions in those countries. Again, all the Caribbean nations have engaged with the EU on this task.

It is a mammoth project and one that imposes enormous pressures on small countries in the region. However, it is understood that to ensure they have a say in how some of the changes to the tax landscape are developed and implemented they must participate where they can in the rule setting process. Whilst, being members of the Inclusive Framework gives those countries a seat at the table, at the same time it imposes upon them obligations and responsibilities to implement four of these new areas, as “minimum standards” in their domestic legislation.

For those countries that have historically relied upon low tax rates as the sole attraction to foreign investment, BEPS and the EU initiatives is a huge wake-up call that this model is no longer viable. Competitive tax rates will always be part of the mix but there is a need to offer a business and regulatory climate, which encourages real capital investment.

There is a need to coordinate and work together as a bloc as often Caribbean nations’ small size will mean that they risk being ignored by larger countries. The Caribbean Community (“CARICOM”) is seen by many as the forum to undertake such a task, and this is now beginning to happen. CARICOM is a grouping of 15 Caribbean nations that already work together on economic and development planning, and are integrated on a number matters including on how double taxation is eliminated on activities between these states through a multilateral double taxation agreement between its members.

However, it is arguable (in the author’s view) that even wider regional coordination with our neighbours in Central and South America would be beneficial, so that matters of common interest are discussed, initiatives formulated and argued for in the international arena.

Adapting to initiatives such as BEPS is the only feasible option. Many Caribbean countries have developed sophisticated financial centres in the last few decades that have benefitted from the globalisation of trade. These financial centres are sources of high skills employment (lawyers, bankers etc.) for the local populations and tax revenue for the governments. Where these centres do not keep up with the highest levels of transparency and standards, multinationals will quickly relocate to jurisdictions that do so that their reputational and legal risks are minimised.

In Barbados, there is also an increasing realization that responding to these challenges requires collaborative working between the professionals who service these global clients on a daily basis, and the relevant Government authorities who are responsible for regulating the sectors, and ensuring adherence to national and international obligations. Julia Hope, the President of the Barbados International Business Association ("BIBA") commends how the Barbados Government has consulted a wide variety of stakeholders as it works on finalizing changes to its tax framework in response to the BEPS initiative. In particular, she points out that "BIBA was able to bring together a task force of highly skilled professionals in a relatively short period of time to analyse how the changes to Barbados' tax regime could be implemented and offer the Government credible alternatives to assist in its deliberations". She believes that continued collaboration between the Barbados Government and the private sector is key to ensure that Barbados remains a pro-active participant in international developments that are so important to its economic security.

Implementing these agreed changes is another challenge the administrative authorities face. It often requires internal processes to be carried out quickly to meet internationally set time frames, with very little recognition for individual countries' parliamentary processes and the capacity for their revenue authorities to implement the changes on the ground. It is inevitable that in the short term they will continue to struggle in this regard, however, harnessing private sector expertise could certainly play a part in alleviating some of these challenges.

Conclusion

It is clear that the next couple of years will be more of the same for all the authorities in the region that have large international financial centres and that all stakeholders will have to be patient as teething problems emerge with new systems and processes.

However, what is encouraging is that this region is clearly embracing the trends and obligations arising in the international tax and financial sphere and understands that some of the changes that are being made are long overdue. This, and the fact that this region is globally known for its economic and political stability, should help to ensure its financial sector continues to prosper.