



CARIBBEAN  
HOTEL  
ASSOCIATION



# TAXATION & OPERATING COSTS FOR THE CARIBBEAN HOTEL SECTOR

A preliminary comparative study and recommendations relating to tax levels, incentive structures, and costs affecting tourism enterprises in CARIFORUM countries

Taxation & Operating Costs for the Caribbean Hotel Sector  
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prepared for the Caribbean Hotel Association by  
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## FOREWORD

This report, Taxation and Tourism Costs for the Caribbean Hotel Sector, was prepared by PA Consulting Group under the Caribbean Regional Sustainable Tourism Development Programme (CRSTDP), as part of technical assistance provided to the Caribbean Hotel Association (CHA). The overall objective of the Caribbean Regional Sustainable Tourism Development Programme (CRSTDP) is to contribute to economic growth and poverty alleviation among CARIFORUM countries through increased competitiveness and sustainability of the Caribbean tourism sector.

The Programme is funded under the 8th European Development Fund (EDF) and coordinated by the Caribbean Forum of African, Caribbean and Pacific States (CARIFORUM). The beneficiaries of the programme are the fifteen (15) CARIFORUM member states: Antigua & Barbuda, Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St. Kitts/Nevis, St. Lucia, St. Vincent & the Grenadines, Suriname and Trinidad & Tobago.

PA consultant, Mr. Cuthbert Didier served as the principal consultant and was the principal author of this report. Some updating, and redrafting of the final version has been undertaken by the Caribbean Hotel Association.

The terms of reference for the assignment to analyse the effects of taxation and operating costs on the Caribbean hotel sector, required the consultant to undertake the following:

- Produce a data matrix of operating costs and taxation levels on selected small tourism enterprises.
- Compare taxation levels and incentive structures for tourism enterprises to enterprises in other productive sectors or sub-sectors in Caribbean economies
- Compare taxation levels and incentive structures for tourism enterprises in other tourism driven destinations, such as Hawaii and the Canary Islands.
- Report on findings and make recommendations for fostering conditions for profitability, investor confidence and sustainability.

The report is based on primary and secondary data collected during the time of implementation of the component and the findings reflect current information as of the date of this report.

## LIST OF ACRONYMS

|         |  |
|---------|--|
| AI      | All Inclusive  |
| CHA     | Caribbean Hotel Association                                  |
| CARICOM | Caribbean Community  |
| CAST    | Caribbean Alliance for Sustainable Tourism                   |
| CET     | CARICOM External Tariff                                      |
| C.I.F   | Cost, Insurance and Freight                                  |
| CRSTDP  | Caribbean Regional Sustainable Tourism Development Programme |
| CTPU    | CARIFORUM Tourism Programme Unit                             |
| EDF     | European Development Fund                                    |
| EP      | European Plan  |
| HAT     | Hotel Accommodation Tax                                      |
| SMME    | Small Medium and Micro Enterprises                           |
| UNCTAD  | United Nations Conference on Trade and Development           |
| WTO     | World Tourism Organisation                                   |
| WTTC    | World Travel and Tourism Council                             |

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# 1. EXECUTIVE SUMMARY

This study is aimed at measuring and monitoring the competitiveness of the Caribbean tourism sector with a primary focus on hotels, through a review of operating costs, taxation levels and other non-cost barriers that impact on the sector. The results of the study were hindered by a lack of willingness by hoteliers in the region to share data and by the short six-month time frame allocated for the completion of the component. Hence, one of the main recommendations of this study is the need for the Caribbean Hotel Association (CHA) to sensitize its members on the importance of sharing data, as real time and accurate data is key for CHA and all its various partners and stakeholders (including National Hotel Associations) to understand and dialog on critical issues that are impacting on the potential growth of the sector. Data collection needs to be a constant process and should not be limited to a single intervention. Therefore CHA should consider strengthening its research function to collect this data on a regular basis as part of the membership process.

Before examining the operating costs and the taxation regimes for the hotel sector in the CARIFORUM states in detail, some significant economic factors must be highlighted. The economies of the CARIFORUM countries selected for in-depth examination under this study reveal some common characteristics that are critical to this study, namely:

- (a) The importance of tourism is clearly evident in all the economies;
- (b) Tourism is important because of the foreign exchange it generates, the employment created and the overall linkages that tourism creates within these economies; and
- (c) No other sector in these economies generates as much foreign currency earnings.

Most CARIFORUM countries, with the exception of Jamaica and the Dominican Republic have small populations. Consequently, the small national market, high input and transportation costs associated with being an island, often make it difficult to develop a significant industrial sector. The small economic bases of these countries are crucial when considering that reduction of unemployment has to be a primary goal for most governments. This unemployment situation in the CARIFORUM countries increases the potential significance of tourism compared to other sectors that are not visible on a large scale.

There is a great challenge within CARIFORUM for these countries to support the full machinery of government as independent nations. Most governments are burdened with huge expenditures that are becoming increasingly difficult to reduce, with difficult decisions having to be made with respect to fiscal policies to address the situation. To address these challenges most of the governments turn to the leading sectors, and in the CARIFORUM region this is often tourism. The increases in direct and indirect taxation are a clear and present danger to the hotel sector in the CARIFORUM region. The result of this is that a number of activities in the tourism industry are subjected to additional taxes not found in other sectors – the most visible ones being room tax, import tax and departure tax.

These taxes must be seen in light of the challenges within the tourism sector. Hotel profitability within the industry is becoming increasingly an issue amidst high construction costs, rising utility costs and high labour costs. While hotel profitability differs by country, in the long run the hotel sector will not be able to sustain the increasing burden of indirect taxation, resulting in this sector becoming less attractive as an investment opportunity. There is still a great reluctance to view tourism as an export industry in public policy planning in most CARIFORUM countries. For most policymakers taxing the hotel sector is attractive because it is perceived that the bulk of the taxation falls on non-locals (the visiting tourists). It is important to note that the cruise ship

industry, which forms the largest segment of water-based tourism in the Caribbean, is not subject to this taxation policy. Hotels even pay large amounts of taxes when purchasing the food and beverage and other dry goods needed to operate the hotel

Most CARIFORUM countries have fiscal incentives for the establishment of hotels. The incentives offered include exemption of corporate taxes, reduction or exemption from import duties on equipment, and reduction or exemption of duties on construction materials. However, it should be noted that the reduction in duties applies specifically to the construction phase only. Incentives often run between 5 to 15 years depending on the number of rooms the hotel is constructing. One may therefore question if these incentives achieve their goals in the long run, since most hotels need at least 10 years to recover the initial investment. It may be that such incentives may be more applicable in operating inputs rather than start up costs.

Operating costs within the hotel sector are still vague due to the lack of available data and the unwillingness of hoteliers to share their accounting data. While hotels do have several costs, it is important to note key operating ratios: occupancy percentage, average rate, number of guests per occupied room and average room cleaned per maid day. These ratios help the hotel management to gauge their profitability. Hotels do have fixed and variable costs. The limited sample pool interviewed during this research identified: labour, utilities, food and beverage, taxes and insurance as the high operating cost components. Most hotels pay several licenses and permits to various government agencies. Some of the most common are: pool licenses, bar licenses, and trade licenses. However, even with the limited data, there appears to be a correlation between decreases in hotel occupancy and rising taxation and electricity costs. Jamaica and Barbados are two destinations where this is clear.

Hawaii and the Canary islands are both island destinations that are dependant on tourism. Both destinations enjoy incentives that not only create an enabling environment for the investments in hotels, but also have a long-term commitment through various concessions ensuring the inputs into the hotel sector are not over-taxed. The net result is a vibrant hotel sector that has blossomed in a competitive destination. Both destinations continued to have strong visitor arrivals after September 11th, and rising hotel occupancy rates. Both Hawaii and the Canary Islands enjoy taxes that stimulate growth in the hotel industry and are simplified. This is the challenge for the hotel sector within CARIFORUM countries. If taxes and critical costs such as electricity continue to rise, the hotel sector within this region will see continued low hotel occupancies and poor performance by the industry. The Dominican Republic stands out as the best example of how high electricity costs and slow increasing taxes can threaten a vibrant hotel sector. The Dominican Republic visitor arrivals and hotel room count has increased steadily over the last six years, however with a vulnerable peso and perceived high taxes, this trend may be threatened. The Dominican Republic also provides an excellent model of how occupancy rates can be influenced by the costs of inputs. The ability of this destination to supply from its own domestic production most food and beverage input, has helped keep the price of the hotel experience at a very competitive rate; the same cannot be said of Jamaica, Barbados and St. Lucia which are heavy food importers.

The ability for the hotel sector in CARIFORUM to reverse the trend of rising costs, lower profitability and declining hotel occupancy will depend on the greater awareness of the need to share data to make a forceful case to implement efficient and fairer taxes.



## 2. INTRODUCTION

### 2.1 Overview of the Caribbean Hotel Sector

In a recent report, the World Travel and Tourism Council (WTTC) in collaboration with the Caribbean Hotel Association confirmed the Caribbean to be the most tourism intensive region in the world.

*“Travel & Tourism currently accounts for 14.8 per cent of total GDP and is expected to increase its share by almost two percentage points to 16.5 per cent by 2014. Similarly, Travel & Tourism in the Caribbean today generates 15.5 per cent of total employment, and this is forecast to rise to 17.1 per cent by 2014. The industry’s vital role as a generator of wealth and employment across all parts of the region is indisputable. It also acts as a catalyst for growth in other areas such as agriculture, construction and manufacturing, which would decline if demand for Travel & Tourism were reduced. But even more impressive is the fact that two of the 23 Caribbean countries monitored by the World Travel & Tourism Council (WTTC) and its research partner, Oxford Economic Forecasting - the British Virgin Islands and Antigua and Barbuda - owe more than 75 per cent of their economies to Travel & Tourism. For another four countries Travel & Tourism generates between 50-75 per cent, and the respective shares are 25-50 per cent for a further ten countries, and 10 per cent for three others. Only four Caribbean economies - Martinique, Curaçao, Puerto Rico and Haiti - owe less than 10 per cent of their economies to Travel & Tourism.”<sup>1</sup>*

The report goes on to highlight a number of challenges that must be addressed because of the importance of tourism to the region. These challenges include building awareness of the industry’s contribution to the regional, national and local economies with government officials and the broader general public so as to help raise support for the industry to a more deserving level. The WTTC also considers the development of a Caribbean Tourism Strategic Plan to be a critical step and sees such a plan as one that should be supported and implemented by a strong public-private sector partnership in order to forge a collective vision in regard to the requirements for long-term growth and job creation.

To this end the WTTC strongly supports the 2002 Caribbean Tourism Strategic Plan commissioned by the Commonwealth Fund for Technical Cooperation. The same Plan identifies some critical issues that must be addressed if the travel and tourism industry is to be successful into the 21st Century. In addition, the WTTC has used the Plan as the basis for recommendations made in its 2004 assessment of tourism in the Caribbean.

CHA is in agreement with many of the WTTC recommendations, among which is the urgent need to raise awareness of travel and tourism’s role and contribution to and its all-consuming impact on Caribbean countries. Moreover, the WTTC urges regional organizations and national governments to undertake an industrial image campaign to ensure that all public and private stakeholders recognize Travel & Tourism’s full impact across the national economy and the spin-off benefits that filter down through all levels of the community.

Presently in the CARIFORUM region, small hotels make up a large percentage of CHA membership. The Dominican Republic, where the average hotel size is over 75 rooms, is the only country that does not have a large number of small hotels. The small hotels of the CARIFORUM region are under pressure over taxation and rising operational costs. At the same time, the operation of these small hotels in the CARIFORUM region is important to the national economies in terms of the following:

- \* Labour demands specific to communities where they are located

<sup>1</sup>World Travel and Tourism Council. The Caribbean. The impact of travel and tourism on jobs and the economy. May25, 2004

- \* Purchasing of local inputs - Food and Beverage
- \* Consumption of utilities
- \* The spending of their guests outside of the hotel properties.

Therefore, the ability for hotels to remain profitable and competitive is critical based on their present contribution.

Data collected from online survey forms and face-to-face interviews on four islands – Barbados, Jamaica, Dominican Republic and St. Lucia, has identified some critical findings in respect to the following:

- \* Operating costs that hamper growth
- \* Rate of growth in tourism investment
- \* Access to finance by small tourism enterprises.
- \* Intelligent Taxation: Equity, Efficiency, Simplicity, Fair revenue generation, Stimulus to Growth
- \* Gaps in data collection

## 2.2 Data on Selected CARIFORUM Countries

As shown in tables below, the CARIFORUM countries range considerably in size (population), economic activity (GDP), wealth (GDP per capita), tourism contribution to the economy, and size of the hotel industry.

Table 1. Economic and Tourism Industry Indicators<sup>1</sup>

| Country                  | Population (thousands) <sup>3</sup> | GDP (\$US millions) current mkt prices | Hotel & Restaurant (%) <sup>3</sup> | No. of Hotels <sup>4</sup> | Hotel Rooms <sup>4</sup> | Stay over Visitor Arrivals <sup>1</sup> |
|--------------------------|-------------------------------------|--|-------------------------------------|----------------------------|--------------------------|---|
| Antigua & Barbuda        | 80                                  | 818.5                                  | 9.9(2)                              | 66                         | 3,305                    | 245,797                                 |
| Bahamas                  | 300                                 | 5,734.6                                | N/A                                 | 267                        | 16,000                   | 1,450,043                               |
| Barbados                 | 272                                 | 2,812.6                                | 12.4                                | 161                        | 5,000                    | 551,502                                 |
| Belize                   | 276                                 | 1,053.4                                | 4.4                                 | 16                         | 4,700                    | 230,831                                 |
| Dominica                 | 105 <sup>(2)</sup>                  | 947(2)                                 | 8.6 <sup>(2)</sup>                  | 19                         | 1,006                    | 79,386                                  |
| Dominican Republic       | 8.60                                | 21,700                                 | 22.9                                | 86                         | 60,000.                  | 3,443,205                               |
| Jamaica                  | 2,713                               | 8,810.5                                | N/A                                 | 77                         | 25,000                   | 1,414,786                               |
| St. Kitts and Nevis      | 47 <sup>(2)</sup>                   | 404.5                                  | 8.2                                 | 18                         | 1,430                    | 70,758                                  |
| St. Lucia                | 162                                 | 764.7                                  | 14.8                                | 29                         | 4500                     | 298,431                                 |
| St. Vincent & Grenadines | 117                                 | 407.9                                  | 1.9 <sup>(2)</sup>                  | 161                        | 1,689                    | 86,727                                  |
| Trinidad & Tobago        | 1,097                               | 12,263.5                               | N/A                                 | N/A                        | 5,200                    | 442,55                                  |

<sup>1</sup> Data reported for 2004 from CTO Tourist (stop-over) arrivals 2004

<sup>2</sup> 2003 data

<sup>3</sup> Data taken from Caribbean Development Bank Social and Economic Indicators 2004, Volume XV1, figures in US dollars at current market prices.

<sup>4</sup> Data taken from national Tourist Boards and National Development Corporations

The above table shows that the hotel sector in Barbados, St. Lucia and the Dominican Republic contributes over 12% to the over all Gross Domestic Product, with the Dominican Republic recording the highest: 22.9 %. While actual data was not available from Jamaica, the present room stock and the number of stay-over visitors indicate that the contribution of the hotel sector to GDP in this CARIFORUM country is significant. St. Lucia, though smaller in population and hotel stock when compared with Barbados, shows the contribution by the hotel sector to GDP being higher than that of Barbados. However, while the hotels sector in all four countries is vibrant, each destination's hotel product is different, with national governments implementing varied strategies to ensure the sustainability of the industry.

### 2.2.1 Barbados

Barbados is a popular tourist destination among Europeans, especially the United Kingdom. However, Barbados has one of the highest building costs per hotel room in the Caribbean, along with increasing utility costs. Capital investment by both private and public sector has been consistent while Government expenditure in tourism continues to rise each year. Barbados tourism industry continues to employ significant numbers, rising from 22,000 in 1999 to 24,000 in 2003. Expansion in the villa accommodation sector has been significant. However, Barbados tourism industry operates with high costs, financing and indirect taxation. These costs may be challenging the island's ability to remain competitive in the tourism industry. Tourism incentives are in place for hotel construction and hotel refurbishment.

### INDUSTRY INDICATORS

|  | 2000   | 2001   | 2002   | 2003   | 2004   |
|--|--------|--------|--------|--------|--------|
| <b>POPULATION ('000)</b>                       | 268.8  | 269.9  | 270.8  | 271.6  | 272.4  |
| <b>GDP (current factor cost)<br/>(BDS\$MN)</b> | 4234.5 | 4216.8 | 4065.0 | 4334.6 | 4615.4 |
| <b>HOTEL/REST<br/>CONTRIBUTION (%)</b>         | 11.5   | 11.2   | 10.9   | 11.8   | 12.4   |
| <b>EXCHANGE RATES<br/>(\$ PER US \$)</b>       | 2      | 2      | 2      | 2      | 2      |

### HOTEL SUMMARY

| Summary Areas        | Total |
|----------------------|-------|
| <b>No. of Hotels</b> | 161   |
| <b>No. of Rooms</b>  | 5000  |

### 2.2.2 Jamaica

Jamaica has continued to be a CARIFORUM destination with strong visitor arrivals and a hotel room count of over 15,000. Despite concerns of rising crime, Jamaica's hotel industry continues to enjoy investor confidence especially from the Spanish market. However, noticeable decline in hotel occupancy, rising electricity costs and cost of living may create significant challenges for the hotel sector

#### INDUSTRY INDICATORS

|                                      | 2000 | 2001   | 2002  | 2003   | 2004   |
|--------------------------------------|------|--------|-------|--------|--------|
| <b>POPULATION ('000)</b>             | 2652 | 2665.6 | 2680  | 2695.9 | 2713.1 |
| <b>GDP (J\$BN)</b>                   | 8.8  | 9.7    | 9.8   | 10     | 10.21  |
| <b>HOTEL/REST CONTRIBUTION (%)</b>   |      |        |       |        |        |
| <b>EXCHANGE RATES (\$ PER US \$)</b> | 42.7 | 46     | 48.42 | 57.74  |        |

#### HOTEL SUMMARY

| Summary Areas | Total  |
|---------------|--------|
| No. of Hotels | 77     |
| No. of Rooms  | 25,000 |

### 2.2.3 St. Lucia

St. Lucia's tourism industry has grown significantly over the last 5 years. Government expenditure increased steadily from 1999 to 2004. However Travel and Tourism consumption on the island peaked in 1999 and declined over the last three years with a slight increase in 2004 compared with 2003. The island's utility costs and indirect taxation policies continue to challenge the Tourism industry. Tourism incentives are available from the Government.

#### INDUSTRY INDICATORS

|                                      | 2000   | 2001   | 2002   | 2003   | 2004   |
|--------------------------------------|--------|--------|--------|--------|--------|
| <b>POPULATION ('000)</b>             | 156    | 158    | 159.1  | 160.6  | 162.3  |
| <b>GDP (EC\$MN)</b>                  | 1557.7 | 1510.9 | 1529.3 | 1598.4 | 1716.4 |
| <b>HOTEL/REST CONTRIBUTION (%)</b>   | 14     | 13.2   | 13.0   | 14.6   | 14.8   |
| <b>EXCHANGE RATES (\$ PER US \$)</b> | 2.7    | 2.7    | 2.7    | 2.7    | 2.7    |

#### HOTEL SUMMARY

| Summary Areas        | Total       |
|----------------------|-------------|
| <b>No. of Hotels</b> | <b>29</b>   |
| <b>No. of Rooms</b>  | <b>4500</b> |

### 2.2.4 Dominican Republic

Dominican Republic ranks as one of the highest in the Caribbean for government spending on Travel and Tourism. This island has the largest number of Travel and Tourism jobs, and attracts the highest share of revenue from tourism. The Dominican Republic has maintained its position as the most popular destination in the Caribbean and is considered a low cost destination for travel

### 3. METHODOLOGY

The research for this study started with the literature review of the following documents:

- CHA Position Paper: Caribbean Tax Policy
- CHA Position Paper: CARICOM Single Market and Economy
- CHA Position Paper: International Trade negotiations
- Caribbean Tourism Strategic Plan
- WTTC 2004 World report on the impact of Travel and Tourism on Jobs and the Economy of the Caribbean
- Caribbean Tourism Sector Taxation
- Eastern Caribbean Central Bank Economic Indicators
- Reports compiled by National Tourism Associations and CSHAE
- CTO tourism arrival figures.

The WTTC report makes some critical observations that guided the research process, and helped identify critical issues presently influencing the competitive advantage of hotels in the CARIFORUM region. These issues are:

- Operating costs
- Profitability
- Competitiveness
- Taxation.

These issues formed the basis for the format of the survey form which was designed for online completion by hotel operators.

The research began by surveying the 15 CARIFORUM countries. The survey form was distributed via the CHA, National Hotel Associations (NHAs) and direct blast e-mails from the consultant and Caribbean Hotel Association. A website was also constructed by the consultant to facilitate on-line completion by the 10 key hotels identified by the NHAs in each CARIFORUM country. Follow-up calls were made to all NHAs and as well as to all the recommended hotels.

The information collected from the survey forms identified countries with similar challenges, trends and anomalies within the hotel sector. The data also contributed to some of the recommendations and findings of this report.

It must be noted that there was a very low response rate from the hotels targeted. A total of 21 completed forms were returned out of 160 that were disseminated (13%). Four destinations were then selected for further one on one interviews. The destinations were Barbados, Dominican Republic, Jamaica and St. Lucia.

## 4. KEY DEFINITIONS

### 4.1 Competitiveness

Competitiveness will be defined<sup>2</sup> at three (3) levels and applied as required;

- i. Company/firm level: “the ability to design, produce and/or market products superior to those offered by competitors, considering the price and non-price tangibles” and hence secure profitability.
- ii. Sectoral/industry level: the “extent to which a business sector [or industry] offers potential for growth and attractive return on investment”
- iii. Country level: the “extent to which a national environment is conducive or detrimental to business”, thereby enhancing the capacity of the economy to improve the standard of living.

In effect, competitiveness refers to the ability of the enterprise/sector/country to produce and sell goods and services in domestic and foreign markets at prices and quality that ensure long run viability and sustainability.

### 4.2 Operating Costs

Hotel operating costs consist of two types of costs, one which is fixed and the other which varies based on occupancy or facility usage. The concept of identifying the cost structure of a hotel is challenging because it requires accurate statistical analysis or comparable operating performance analysis.

Hotel fixed operating costs are:

- certain administrative and general costs
- property taxes
- income taxes
- insurance.

Hotel variable operating costs are:

- marketing
- expenses related to occupied hotel rooms
- direct expenses for food and beverages
- allowance for bad debt
- labour fees
- maintenance
- utilities
- telecommunications
- food & beverage.

<sup>2</sup> Momaya and Ajitabh, 1999, p. 257

### 4.3 Profit

Profit is a positive return on an investment made by an individual. Profitability refers to the amount of profit received relative to the amount invested, often measured by the rate of return on investment. For the hotel industry the international norm is a 7.5% net profit and a 9.4% gross profit. Net profit is after all expense including taxes, while gross profit is sales less cost of goods. It is important to note that the keys to profitability are:

- Consistent product quality
- Excellent customer service
- Customer retention
- Expense control
- Accountable employees
- Correct pricing strategy
- Consistent company policies
- Professional management



## 5. OPERATING COSTS

The WTTC report highlighted the fact that the operating climate in many of the CARIFORUM countries does not encourage the growth or investment of the tourism product.

*"This is at least partly due to the high operating costs (high costs of local and imported inputs, heavy duties on both construction and consumable goods, punitive costs of distribution and marketing, the even higher costs of utilities and the broad based level of taxation which currently exists in most countries in the region), which reduce profitability and prospective returns on new investment."*

In order to source information on operating costs in the CARIFORUM region, an online questionnaire form was created where the hotels could enter data and the data could be accessed and analyzed as a cost matrix.

The information that was collected via the questionnaire is as follows:

- Salary Related Costs: Salary Cost, No of Employees, PAYE contributions
- Direct Taxes: Hotel Accommodation based on AI, EP, Licenses, Entertainment tax, Property tax
- Key Operational Cost and Indirect Taxes: Utilities, Electricity, Water & Sewage, Security, Insurance
- Indirect Taxes: Import taxes on direct imports of F&B, and other guest supplies

The questionnaire was launched on April 30th 2005. It was disseminated via the National Hotel Associations and the Caribbean Hotel Association as well as by direct solicitation to 5 select hoteliers in each country. Only 21 responses were received: 3 completed questionnaires were received online, 1 received by fax, 17 were completed in face-to-face interviews. The survey population consists of respondents from 6 countries, 7 were small hotels and 14 from large hotels. The participating hotels were assigned codes for confidentiality purposes. Some limited secondary data for 13 hotels in St. Lucia was obtained from Price Waterhouse Coopers. Interviews were conducted in Barbados with 8 hoteliers, in Jamaica with 9 hoteliers and St. Lucia with 3 hoteliers. By far the best response was from the Dominican Republic where, nine interviews were conducted, and data collected from 7 hotels.

### 5.1 Significance of Operating Costs

The WTTC report further emphasised the significance of stable operating costs for the CARIFORUM region:

*"Very uneven patterns of competitiveness exist in the region whereby many countries are experiencing stagnation and loss of market share, while others enjoy better results. The comparatively higher costs of doing business in CARICOM (cost of labour, taxation, utilities, cost of funds, construction, and operating inputs) are responsible for faltering profitability and viability, which have been exacerbated by falling growth rates."*

A hotel room is viewed as a commodity that expires by midnight. Every room that remains unoccupied within a 24-hour period creates a huge negative impact on the profitability of the hotel operation. This view of hotel rooms brings a new dimension to operating costs, because it links all other sub-sectors of tourism to the

competitiveness of hotels, whether small or large. The inability of hotels to fill the rooms or have healthy occupancy rates is not only dependant on their rates but:

- Air lift
- Overall perception of destination: crime, transportation.
- Entertainment available at the destination.
- Fiscal policies of the government.

Operating costs that impact significantly on profitability and competitiveness were:

- Labour
- Food and Beverage
- Utilities
- Taxes (indirect and direct)

Hoteliers interviewed in St. Lucia, Jamaica, Dominican Republic and Barbados all noted the following as issues which impacted on their competitiveness with the market:

- High Government Bureaucracy
- High electricity rates
- High import duties
- Lack of a consistent food and beverage supply on island.

## 5.2 Operating Costs Results

Table 35: Operating Costs for Individual Reporting Hotels

| Country            | No. of rooms | Utilities | Telecom-<br>munications<br>(%) | Labour (%) | Insurance (%) | Security (%) | Advertising<br>(%) | Food &<br>Beverage (%) | Building<br>Maintenance<br>(%) |
|--------------------|--------------|-----------|--------------------------------|------------|---------------|--------------|--------------------|------------------------|--------------------------------|
| Anguilla           | 98           | 4         | .02                            | 25         | 2.2           | .01          | 5                  | 11                     | 7                              |
| Barbados           | 500          | N/A       | N/A                            | 23         | N/A           | N/A          | 7                  | 17                     | 4                              |
| Barbados           | 138          | N/A       | N/A                            | 33         | 12            | N/A          | 2                  | 28                     | n/g                            |
| Barbados           | 30           | N/A       | N/A                            | N/A        | N/A           | N/A          | N/A                | N/A                    | N/A                            |
| Barbados           | 24           | 20.1      | 1.01                           | 17.09      | 5.53          | N/A          | 4.02               | 24.12                  | 28.14                          |
| Belize             | 102          | 14.5      | 3.14                           | 23.31      | 0.80          | 6.41         | 14.57              | 26.22                  | 11.22                          |
| Dominican Republic | 900          | 4         | 1.20                           | 22         | 2             | 1.50         | 2                  | 30                     | 6                              |
| Dominican Republic | 602          | 14        | 1.3                            | 11.79      | 3.51          | 1.16         | 4.99               | 33.23                  | 7.3                            |
| Dominican Republic | 558          | 20        | .88                            | 12.38      | 4.48          | .84          | 4.24               | 36.57                  | 7.9                            |
| Dominican Republic | 532          | 15        | .79                            | 11.85      | 3.64          | 1.45         | 5.92               | 35.3                   | 8.13                           |
| Dominican Republic | 332          | 17        | .54                            | 11.82      | 3.65          | 1.28         | 6.25               | 34.05                  | 6.67                           |
| Dominican Republic | 270          | 20        | 6                              | 25         | 3             | 1            | 5                  | 30                     | 4                              |
| Jamaica            | 488          | 15        | 0.5                            | 23.22      | 2             | N/A          | 3                  | 22                     | 5                              |
| Jamaica            | 220          | N/A       | N/A                            | 28         | 1.5           | N/A          | 70                 | 35                     | 9                              |
| Jamaica            | 96           | 26        | 1                              | 15         | 1             | 10           | N/A                | 38                     | 3                              |
| Jamaica            | 50           | 22        | 2                              | 20         | 3             | 16           | 5                  | 35                     | 4                              |
| Jamaica            | 40           | 23        | 1                              | 47         | 6             | 6            | 4                  | N/A                    | N/A                            |
| Jamaica            | 21           | 12.5      | 4.7                            | 25         | 11            | 4            | n/g                | 30                     | n/g                            |
| St. Kitts & Nevis  | 71           | 9.5       | 2                              | 31         | 1.1           | .50          | 3.6                | 36.5                   | 5.5                            |
| St. Lucia          | 103          | N/A       | N/A                            | N/A        | N/A           | N/A          | 1                  | N/A                    | N/A                            |
| St. Lucia          | 71           | 13.7      | 4.5                            | 25         | 2             | .5           | 3                  | 34                     | 4                              |

Note:

1. The figures above represent the percentage contribution to total operating costs.
2. N/A represents data not available.

While the response rate from the hotels targeted was disappointing, the data collected to-date reveals some interesting information. As noted in the WTTC report, interviews and data collected support the claim that electricity is one of the major concerns of hoteliers. In the Dominican Republic one hotelier was sure that a decrease in electricity would solve even the crime! The lowest electricity cost was reported in Anguilla, and the highest in Jamaica. The second biggest operating costs based on the limited data appear to be food and beverage, followed closely by labour costs.

Labour costs have been identified as a significant portion of operational costs in certain countries, especially Barbados and Jamaica. Findings indicate that on average labour costs represent 27% of operating costs. Other areas that represent a relatively high percentage of operating costs are utilities, food and beverage, and in a few cases, building maintenance. The data collected from the 21 hotels does not represent a significant percentage of the original target, however there appears to be a trend, identifying electricity, labour and food and beverage as being the highest operating costs for hotels operating in the CARIFORUM region.

### 5.3 Operating Costs in Selected Countries

Interviews were conducted on four (4) islands: Barbados, Dominican Republic Jamaica and St. Lucia with the key focus on operating costs and barriers to competitiveness. The hoteliers interviewed were from all sizes of hotels: small, medium and large. The interviews were conducted via face to face interviews and the compiling of data based on an on line 5-page questionnaire. The response rate was extremely poor, creating several gaps in the data collection.

#### 5.3.1 Barbados

In Barbados, data was collected from five (5) hotels, and interviews conducted with eight (8) hoteliers. The hotel industry in Barbados is well established, and most of the hotels data was collected from hotels that have been operating for over 15 years. All of the hotels confirmed 100% of their customer base as the visiting tourist. The smallest hotel had 24 rooms and enjoyed a profit margin of 27%, while the largest operated 500 rooms and enjoyed a profit margin of 14%. All of the hotels except one, had book values of over five million United States dollars, and all reported easy access to financing.

The data collected from the interviews was limited and therefore cannot present a true overview of hotel operating costs in Barbados; however some general conclusions can be reached:

- High Electricity costs: Presently the electricity rates being applied to the Hotel sector are high based on their consumption.
- High water and sewerage costs; the water and sewage rate is high and appears too inconsistent based on the experiences of two hoteliers.
- High level of worker absenteeism within the hotel industry: While Barbados' work force within the hotel sector appears to be very skilled, hotels experience a high rate of absenteeism which is impacting on their profitability. Based on information obtained from the Barbados Hotel and Tourism Association, the cost associated with certified sick days for period January 2005 to August 2005 was US\$ 328,000 dollars, and the total cost of non-sick days for same period was US\$167,856.32 dollars. This indicates that a total of US\$495,135.00 dollars has been lost during January to August 2005 due to total absenteeism, compared to US\$763,204.00 dollars for the same period last year.
- High labour costs: Some hotels were of the opinion that this was due to the heavy unionizing of workers within the hotel industry.
- Confusing Tourism Development Act: hoteliers noted that the present Tourism Development Act is very bureaucratic and time consuming with limited results.

- Inefficient planning process for building permits.
- Lack of available inputs: food and beverage on island.
- Inconsistent supply of building materials on island.
- High Indirect taxation: the new VAT is viewed by the hoteliers as excessive.
- Evident movement from hotels to condo development because of operating costs such as: taxation, VAT, and property taxes.
- Hotel sector in need of major capital investment: plant and equipment too old.
- Construction costs: Construction costs for three star properties are with the range of US dollars \$100,000.00 per room, including public areas. It is estimated that refurbishment of rooms cost as much as a new building. For a 5 star resort, the average inclusive construction cost is US\$150,000.00 dollars per room.

### 5.3.2 Jamaica

In Jamaica data was collected from six (6) hotels, and interviews conducted with nine (9) hoteliers. The hotel industry in Jamaica is well established and most of the hotels where interviews were conducted have been operating for over 25 years. Only one hotel confirmed 100% of their customer base as the visiting tourist. The others had an average of 4% local trade while the smallest hotel reported an even split of 50/50 between locals and foreign visitors. The smallest hotel operated 21 rooms and enjoyed a profit margin of 25%, while the largest operated 488 rooms and enjoyed a profit margin of 28%. All of the hoteliers interviewed in Jamaica reported book values for their businesses of over five million United States dollars, and all had easy access to financing. However 75% of the hoteliers confirmed that the high current interest rates at the Jamaican financial institutions were a deterrent.

The hoteliers interviewed in Jamaica identified the following as critical issues for their competitiveness:

- High electricity costs: based on the new increases from the new utility company; hoteliers commented that the price was too high for the service being provided.
- High water and sewerage costs.
- Shortage of qualified chefs.
- Inefficient planning process for building permits.
- High indirect taxation: the new regime of VAT is perceived by all the hoteliers as too excessive.
- Competitive environment: the entry into the market by Spanish hotel companies is causing some concerns within the Hotel sector.
- Construction Costs: The Jamaican Hotel and Tourism Association currently uses an estimate of US \$100,000 per room.
- Pilferage was identified as being extremely high by some hoteliers, but no data was presented to support that claim.

### 5.3.3 St. Lucia

In St. Lucia data was collected from thirteen (13) hotels and interviews were conducted with three (3) hoteliers. The hotel sector in St. Lucia is relatively young compared to Barbados and Jamaica, and most of the hotels have been operating within the last 12 years. In general the main operating costs in the hotel sector are: salaries, food and beverage and utilities. Wages in the hotel sector are higher than those in agriculture and construction, and competitive with those in manufacturing and retail. Food and beverage costs vary according to the rate of import duties.

In a survey conducted by the St. Lucia Hotel and Tourism Association of 13 properties with a total room stock of 1564, (7 large and 6 small hotels), the following was revealed:

|                    |  |
|--------------------|--|
| Salaries totalled: | US\$19,000,000.00 dollars for 12 months of 2004. |
| Direct taxes:      | US\$4,985,950.00 dollars for 12 month of 2004.   |
| Operating Cost:    | US\$11,242,734.00 dollars for 12 months of 2004. |
| Indirect taxes:    | US\$346,570.00 dollars for 12 months of 2004.    |

The hoteliers interviewed in St. Lucia identified the following as critical issues for their competitiveness:

- High Electricity costs: Hoteliers are of the strong opinion that the rates are too high for hotels, and should be discounted based on the number of rooms. In St. Lucia, the commercial rate of electricity is higher than the domestic rate.
- Inadequate water supply: Water supply on the island is unreliable, and causes hotels to seek other forms of purchasing water which create high costs via transportation and loss of business.
- New increase in Hotel Accommodation tax.
- Low airlift into Island: translated into low occupancies
- Hotel room construction costs range from US\$60,000.00 dollars per room for a three star small hotel to US\$150,000.00 dollar for a five star.

#### 5.3.4 Dominican Republic

In the Dominican Republic, data was collected from seven hotels and nine interviews were conducted. The hoteliers in the Dominican Republic displayed a passion for the industry beyond most of their CARIFORUM colleagues. The national hotel association, Asonahores has a great deal of detailed information critical to the analysis of the hotel industry in this destination. The hotel sector has shown incredible growth within the last ten years. The number of hotel rooms has increased from 26,801 rooms in 1993 to approximately 60,000 in 2005. While most hoteliers confirm that the Dominican Republic as a destination is drawing significant numbers of visitors, there is a growing concern that the industry is not as profitable as it appears. There may be significant cash flow but profitability is slowly being reduced.

With a large labour pool, the Dominican Republic labour costs are lower than all the rest of the CARIFORUM. The destination produces most of the inputs needed for the hotel sector. These include furniture, agricultural produce, soft goods etc. Alcohol and its derivatives however are imported. The hotel sector in the Dominican Republic outsources only its top management. The destination has several hotel schools and a very large pool of trained personnel.

Data reported by hoteliers indicated high food and beverage costs, electricity and maintenance. Gross sales were all above 10 million United States dollars (highest being 15 million); however, profit margins were as low as -12% and as high as +15%.

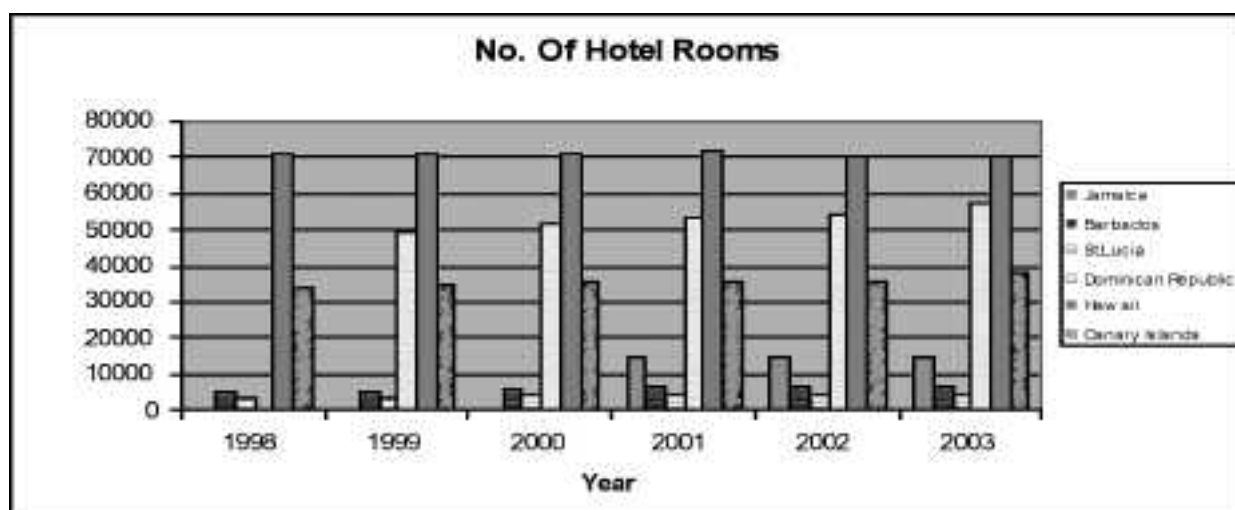
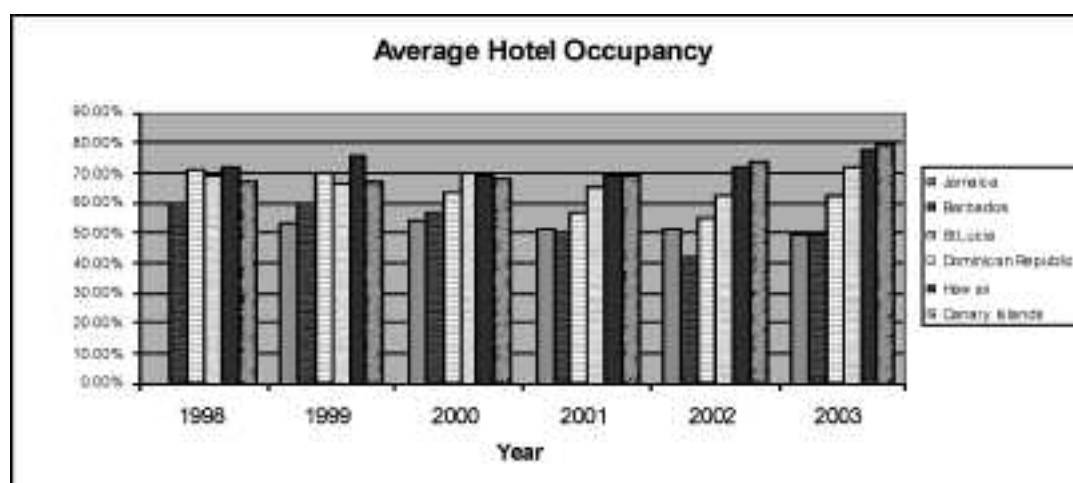
Hoteliers in the Dominican Republic identified the following as critical issues for their competitiveness:

- Outrageous electricity cost. Hoteliers were adamant that the cost of electricity in the Dominican Republic is beyond normal market prices. There is a strong sense of urgency to remedy this situation as soon as possible via public and private sectors working together.
- Poor infrastructure within the destination. There needs to be more public sector investment in road and water supply.
- Exchange rate of the Peso is impacting on the ability of hotels to operate within reasonable profit margins, by pushing up the cost of labour and imported inputs.

- Increases in indirect taxes: import tax, ITBIS, workers service charge, 25% income tax, 1% property tax.
- Inefficient public service causing unreasonable delays in spontaneous development within the hotel sector

## 5.4 Additional Observations.

The research in the selected four CARIFORUM regions identified three critical obstacles for hotels, whether small or large: electricity costs, taxation and government bureaucracy. While the data pool was limited based on the responses, a continuous survey will reveal more detail by quantifying electricity and taxation costs per hotel room count. This will give a clearer indication of how these two costs impact the price of hotel rooms in the CARIFORUM region. While government bureaucracy cannot be measured on an income statement, the ability for Government departments to be efficient is critical for hotel expansion and profitability. Departments such as Planning, Ministries of Health and Finance must be in step with the industry and fully understand the present day challenges of the hotel sector within the present global market. The cost of electricity, the impact of direct and indirect taxation, and cost of labour will contribute to the pricing structure of the hotel room. If these costs are too high, hotels will run the risk of pricing themselves out of the destinations' target market. The demand for rooms will be driven by price. Strong occupancy is an indication that the market is responding to the price structure of the rooms. While the price of the hotel rooms is not the only factor to draw visitors, it is a clear indication of whether or not that room will be rented or remains empty.





## 6. GENERAL EXAMINATION OF TAXES

A tax is a compulsory payment collected from individuals or firms by central or local governments. A direct tax is levied on the income of an individual or company: the word direct implies that the real burden of such a tax falls on the person or firm paying it and cannot be passed on to any other person. An indirect tax is levied on sales of a good or service: the word indirect implies the view that the real burden of such a tax does not fall on the person or firm paying it, but can be passed on to a customer or a supplier.

According to the World Travel and Tourism Council, the tourism sector is perceived as an attractive tax target for governments whose other tax sources are coming under threat. In addition to taxes imposed by Caribbean governments, tourists are also faced with an array of travel related taxes that are now arguably the fastest-growing area of costs.

While attractive for the policy-makers because the bulk of the burden is perceived to fall on non-constituents, the net consequences of taxes on the tourism sector can be negative in terms of depressing demand when they pass a certain threshold. Taxing the tourist is like a self-imposed tariff on exports, unless the receipts are used for specific purposes that will assist the tourism industry, e.g., in marketing and product development.

**There is need for more research to measure and track the impact of both internal and external taxes on the tourism industry in the Caribbean, and whether or not they place the region at a competitive disadvantage.**

Presently hotel operations in the Caribbean are subjected to the following taxes:

- Hotel accommodation tax
- Departure tax
- Casino tax
- Entertainment tax
- Property tax
- Value Added Tax
- Corporate Tax
- Trade related taxes and non-tariff barriers

Taxation is critical to hotels operating in the CARIFORUM region, because this cost must be factored into the price of the room, and must be paid from income earned. While there is an argument that some taxes such as hotel room tax and departure tax are paid by the hotel visitor, these taxes impact the cost of the experience in the destination and influence the length of period a room is occupied. Property tax, value added tax, and corporate tax impact directly the ability of a hotel in any of the CARIFORUM region to be profitable. Trade related taxes influence significantly the ability of small and large hotels to purchase quality provision (food and beverage) which can influence the quality of the hotel experience. Hotels, both large and small, purchase considerable amounts of everything listed in the Common External Tariff; therefore the hotel sector pays considerable amounts of import duties to feed non-local constituents.

As highlighted in the WTTC report, *"the net consequences of taxes on Travel and Tourism can be negative in terms of depressing demand when they pass a certain threshold."*

The WTTC has established five principles of intelligent taxation: equity, efficiency, simplicity, fair revenue generation and effective stimulus to growth.



## 6.1 Hotel Accommodation Tax

The hotel accommodation tax is described as a room tax or hotel occupancy tax. It is levied directly on the total hotel bill and paid for by the guest. The tax is collected by the hotel on behalf of the government and therefore has no bearing on revenue or expenses of the hotel. It is important to note however, that although this tax does not affect profitability of the hotel it does influence the total cost of the vacation for the tourist. Therefore, it can affect the competitive ability of the hotels in one destination compared with another.

Table 1: Hotel Accommodation Tax by Country

| Country                                      | Room Tax           |
|--|--------------------|
| Antigua and Barbuda                          | 8.5%               |
| Bahamas                                      | 12.0%              |
| Barbados                                     | 7.5%               |
| Belize                                       | 9.0%               |
| Dominica                                     | 5.0%               |
| Dominican Republic                           | 23.0%              |
| Grenada                                      | 8.0%               |
| Guyana                                       | 10.0% <sup>1</sup> |
| Haiti  | 10.0%              |
| Jamaica                                      | 15.0% <sup>3</sup> |
| St. Kitts and Nevis                          | 7.0%               |
| St. Lucia                                    | 8.0%               |
| St. Vincent and the Grenadines in most cases | 7.0%               |
| Suriname                                     | 8.0%               |
| Trinidad and Tobago                          | 10.0%              |

<sup>1</sup> Only applicable to properties with over 6 rooms.

<sup>2</sup> Jamaica charges a 15% General Consumption Tax (GCT) on all goods and services, including hotel stays.

## 6.2 Departure tax

Departure tax is also described as an airport tax. It is levied on individuals as they depart the country and can be applicable by air in most and by sea, in certain instances. Passengers that are intransit for 24 hours or less are exempted from this tax. While the departure tax amount in most cases is not a high dollar amount, it can also be viewed as an added cost that affects the competitiveness of the destinations. Some countries have been able to have the departure tax effectively included into the air ticket costs so it becomes a hidden cost.

Table 2: Departure Tax by Country

| Country                        | Departure Tax (US\$)                      |
|--------------------------------|---|
| Antigua and Barbuda            | \$20.00                                   |
| Bahamas                        | \$15.00                                   |
| Barbados                       | \$12.50*                                  |
| Belize                         | \$14.00                                   |
| Dominica                       | 14.00 <sup>4</sup> , \$20.00 <sup>5</sup> |
| Dominican Republic             | \$10.00 <sup>6</sup>                      |
| Grenada                        | \$13.00                                   |
| Guyana                         | \$15.00                                   |
| Haiti                          | \$30.00                                   |
| Jamaica                        | \$25.00                                   |
| St. Kitts and Nevis            | \$15.00                                   |
| St. Lucia                      | \$20.00                                   |
| St. Vincent and the Grenadines | \$15.00                                   |
| Suriname                       | \$10.00                                   |
| Trinidad and Tobago            | \$16.00                                   |

## 6.3 Casino tax

This tax is applied in destinations where legalized gambling is allowed. This tax can be applied on the gross drop, which is the amount a guest has spent to purchase chips regardless of the winnings. A "Guest" refers to anyone using the Casinos and includes visitors and local citizens alike.

## 6.4 Entertainment Tax

An entertainment tax is basically a withholding tax that is collected from entertainers by hotels on behalf of the governments. Currently, St. Lucia is the only island that expressly indicates its entertainment tax, 10%. It appears that the entertainment tax in other countries is already built into the fee structure of entertainers; therefore it is handled as part of income tax.

\* Increased January 2007

<sup>4</sup> Caricom rate

<sup>5</sup> Non-Caricom rate

<sup>6</sup> Applies on arrival and departure.

## 6.5 Property Taxes

Property taxes are levied on the value of the “property” and not on a sectoral basis. Hotel properties are often referred to as high-end properties; therefore they are often subject to a higher level enforcement by tax departments within the Caribbean.

Table 3: Property Tax by Country

| Country                        | Property Tax  |
|--------------------------------|---|
| Antigua and Barbuda            | Hotels 1/5 of 1% of taxable value   |
| Bahamas                        | The first \$50,000 of assessed value, 0.5 % per annum; the next \$50,000 of assessed value, 1% per annum; over \$100,000, 1.5% per annum.   |
| Barbados                       | 1%-1.5% based on land value, unimproved; 3%, foreign owned unimproved; 0.4%-0.75% based on land value, improved; 2%, foreign owned, improved.   |
| Belize                         | 1% of unimproved value  |
| Dominica                       | Data not found  |
| Dominican Republic             | 2% of registered land value   |
| Grenada                        | 0.15%   |
| Guyana                         | 0.0% on first G\$1.5 million; 0.5% on next G\$5.0 million; 0.75% for every G\$1 of balance  |
| Haiti                          | 6.6% - annual rental value \$2400 gdes; 15.4%- annual rental value \$19,201-21,600 gdes; 16.5%- annual rental value over \$21,600 gdes.   |
| Jamaica                        | Commencing flat rate of J\$50.00 (about US\$0.83) <sup>7</sup> p.a. for properties valued up to J\$20,000 (about US\$333.33), increasing progressively ranging from 0.1 of a cent in the dollar to a higher of 3 cents in the dollar. |
| St. Kitts and Nevis            | US\$1.48 per acre, cultivated land; US\$0.37 per acre, uncultivated land  |
| St. Lucia                      | Domestic-5% of assessed annual rental value; Commercial- .25% of the market value   |
| St. Vincent and the Grenadines | Data not found  |
| Suriname                       | Data not found  |
| Trinidad and Tobago            | 7.5% land & building tax  |

<sup>7</sup>Based on a conversion rate of US\$1 to J\$60.00

## 6.6 Value Added Tax

A Value Added Tax commonly referred to as VAT is a tax levied on goods or services as a percentage of their value-added. The customer pays the VAT on purchases in addition to the normal price: the seller then pays the government the VAT collected on sales. VAT is often applied at varied rates. In some cases VAT can be a form of sales tax such as in Jamaica and Barbados. A number of CARIFORUM countries notably: Barbados, Belize, Grenada and Trinidad and Tobago have introduced VAT.

Table 4: Value Added Tax by Country

| Country                        | Value Added Tax (%)   |
|--------------------------------|---|
| Antigua and Barbuda            | 0%  |
| Bahamas                        | 0%  |
| Barbados                       | 15%   |
| Belize                         | Good & services: 9%; Fuel, alcohol and tobacco: 12%;<br>Luxury Goods: 13% |
| Dominica                       | 5%  |
| Dominican Republic             | 16%   |
| Grenada                        | Goods: 25%; Services: 5%  |
| Guyana                         | Goods & Staples: 10%; Foreign Luxury items: 25%                           |
| Haiti                          | Data not Found  |
| Jamaica                        | 15% <sup>1</sup>  |
| St. Kitts and Nevis            | 0%  |
| St. Lucia                      | 0%  |
| St. Vincent and the Grenadines | 0%  |
| Suriname                       | Goods: 10%; Services: 8%; Foreign Luxury Items: 25%                       |
| Trinidad and Tobago            | 15%   |

<sup>1</sup> Jamaica charges a 15% General Consumption Tax (GCT) on all goods and services, including hotel stays. It is anticipated in many countries such as St. Lucia that VAT will be introduced in the near future.

## 6.7 Corporate Tax

Corporate tax is an income tax that corporations pay as a percentage of net income. This tax is applied on the profits of firms, as distinct from taxation of the income of their owners. In the Caribbean most hotels do not pay corporate taxes due to the poor reported profitability of the sector and the high initial capital cost of setting up hotel operations. However it must be noted that corporate tax in the Caribbean is an average of 35% on net income.

It is not surprising that corporate profit tax for hotel operations in the CARIFORUM states does not contribute significantly to government revenues. This is due to the high capital costs and the numerous exemptions via incentives that are granted on corporate taxes for hotels. In most CARIFORUM countries, the low level of profit taxes can be explained by the impact of granted concessions (which can be applicable for as much as 15 years from start of development) and low level of profitability after the concession period. While this form of taxation

can be high, it is often postponed for the first 10 - 15 years of the hotel operations. Also, hotel profitability differs widely within the CARIFORUM countries and this must be taken into consideration by government fiscal policy makers.

Table 5: Corporate Tax by Country

| Country                        | Corporate Tax (%) |
|--------------------------------|-------------------|
| Antigua and Barbuda            | 40%               |
| Bahamas                        | 0%                |
| Barbados                       | 25%               |
| Belize                         | 25%               |
| Dominica                       | 30%               |
| Dominican Republic             | 25%               |
| Grenada                        | 30%               |
| Guyana                         | 45%               |
| Haiti                          | 10%               |
| Jamaica                        | 33.3%             |
| St. Kitts and Nevis            | 38%               |
| St. Lucia                      | 15-33.3%          |
| St. Vincent and the Grenadines | 10%               |
| Suriname                       | 36%               |
| Trinidad and Tobago            | 35%               |

## 6.8 Import Duties, Other Related Trade Taxes and Non Tariff Barriers

Import duties are a major source of revenue for most Caribbean countries. It is a tax that is levied on goods being imported outside of the CARICOM region. Import duties are applied by product category based on the Common External Tariff (CET). A specific tariff is set in money terms per physical unit of the goods imported, which does not depend on its price.

In 1991, CARICOM members agreed to harmonise the CET for imports from outside the Common Market. CET is structured to differentiate between competing and non-competing imports, as well as between inputs, intermediates and final goods, by applying an Import Duty Levy. The CET is based on a harmonised but complex commodity description and coding system and applies a tariff system on the following goods:

- Live Animals; Animal products.
- Vegetable Products.
- Animal or vegetable fats and oils and their by-products; prepared edible fats; animal or vegetable waxes.
- Prepared foodstuffs; beverages, spirits and vinegar; tobacco and manufactured tobacco substitutes.
- Mineral products.
- Products of the chemical or allied industries.
- Plastics and articles thereof: rubber and articles thereof.

- Rawhides and skins, leather, fur skins and articles thereof: saddlery and harness travel goods, handbags and similar containers, articles of animals gut.
- Wood and articles of wood, wood charcoal, cork and articles of cork, manufactures of straw, of esparto or of other plaiting materials, basket-ware and wickerwork.
- Pulp of wood or of other fibrous cellulose materials: waste and scraps of paper or paperboard; paper and paperboard and articles thereof.
- Textiles and textile articles.
- Footwear, headgear, umbrellas, sun umbrellas, walking sticks, seat sticks, whips, riding crops and parts thereof ; prepared feathers and articles made therewith ; artificial flowers ; articles of human hair.
- Articles of stone, plaster, cement, asbestos, mica or similar materials; ceramic products; glass and glassware.
- Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal and articles thereof ; imitation jewellery ; coin.
- Base metals and articles of base metal.
- Machinery and mechanical appliances; electrical equipment; parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories.
- Vehicles, aircraft, vessels and associated transport equipment.
- Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus, clocks and watches; musical instruments; parts and accessories thereof.
- Arms and ammunition; parts and accessories thereof.
- Miscellaneous manufactured articles.
- Works of art, collectors' pieces and antiques.

It is important to note that some of the above items listed are consumed by small and large hotels at great quantities. Therefore without doubt hotels pay large dollar values of import duties and consumption taxes on ALL their food and beverage items consumed at their hotels by non local constituents. The CET is presented below by nation.

Table 6: Common External Tariff (CET) rates<sup>8</sup>

| Country                      | All Goods      | Other Goods   |
|------------------------------|----------------|---|
| Antigua and Barbuda          | 0-35%          | 40% Primary agriculture                             |
| Bahamas                      | 0-42%          | 30-62% Durable Goods                                |
| Barbados                     | 5-25%          | 40% Primary agriculture goods                       |
| Belize                       | 0-30%          | 40% Primary agriculture                             |
| Dominica                     | 0-30%          | 40% Primary agriculture                             |
| Grenada                      | 0-25%          | 40% Primary agriculture                             |
| Guyana                       | 5-25%          | 40% Primary agriculture                             |
| Jamaica                      | 0-50%          | 40% Primary agriculture                             |
| St. Kitts and Nevis          | 0-30%          | 40% Primary agriculture                             |
| St. Lucia                    | 0-30%          | 40% Primary agriculture                             |
| St. Vincent & The Grenadines | 0-25%          | 40% Primary agriculture                             |
| Suriname                     | 5-30%          | 40% Primary agriculture                             |
| Trinidad & Tobago            | 5-25%          | 40% Primary agriculture goods; 20-30% Durable goods |
| Dominican Republic           | Not Applicable | Not Applicable                                      |

In addition to CET, CARIFORUM countries apply a number of additional charges to imports. These charges include: stamp duties, customs services charges, consumption taxes, and environmental levies. It is important to note that the rates of these additional charges vary a great deal among the CARIFORUM countries.

<sup>8</sup> Data Source ECLAC, "Trade Policy in Caricom" 1999

Table 7: Common External Tariff (CET) rates, additional charges

| Country                     | Consumption Tax            | Customs Surcharge                                 | Stamp Duty                        | VAT                       | Other   |
|-----------------------------|----------------------------|---|-----------------------------------|---------------------------|---|
| Antigua & Barbuda           | 15%, 20% & 30% on M        | 5% on dutiable goods                              |                                   |                           | 1%FET   |
| Bahamas                     |                            |   | 2-10% on M                        |                           |   |
| Barbados                    | 5-30% on M                 | 75%   | 20% on M of NCA<br>10% on M of CA | 15% on M                  | 1%FET BDS\$.20<br>ET Et on alcoholic beverages. |
| Belize                      |                            |   | 14% on M                          | 15% on M                  | 1.25 FET  |
| Dominica                    | 25%                        | 15% on motor veh.,, apples & grapes               |                                   |                           | EC\$0.25 ET 5% on refridge.                     |
| Grenada                     |                            | 5% on M   |                                   | 20% on M 10% on M from CA | EC\$0.25 ET<br>EC\$0.11 PT                      |
| Guyana                      | 0-85%                      |   |                                   |                           | GS10ET  |
| Jamaica                     | 15% 9.09-176.92% cars      |   | 25-56% alcohol<br>65-90% A&P      |                           |   |
| St.Kitts & Nevis            | 5-15% on M<br>12% Clothing | 3%  | 2%                                |                           |   |
| St.Lucia                    | 3-45%                      | 4%  |                                   |                           | Et on alcohol                                   |
| St.Vincent & the Grenadines | 0-65%                      | 2.50%   |                                   |                           | 1% FET and ET on CA rum.                        |
| Suriname                    |                            |   |                                   | 5% Services 7% Goods      | 5-18%Et on alcohol & tobacco                    |
| Trinidad & Tobago           |                            | 5% on Agric.<br>60% cane & sugar 75%refined sugar |                                   | 15% on M                  | Et on alcohol and Tobacco                       |
| Dominican Republic          | Not Applicable             | Not Applicable                                    | Not Applicable                    | Not Applicable            | Not Applicable                                  |

Notes: CA= CARICOM, NCA=Non-CARICOM, ET=Environmental tax, Et= Excise tax, FET= Foreign Exchange Tax, M=Imports, PT=Petrol tax, TT= Tourist Tax, Sug= Sugar.



### 6.8.1 Customs Service charges

One of the most commonly used additional charges is the customs service charge. This charge varies a great deal among the countries and is levied on the C.I.F (Cost, Insurance and Freight) value of goods imported within the hotel sector. The rates vary significantly as shown in Table 6:

Table 8: Customs Service Charge by Country

| Country                       | Service Charge |
|-------------------------------|----------------|
| St.Vincent and The Grenadines | 2.5%           |
| Dominica                      | 15%            |
| Grenada                       | 5%             |
| St.Kitts                      | 3%             |
| St.Lucia                      | 4%             |
| Trinidad                      | 5-15%          |
| Jamaica                       | 0%             |
| Barbados                      | 0%             |
| Dominican Republic            | 0%             |

### 6.8.2 Consumption Taxes

In addition to the customs service charges, the hotel sector is exposed to consumption taxes on all its inputs. Again the rates vary from country to country:

Table 9: Consumption Tax by Country

| Country                        | Consumption Tax (%) |
|--------------------------------|---------------------|
| Barbados                       | 5-30%               |
| St. Vincent and The Grenadines | 15-30%              |
| St. Kitts & Nevis              | 15%                 |
| St. Lucia                      | 3-45%               |
| Jamaica                        | 0%                  |
| Dominican Republic             | 0%                  |

### 6.8.3 Stamp duties

Stamp duties are taxes levied on all items imported from outside of the CARICOM region. These taxes range from 2% to 65 %.

### 6.8.4 Environmental levies

Environmental tax is applied on all imports within all the CARIFORUM countries. It is typically determined by the product and guided by specific legislation.

### 6.8.5 Non-Tariff Barriers

CARIFORUM countries also impose non-tariff barriers on the imports of the hotel sector. The non-tariff barriers cover a wide range of government policies designed to control the volume or consumption of a particular commodity. These non-tariff barriers include: import licensing, import quotas, import prohibitions and price controls. These non-tariff barriers though not an out of pocket cost do have an economic cost.

## 6.9 Conclusions

The review of the tax rates and current tax incentives of all the CARIFORUM countries identifies a number of similarities among the tax regimes and dissimilarities impacting hotels, both small and large. The tax concepts such as departure tax, room tax and concessions during construction phases are reasonably similar among most of the countries. However, it must be noted that the implementation of these concepts varies considerably, and the details of their application vary significantly from country to country. Some significant aspects which stand out are as follows:

- High taxation of inputs through import duties and other indirect charges are affecting the hotel industry within the CARIFORUM countries. These taxes are reducing margins and also increasing the overall price of the hotel product. This can be compared to the agriculture sector that enjoys many benefits from tax relief on operational inputs and capital costs. Incentives in the hotel sector in the CARIFORUM region are for capital inputs only.
- The present import regime of the CET is extremely complex, which has significant operating costs for both the hotel sector and the government. This tax is a clear challenge for the hotel sector.
- Taxes directed at the tourist such as departure tax and hotel accommodation tax while easy to administer, are a nuisance factor to the visitors, and appear to be price gouging when they become too visible or too high.
- The hotel sector falls into the same corporate tax regime as other sectors. However the capital investment in the hotel sector is usually substantially larger than private sector investments in other sectors. This should therefore be considered in the application of the corporate tax rate.

The CET and hotel accommodation tax impact directly on the pricing structure of hotel rooms and the destination experience in the CARIFORUM region. Both of these taxes increase the price of the hotel product because of the indirect effect on the end product. Hotel occupancy tax is added to the room cost at the time of check out, and CET influences the price of all food, beverage and everything else at the hotels.

## 7. COMPARISON OF TAXATION IN OTHER SECTORS

Traditionally, CARIFORUM countries have been dependent on agriculture and to a limited extent in some countries, light manufacturing. Since the 1980s tourism has risen in prominence as a contributor to GDP, a major source of foreign exchange earnings and a provider of employment. Following an introduction to the sectors, this chapter compares the taxation of tourism to the agriculture and manufacturing sectors.

### 7.1 Agriculture

Agriculture remains a key sector in the CARIFORUM region. Agriculture, which was the dominant economic sector in the colonial days, is still a significant export earner and a means of livelihood in several countries. For several years, most of the CARIFORUM countries depended on preferential treatment for key products such as sugar and bananas. The CARIFORUM countries agricultural sector faces significant challenges and is not competitive on the world market. This has resulted in a decline in export earnings and a drop in importance to the Caribbean economy. This is due to several factors including: removal of trade preferences, globalization trends, lack of capacity to meet the world trade standards and requirements, the polarization of the farming operations and the steep decline in international prices for agricultural products traditionally produced and traded by the Caribbean. The agricultural landscape, like many other industries, is being transformed into a sector dominated by multinational firms.

### 7.2 Manufacturing

Manufacturing in the Caribbean remains relatively small, compared with other sectors such as tourism, services and agriculture. Caribbean countries involved in manufacturing, such as the Dominican Republic, are losing market share to Central American countries where the labour prices are lower. Low cost energy, human resources and fair sized local market by regional standards have allowed Trinidad & Tobago to become the dominant manufacturing centre for the CARIFORUM region. Jamaica its main rival has been hindered by high interest rates, social instability and uncompetitive exchange rates. Barbados suffers from high energy and labour costs. In the CARIFORUM region, where manufacturing exceeds 5 % of the Gross Domestic Product, the industry represents mostly first stage processing of raw materials in the country. In Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, Suriname and Trinidad and Tobago, manufacturing activities include sugar production, rice and saw milling, refining bauxite into alumina and production of crude oil and petroleum products. The manufacturing sector continues to struggle with most of the CARIFORUM countries registering declines in output. Increased liberalization and strong competition will continue to plague the region's manufacturing sector.

To reverse this trend, Caribbean countries have adopted tax holidays that reduce the national revenues earned from manufacturing; however these incentives have not led to a growth in the manufacturing sector. The commodities that form the basis for the region's manufacturing continue to decline in terms of trade exports.

### 7.3 Hotel Sector

Destinations in the CARIFORUM region are showing very positive performance enjoying the competitive advantage of a weak dollar and rebounding from the declines after September 11, 2001. During 2003 and 2004 the Caribbean governments strived to rebuild the tourism industry. The Caribbean rebounded by 8% in 2003 from negative figures of the previous years. Receipts range from about 30% of total export receipts in the

Dominican Republic to more than 75% in Barbados and St. Lucia. The region remains the world's most tourism dependant region with the sector accounting for 25% of all exports and services. In 2004 travel and tourism contributed 15% of the Caribbean countries' GDP and accounted for 2.4 million jobs, directly and indirectly. Over the next ten years this sector is forecasted to contribute 16.5% of GDP and account for 3.2 million jobs, directly and indirectly. Tourism remains especially critical for countries where agriculture preferences by the European Union are being phased out and has become the most significant earner in the region.

#### **7.4 Comparison of taxation to other sectors**

In attempting to compare the fiscal regime applicable to the tourism sector to that of the agriculture and manufacturing sector, there were several challenges in obtaining current data, and the review was severely hampered due to lack of available sectoral tax data. It is therefore necessary to treat this topic in a more qualitative manner.

The hotel sector is subject to a variety of taxes as previously discussed. Taxation of the agricultural sector varies from no taxation on income and farm inputs as in the case of St. Lucia, to tax concessions on machinery and raw materials in Barbados, to a variety of allowances in Jamaica such as import duties on agriculture machinery and plant products which are set at 5%. A farmer can apply for concessions on the importation of an agriculture vehicle, which can realize savings of up to 80% on duties<sup>9</sup>. The net effect is that farmers in these countries receive a continuous tax relief in the form of elimination of taxes on the primary critical inputs into their business. Relief is enjoyed on both capital goods: i.e. equipment, and operational supplies: i.e. fertilizers. In contrast, tax relief in the tourism hotel sector focuses primarily on creating additional investment and is limited to a certain number of years after the investments take place. With this tariff system, agriculture is treated separately: agricultural commodities are charged an average of 40% while agricultural inputs all have 0% tariff rate. If any tax relief is available for the operational inputs in the hotel sector, it is always granted for a limited number of years and is related specifically to a tax relief granted due to a new investment.

Additionally, the agricultural sector enjoys income tax and property tax relief. For example, in the case of Jamaica, an approved farmer (a status obtained for up to 10 years from the Ministry of Agriculture) may be relieved from paying income taxes on income derived from agriculture activities. In addition dividends from a farming company are tax-free to the local shareholders or shareholders who are residents in a country with which Jamaica shares a double taxation treaty. Most farm products in Jamaica are zero rated under that general consumption tax law, when compared to a general 15% rate. This has a net effect of providing stimulus to the agricultural sector, and lowers the costs of basic food items.

Comparisons made related to property taxes and noted that land taxes to the tourism sector are high in relation to similar taxes in the agriculture sector. This is primarily due to the location of most hotels, which are located on prime land sites, i.e. beachfront property.

Another issue that is noted is the taxes applied to utilities used by the hotel sector when compared with the agriculture sector. There is a higher utility usage in the tourism sector than the agriculture sector. The net effect of this is high costs in hotels, primarily on items such as electricity for air conditioning and lighting. It was suggested by several hoteliers in St. Lucia, that these expenses can be reduced through reduced utility rates for hotel sector based on room count, if the industry is to remain competitive.

In the tourism sector it appears that food and beverages are more heavily taxed than other items. A large percentage of food and beverage commodities are imported from extra-regional sources, and are subject to high import levies, particularly beverages. While some duty free concessions are granted to hotels in the category of food and beverages, such concessions only apply to equipment used in food and beverage preparations, and not ongoing inputs.

Research also showed that manufacturing carries a lower portion of tax burden than the hotel sector. It was noted that there are several concessions on many inputs to the manufacturing sector which the hotel sector does not enjoy, or benefit from. Among others, manufacturing companies in Barbados can qualify for tax holidays up to 10 years.

## 7.5 Conclusion

The agriculture sector has been and is still a significant economic sector in three islands researched: Barbados, St. Lucia and Jamaica. Prior to the rise of tourism, it was the principal earner of foreign exchange and as such the sector has been the recipient of many generous tax incentives. Agriculture is similar to the hotel sector in that it has the potential to attract both smaller local investors as well as large multinational companies. Like the hotel sector, it needs high capital investment to start, although it may both be at the same level as the hotel sector. Finally it needs a steady stream of inputs such as fertilizers, which are imported.

In general, the agriculture sector benefits from similar tax incentives as the tourism sector, in that exemption from income tax and import duties on primary capital goods is readily available. In addition, the agriculture sector benefits from exemption from certain constant inputs, i.e. fertilizers. These latter incentives are not as prevalent in the tourism sector, and are typically tied to a limited period after the initial investment in a hotel property takes place.

Another major difference is that there are few additional taxes levied on the outputs of the agriculture sector, whereas the hotel sector [and the tourism sector more broadly speaking] is subject to additional taxes such as room tax, departure tax and entertainment tax. Agriculture, on the contrary, is the subject of favourable treatment such as zero-rating of agricultural products in Jamaica's General Consumption Tax system.

CARIFORUM countries are typified by a small economic base that relies on only one or two sectors for foreign revenue, a level of unemployment exceeding 10% and a large government apparatus which is the consequence of being a fully independent nation with a small population.

In order to generate foreign revenue and stimulate job creation under these circumstances, governments have utilized a number of fiscal incentives to promote investment in tourism. However the net effect of these concessions may be compromised due to other conditions such as indirect taxation, product quality, economic stability, long term viability. The hotel sector has a number of specific taxes unlike manufacturing and agriculture:

- Room Tax: an occupancy tax or hotel tax which is a sales tax on hotel occupancy and is a moderate generator of income in all counties researched.
- Departure tax: is a tax levied on departing visitors and is a moderate income generator for governments.
- Casino tax: becoming a strong generator of government revenue.
- VAT: Value added tax being applied on services can indirectly affect the holiday price for tourist.

<sup>9</sup>Information collected from various country Tax Ordinances.

- Import duties: a major source of income for all the governments of the CARIFORUM region. The tax is difficult to analyze by sector, as data is not registered by sector. However, due to the large imports of food and beverage by the hotel sector in all the CARIFORUM countries, it is a logical conclusion that the hotel sector contributes highly in the tax area.
- Property tax: a tax applied to developed land based on a percentage or rental value is a major source of revenue for most of the governments and a significant cost for hotels.
- Corporate profits tax: taxes from the profits of hotel sector are small contributions to government revenues due to poor profitability of hotel sector and the numerous concessions which are granted.
- Fiscal policies related to ancillary services sectors such as food and beverage appear to be much less coordinated and practices vary significantly by country.

**Where the fiscal regime as applicable to the tourism sector is compared to that of the agriculture and manufacturing sectors, four main differences stand out:**

- **While all three sectors enjoy tax incentives on the investment, agriculture and manufacturing also enjoy concessions on operational inputs.**
- **While the hotel sector outputs are taxed through room tax, VAT or general consumption tax, in manufacturing and agriculture, outputs are rarely taxed.**
- **Tax incentives in the hotel sector are of limited duration while tax incentives in agriculture and manufacturing are automatic and continuous.**
- **The structural costs related to hotel sector are higher than agriculture and manufacturing due to the higher capital outlay and greater need for infrastructure.**

## 8. HUMAN RESOURCES

All hoteliers will agree that the service provided is a key competitive factor. Service is provided by people and human resources is the key to the sustainable development of the hotel industry in CARIFORUM. In many islands, the tourism industry has emerged as the main economic player since the contribution of industries such as agriculture to GDP has diminished. As a result of this, arguably human resources geared specifically towards the needs of the hotel industry, which is a service industry, are still in a developmental stage at the newer destinations.

Other research undertaken, indicates that there is still much work to be done in achieving the level of service and standards that the market requires. The skills and knowledge required fall under the following categories.

- Culinary skills
- Front office skills
- Housekeeping skills
- Activities
- Management
- Accounting and Finance
- Food and Beverage Management
- Sales and Marketing

The degree to which these skills are developed affects the efficiency of a hotel and thereby its profitability and competitiveness.

Non-tangible support for the purposes of this report will be defined as encouragement for the development of the hotel sector via direct or indirect provision of support services or opportunity for development.

Some areas of non-tangible support identified are as follows:

- Verbal or documented support for the hotel sector by Government or local agencies.
- Provision of Government granted or sourced opportunities for educational development specific to hotels.
- Availability, desirability and manageability of student loans for pursuit of hospitality geared studies via student loans.
- Government support of hospitality geared educational institutes providing opportunity for skills and knowledge development.
- Sponsorship of hotel related events which boost public perception of hotel industry and its desirability as a contributor to the economy and employment.

One non-tangible cost that was examined was the level of investment in human resources which impacts the ability to access qualified labour. Governments play an integral role in the development of the labour that is available to hotels. Through investment in programmes which provide opportunity for education and experience-based development, members of the existing or future labour pool can begin to cultivate the skills and knowledge bases which can significantly improve the labour offering.

Traditional programmes facilitated through government support are as follows:

- 8.1 Apprenticeship programmes; Wages subsidised by governments
- 8.2 Graduate tax deduction incentives
- 8.3 Funds allocated and available for training programmes.
- 8.4 Youth training programmes
- 8.5 Work Permits
- 8.6 Financing of skill development

### **8.1 Apprenticeship Programmes:**

Of significance, 83% of respondents in Jamaica identified that there were apprenticeship programmes available and 17% indicated that they did not. In Barbados 50% identified they did and 50% that they did not.

### **8.2 Graduate Deductions**

None of the islands have identified the existence of such incentives.

### **8.3 Training Funds**

With the exception of Barbados, all islands have indicated that they are not available. With Barbados, 50% have responded yes and the remaining 50% no.

### **8.4 Youth Programmes**

All islands have indicated that this is not available with the exception of one respondent in Jamaica. These programmes offer employers opportunities to train staff in excess of what is required for future needs without the full costs associated with employment.

### **8.5 Work Permits**

Within the hotel sector work permits have traditionally been commonplace, especially in the food and beverage areas, with specialist chefs usually from the international arena. Governments have made provisions to ensure that the knowledge these persons bring is transferred to local personnel as it is a stipulation of many work permits being granted. However there is little monitoring to ensure this is done. Expatriate chefs often are a significant labour cost due to the expected remuneration packages and benefits.

Many islands, with the advent of The Caribbean Single Market and Economy, have moved to increase the cost of work permits for non-regional persons.

### **8.6 Financing of Skill Development**

The annual cost expensed by properties varies greatly and is usually reflective of company commitment to training and development. Often in times of financial strain, human resource budgets are the first to be cut, a temporary solution with repercussions and hidden costs. Responses suggest that incentives may be available, however hotels may not be aware of the incentives.

All islands have student loans available to prospective students through their respective banking institutions. Interest rates are fairly standard and in keeping with rates for general financing. The challenge for many prospective students is initially providing the necessary collateral and ultimately seeking gainful employment to repay the monthly-required payments.



Generally most countries through their hospitality associations have tourism specific scholarships. It can be noted that countries that have identified hospitality as their key GDP contributor have invested locally in educational institutions which support hospitality studies and provide various avenues e.g. formal full time, part-time and distance study for achieving accreditation in the field. Islands such as Barbados, St. Lucia and Jamaica have made efforts to provide a supportive education framework exclusive to their islands and its needs. What must be noted is that the hotel industry is labour-intensive and therefore all costs associated with human resources will impact on operating costs.

Based on the on line survey regarding areas of the labour pool and their availability by island, the following can be noted:

- Specialist skills are not available.
- Line level staff is most readily available.
- Senior management and supervisory are similarly available.
- Middle management is the area of specialist skills least easily available.

This suggests that in all islands efforts must be made to identify specifically what specialist skills are required and how they will build a pool of potential employees, similarly with middle management.

## **Key Educational Institutions and Access to Student Loans to Support the Development of the Hotel Sectors.**

### **Barbados**

- Barbados Community College, Hospitality Institute, Hotel PomMarine

This institute offers a Bachelors of Science in Culinary Arts, Hotel Catering and Institutional Operations and Tourism and travel. It was designed to provide courses which are practical to the hospitality industry with the crucial hands-on experience as the school operates the Hotel PomMarine which is staffed by the hospitality students.

Despite Barbados being identified as a key tourist destination, there is arguably like most other islands no preference given to hospitality students in terms of access to funds or scholarships. The key body for scholarships directed to the hotel industry is the Caribbean Hotel Association (CHA).

Student loans are available from local banking institutions with interest rates generally averaging between 9-12%.

### **Jamaica**

- The Jamaica School of Hospitality and Tourism Management
- Knox Community College
- Northern Caribbean University, Department of Nutrition, Tourism and Hospitality Management.

Like Barbados, Jamaica sets out to provide an educational basis for their tourism industry. The school offers both degree and diploma programmes. Programmes range from traditional degrees like Hotel, Restaurant and Tourism Management, to certificates in Baking Technology.

Students in Jamaica wishing to access funding for higher education do so via the Students Loan Bureau (SLB), which in 2005 received US\$28.3M from the Jamaica Bankers Association to increase available resources to students. In addition interest rates on students loans have dropped significantly from 16% to 12%. The Jamaica government has also supported the issuing of loans to all eligible applicants.

## St. Lucia

- Sir Arthur Lewis Community College (SALCC)

SALCC is the key provider of educational support to the hotel sector in St. Lucia; however students must transfer to Barbados, Trinidad or Bahamas to complete tourism degrees. The SALCC, while it offers basic hotel management training, does not cater to the more practical elements of hospitality like the culinary arts.

However hotel employees and students alike are exposed to short term courses on offer which are of a more practical nature.

Student loans in St. Lucia are readily available from local banks. The Bank of St. Lucia only considers applicants for educational loans which form part of the Government priority areas for manpower.

Tourism and Hospitality, specifically Hospitality Studies and Tourism Management and Administration, Planning and Development are identified on the priority list.

## The Dominican Republic

- Hospitality Management at the Pontificia Universidad Católica Madre & Maestra (PUCMM), in the Dominican Republic. There are two campuses, one in Santo Domingo and one in Santiago offering hospitality and tourism at all levels, including the culinary arts

### Summary

All of the above islands provide access to student loans to facilitate the study process however the following must be highlighted;

- The provision of a guarantor and/or collateral is still a significant deterrent for many hospitality workers.
- The maximum loan amounts are not always adequate; students often have to seek additional sources of funds.
- Often the required monthly loan repayments require persons to be paid a certain standard to allow them to meet the repayment level and still have a satisfactory take home pay.

In addition many persons who pursue higher education with the intention to enter the hotel industry pursue mainstream studies like Management. Often, persons entering culinary arts and other specialised areas will work to gain practical experience to test the waters and financial rewards before qualifying. The issue then becomes the break in employment, access to funds, and loss of income for a period and no guarantee for continued employment or “international wages” after studies but the responsibility of repayments of a loan.

Herein lies a concern; when employees do not feel the opportunity to return to a job with their new qualifications and past experiences, a hotel loses the opportunity to retain a skilled worker and maintain or raise the human resource standards.

Trained personnel ensures a well-run organization, where all departments are knowledgeable of expenses and the implications to profits. The ability to source and hire well-trained personnel is critical for small and large hotels. Untrained and unqualified personnel in critical departments such as food and beverage and purchasing have serious implications for profitability.

## 9. TOURISM INVESTMENT INCENTIVES IN SELECTED COUNTRIES

Several countries provide incentives or exceptions to the taxation levels described in Chapter three (3). This chapter provides a summary of current incentives and financing options available to the hotel sector in CARIFORUM.

The four islands where interviews were conducted will be reviewed first.

### 9.1 Barbados

The Government of Barbados has a very aggressive programme that identifies and promotes investment within the hotel sector. The Special Development Areas Act and other incentives set aside geographical areas that can attract special consideration for:

- Hotels including conference areas
- Other tourism Incentives
- Tourism projects

Barbados has a well defined range of business and incentives legislation and an extensive array of double taxation and bilateral investment protection treaties with the United States, Canada and several European countries. The Tourism Development Act 2002/7 is the operative piece of legislation that describes the products and projects which qualify for application and approval. Final approval is given by the Minister of Tourism. The Barbados Tourism Investment Inc has been created and is the dedicated institution that promotes tourism investment and facilitates and assists potential investors to access the various incentives. There are no restrictions on foreign ownership of hotel enterprise, but non-nationals are required to obtain work permits..

Barbados Investment incentives cover:

- Duty free importation (including waivers of Value Added Tax and Environmental levy) of building materials and equipment during construction and rehabilitation.
- Duty free importation (waivers of Value Added Tax and Environmental Levy) of supplies for refurbishment of hotels, restaurants, villas and sports and recreational facilities for tourism purpose.
- Extended tax holidays, write off of capital expenditure and accelerated write off of interest.
- Training of employees
- Marketing assistance

Access to domestic financing in Barbados is facilitated via commercial banking sector at interest rates of 7.5 % to 8%. In addition to the indigenous banks, three international banks have branches on the island:

- The First Caribbean International Bank
- The Royal Bank of Canada
- The Bank of Nova Scotia

Financing is also available from

- The Eastern Caribbean Securities Exchange
- Barbados National Bank

- Caribbean Development Bank.
- RBTT Bank Barbados Limited
- Caribbean Financial Services Corporation

The Tourism Development Corporation (TDC) is a local organisation composed of voluntary corporate members whose contributions are dedicated to local tourism improvement projects (either product development or marketing), and for which the contributing company can claim a 150% tax rebate. The TDC co-funds many projects conducted by the national tourism authority and hotel association as well as fully funding other tourism enhancement initiatives.

## 9.2 Dominican Republic

The tourism industry in this CARIFORUM destination creates direct employment for 233,000 persons. The Dominican Republic has a mixture of natural, cultural and historic resources that make the country an ideal destination for tourism. The Government of the Dominican Republic has identified priority areas for hotel development. The Government promotes investments in these zones, by giving priority to the construction of infrastructure works thereby encouraging international financing and facilitating the process by selling or leasing land belonging to the State.

The Tourism Law of 541 of 31 December 1969 and Law 158-01 on the Promotion of Poles of Lower Development seeks to accelerate and rationalise the process for development of the tourist industry in regions having great potential or enjoying excellent natural conditions for tourist development. The incentives offered include:

- 100% waiver of income tax
- Waiver of construction charges
- Waiver of customs duties for a period of 10 years.

These incentives are creating investment opportunities in:

- Upgrading of existing hotel establishment.
- Remodelling and reopening of hotel establishments.
- Building new hotels in keeping with the island's characteristics
- Improve present tourism support services
- Create tourism information centres.

While the Dominican Republic is politically stable, the collapse of a few large banks over the last 3 years has put pressure on the peso, and has weakened public finances. Inflation has increased from 2003 levels while the peso has depreciated in value especially against the United States Dollar. This has caused significant increases in labour costs and electricity, placing a strain on the hotel and other tourism industries. Presently there is an appeal before the National Congress for a further reduction in certain taxes to help ease the strain of a weak peso and high electricity costs.

### 9.3 Jamaica

Jamaica is politically stable, has an abundance of natural resources and a well-developed and maintained infrastructure. There are no exchange controls or restrictions on the movement of capital, profits and dividends. The Jamaican Government has Double Taxation treaties with 12 countries, which include some of the major developed nations. Investors from these countries benefit from favourable income tax treatment. Hotel and other investment projects are facilitated by the government investment promotion agency: Jamaica Promotions Corporation (JAMPRO). This agency has the responsibility of assisting in expediting licenses and incentives granted by the Government to investors.

Jamaica has a Hotels Incentives Act which grants the following:

- 10 years tax relief
- Duty free concessions on construction materials and furnishings.

The Hotel Incentives Act applies to the following Hotel investments in Jamaica:

- New hotels with no less than 10 rooms.
- Existing hotels adding a minimum of 10 rooms, or thirty per cent of existing rooms, whichever is greater
- Hotels undergoing extensive structural changes.

The Hotel Incentives Act also encourages convention type Hotels with 350 rooms or more, by allowing:

- Relief from Import Tax and Import duty on construction materials and furnishings for 11 to 15 years.

Applications are processed by the Ministry of Tourism before concessions are granted.

Apart from the Hotel Incentives Act, Jamaica has a Resort Cottages Incentives Act, short-term incentives packages and concessions for special attractions. The Resort Cottages Act encourages small type resort operations of 10 rooms or less, owned by a local and situated within the same district, village or town. A seven years tax holiday is awarded to applicants who qualify, along with seven years duty free imports.

Jamaica's commercial banks provide special financial services and access to finances for hotel projects.

### 9.4 St. Lucia

St. Lucia enjoys political stability, along with natural beauty and well-organized developed infrastructure. Presently the island has no exchange controls or restrictions on the movement of seed capital, profits and dividends. St. Lucia Development Corporation facilitates government promotions, and assists in the expediting of licenses and incentives granted by the Government to hotel investors. The Ministry of Tourism reviews and processes all tourism investment applications. The Ministry of Labour is charged with the responsibility of issuing work permits for non-nationals entering the hotel industry in St. Lucia.

The Tourism Incentives Act enables a person interested in Tourism investment to apply to the Minister of Tourism for concessions to develop a product. Under this Act, tourism projects (specifically hotels) are defined as follows:

- The construction of a Hotel
- The renovation, expansion of an existing Hotel
- The transformation of an existing building in a Hotel
- Furnishing of buildings in a hotel
- The provision of tourist recreational facilities

- The construction and equipping of restaurants
- The refurbishing of existing restaurants

Tourism projects must go through an approval process which involves:

Interim approval granted based on information submitted in the initial application. This information must include evidence of ownership of project, estimates of expenditure, source of funds, environmental impact assessment, marketing plan and feasibility study.

## 9.5 Antigua and Barbuda

Antigua and Barbuda enjoys political stability and has a documented policy of encouraging private and foreign investments. The country's Fiscal Incentives Act contains several provisions that facilitate new investments in the hotel sector. Specific incentives are issued after applications to the Ministry of Tourism and Planning by the Cabinet of Ministers. Antigua and Barbuda has no exchange controls or restrictions on the movement of capital, profits and dividends.

The following are specific incentives available to the Hotel Sector:

- Tax holiday of 5 to 15 years is allowed for new hotels, with a 5-year extension under specific circumstances.
- Waivers are granted from Customs duties and other indirect taxes i.e. - Consumption Tax on imports of materials and equipment used in the construction and operation of the hotel facility.
- Capital and earnings can be repatriated free of taxes.
- 100% foreign ownership is allowed.

Access to domestic financing in Antigua & Barbuda is facilitated via commercial banking sector with interest rates of 11% and 13%. In addition to the indigenous banks, three international banks have branches on the island:

- The First Caribbean International Bank
- The Royal Bank of Canada
- The Bank of Nova Scotia

Financing is also available from

- The Eastern Caribbean Securities Exchange
- Antigua & Barbuda Development Bank
- Caribbean Development Bank.

## 9.6 Bahamas

The government of the Bahamas has established a national investment policy. To encourage and implement this policy the government has provided:

- A politically stable country which encourages private investment.
- An efficient and dependable Public Service.
- Tariff concessions under the Caribbean Basin Economic Recovery Act.
- Essential and efficient infrastructure such as ports, airports, roads and communication systems.
- An investment climate which is free of capital gains tax, withholding tax, profit remittance, personal income, dividends, and payroll and interest taxes.
- Extensive airlinks to the United States.

The Government has established the Bahamas Investment Authority with their main function being the administration and management of the following:

- The Tariff Act
- The Free Trade Zone Act
- The Hotel Encouragement Act
- The Hawksbill Creek Act

The Government encourages and offers incentives for foreign investors in all sectors of the economy which includes

- Hotel Resorts
- Upscale condominiums
- International business centres
- Marinas

The cost of borrowing money in Bahamian dollars is 7-12% per annum. The exchange rate is US\$1.00 dollars to Bhs\$1.00

There are a total of 410 licensed banks.

## 9.7 Belize

Belize Fiscal Incentive Act encourages honest investment in Belize via tax holidays and duty exemptions. This Incentives Act provides both prospective and existing investors with the legal framework to spur productive economic activity. In 2002 the Incentives Act was amended to promote and spur investment in Small and Medium Enterprises through partial or full duty free concessions. The incentives for SME's involvement in hotel, restaurants and tourism related services include:

- Full or Partial duty Exemptions
- A two (2) year Exemption limited to businesses granted an Approved Enterprise Order.
- Duty Exemptions can be renewed for extended periods up to a maximum of 5 years.
- Items which qualify for exemption from Customs duties include building materials, machinery, operating plant and equipment, specialized tools, transport vehicles, office equipment, appliances, fixtures and fittings and parts for operating plants, equipment and machinery.

Gaming in Belize is an integrated part of the hotel and tourism sector. Large operating 5 star hotels or large hotels which are in the process of being built can apply for gaming licenses, which allow the hotel to operate gaming facilities on property. The gaming applications are controlled by the Gaming Control Board.

Access to finance for the hotel sector is facilitated by a number of established financial institutions operating in Belize:

- Alliance Bank
- Atlantic Bank
- Belize Bank
- Development Finance Corporation
- Bank of Nova Scotia
- First Caribbean Bank

Financing from Caribbean Development Bank and International Financial Institutions are also available.

## 9.8 Dominica

The Dominican government has started a well-defined campaign to promote private sector development and encourage foreign investment. The priority areas are:

- Tourism
- Light Manufacturing
- Offshore Financial services
- Information and communication technology
- Agro processing

Emphasis is being placed on the tourism sector by encouraging the development of specific sites.

The Hotels Aid Act which is administered in conjunction with the Income Tax Act provides the incentives for projects within the tourist sector. The Dominican National Development Corporation (NDC) operates as a one-stop agency to facilitate investors and the setting up of new business ventures. The NDC reviews applications and forwards these applications to the Cabinet of Ministers for their review and approval. A permit for the ownership of land is approved by the Cabinet of Ministers.

Twenty year tax holidays are granted for approved hotel developments. The development may also receive exemption from import duties, consumption taxes on materials and equipment used in the construction and furnishing of these projects. Foreign investors are allowed 100% ownership in these projects.

Foreign investors are permitted to repatriate 100% of profits and withholding taxes are exempted on the payment of dividends, interest and other transaction costs. Dominica has no Capital Gains Tax

Access to domestic financing is mainly through commercial banks, at rates from 11% to 14%.

## 9.9 Grenada

The Grenadian Government is aggressive in attracting investment within the Hotel sector. The island is politically stable and has an encouraging policy with regards to foreign investment and private sector investment. The Hotels Aid Act of 1954 is now replaced with a more comprehensive Tourism Development Act. This new Act provides the frame work for the sustainable development of Grenada's hotel sector by making it more attractive for local and and foreign investors.

The Grenadian Development Corporation facilitates private investments activities by providing advice and information to potential hotel investors. The Cabinet of Ministers approves permits for the purchase and/or lease of land by non -nationals in accordance with the Alien Land Holding Regulation Act, and the Ministry of Labour issues work permits to non nationals entering the hotel sector when necessary.

In Grenada, new hotel projects are offered full exemption from taxes on corporate profits for up to ten years for properties of ten rooms and more. Further exemptions are offered from Customs duties and taxes on materials and equipment for new hotels and the repair and upgrading of existing hotels.

Access to financing in Grenada is mainly through the commercial banking sector at interest rates ranging from 11% to 13%. In addition to the indigenous banks, there are the following international and regional banks:

- First Caribbean Bank
- Royal bank of Canada
- Bank of Nova Scotia
- The Royal Bank of Trinidad and Tobago.



Financing is also available from;

- The Eastern Caribbean Securities Exchange
- Grenada Development Bank
- Caribbean Development Bank

The Grenadian Development Bank is the main financial intermediary providing finance for hotels and other tourism related projects.

### 9.10 Guyana

GO-INVEST is the investment agency in Guyana which promotes investment opportunities with the country.

The ranges of investments are:

- Hotel Accommodation
- Recreational facilities
- Efficient transportation
- Restaurants
- Craft shops

The government plans to develop the tourism sector by actively pursuing the following initiatives:

- Enhancing the quality of the tourism product by establishing monitoring standards.
- Strengthening linkages between tourism and all other sub sectors in the economy.
- Extending the tourism development into new areas to create a more diversified product.
- Investing in a regional commuter airport.
- Creating a destination management company
- Creating a golf course.

Over the last three years the Government of Guyana has taken critical steps towards stabilising its economy and initiating major reforms in foreign trade, the public sector and the market economy. Presently there are no formal incentives and incentives are at the discretion of the government. The Government is presently reviewing incentives in relation to tourism investments.

Accessing finance is still a challenge in Guyana. Despite the liquidity in the commercial banks, there is still limited access to local funding. Banks are very cautious towards lending, creating high capital costs; 15%- 17% interests rates and overdraft interest of 19%.

### 9.11 St. Kitts and Nevis

St. Kitts and Nevis has legislation under the Fiscal Incentives Act which actively attracts and encourages hotel investment. The Act promotes the following incentives:

- Maximum tax holiday of 15 years
- Additional tax rebates up to 5 years
- Waiver of import duties on construction materials and equipment for hotel projects
- Repatriation of funds representing: profits, dividends, and seed capital with approval from Ministry of Finance
- Protection of investments through government agreement between the United States and St.Kitts and Nevis

- Hotel Aids Ordinance which provides duty free concessions for construction, refurbishing and expansion of existing hotels
- Income Tax Ordinance which allows special tax waivers for hotel investors who obtain licenses to operate under the Hotel Aid Ordinance

Financing for hotel projects can be obtained from the following financial institutions at rates up to 11%

- Royal Bank of Canada
- First Caribbean International
- Bank of Nova Scotia
- First National Bank of St.Kitts and Nevis
- The Development Bank of St.Kitts and Nevis
- Bank of Nevis
- Caribbean Banking Corporation

### 9.12 Suriname

This country has had low levels of private and foreign investment due to the lack of incentives being afforded. Suriname is plagued with several challenges which contribute directly and indirectly to the present investor environment:

- Weak and ineffective legal system
- Slow judicial process
- Economic instability
- Extreme administrative bureaucracy
- Excessive discretionary decision-making

The Government of Suriname is in the process of developing policies and legislation to create an enabling environment guided by clear legal administrative procedures and corporate tax reform to encourage and stimulate development within the private sector.

Access to finance has been and continues to be a challenge in Suriname. There are only five financing institutions. The cost of borrowing money in US dollars is 12% per annum and in Suriname dollars, it is 20%.

### 9.13 Trinidad and Tobago

Trinidad and Tobago has a strong economy dependant on services and oil production. The tourism sector in Trinidad and Tobago currently represents more than 5% of the country's Gross Domestic Product. Progressive investor-friendly legislation has been enacted to support the development of the tourism sector. The Government of Trinidad and Tobago has introduced legislation via a Tourism Development Act dedicated to the development of tourism in the country. The Tourism Development Act 2000 was introduced to stimulate tourism development through out the island. The Hotel Development Act provides incentives to hotel owners and operators. These incentives include:

- Tax exemption for a period of 5 to 10 years.
- Accelerated depreciation, applied against equipment owned by hoteliers.
- Free expatriation of capital and dividends.
- Tax exemption on accrued dividends.
- Tax exemptions on interest on approved loans for a maximum of 10 years.

- Customs Duty Exemptions on building materials, hotel equipment and other articles to be used exclusively in the construction and equipping of hotels.
- Exemption from double taxation, where applicable.

Access to financing is facilitated by six commercial banks in Trinidad and Tobago. This country is referred to as the financial capital of the Caribbean, and the cost of borrowing is 7.5% to 9.5%.

### 9.14 Conclusion

The investment climate for the hotel sector in the CARIFORUM countries is on the surface exceptionally favourable. The Governments of the CARIFORUM region generally have relied on a range of fiscal and financial incentives for attracting foreign investments in the hotel sector. The three main types of incentives have been:

- Statutory provisions which create and offer tax holidays or relief from income taxes for a set period.
- Exemptions from import taxes on inputs being imported into the country. (Some exemptions may take the form of Cabinet Conclusions or legislation while other may be at the discretion of high level government officials).
- Special Incentives packages which are negotiated with Cabinet members which can include Government guarantees, discounted land deals, or specific infrastructure development.

As noted, most of the CARIFORUM countries have a Fiscal Incentives Act, Hotel Aid, Tourism Incentives Act, and Development Aid Act. The tax holidays extended to hotel investors vary from country to country within the CARIFORUM region. Under the Hotel Aids Act, tax holidays can range from 5 years in Antigua and Barbuda to 20 years in Dominica. Governments in the CARIFORUM countries have viewed these concessions as revenue forgone due to the concessions on tax holidays. However, the high capital out-lay of most hotel ventures within CARIFORUM countries often cannot guarantee profits within the first ten years of business.

The incentives systems are complex as they include applicable laws, varied rates, need for approvals from top policy makers and a mountain of qualifying rules. These incentives are managed by several different government departments and often involve a lengthy process for approval. The difficulty benefiting from incentives can deter investors and thus reduce their effectiveness.

*SEE APPENDIX A FOR A SUMMARY TABLE OF TOURISM INVESTMENT INCENTIVES IN SELECTED COUNTRIES*

## 10. COMPARISON OF THE CARIBBEAN WITH SELECTED ISLAND TOURISM DESTINATIONS

According to the World Travel and Tourism Council, tourism is the world's largest and fastest growing industry. Although this sector is growing in all global quarters, there is a difference in how the sector is treated in fiscal terms both in strong traditional destinations and emerging markets. Because of the lack of information on how tourism works and more specifically the hotel sector, tourism, and by extension the hotel sector, is often very vulnerable to taxation, even where governments are trying to encourage tourism. The WTTC estimates that travel and tourism's global contribution is 11.5 % of its share of GDP. The array of taxes demanded can sometimes significantly diminish the benefits of any fiscal incentives offered.

In two non-caribbean destinations examined for comparison, the hotel sector enjoys fiscal incentives and lower indirect taxation. Canary Islands and Hawaii were selected because they are both established island destinations with a tropical climate. Canary Islands represent a comparative market to the Caribbean for the European visitor market and Hawaii for the US market. Canary Islands are often cited as a model for tourism development.

Both the Canary Islands' and Hawaii's performance in the tourism sector has been exceptional in recent years.

Today, tourism is an integral part of Hawaii's economy and community, as the main generator of employment for the State. In 2003, tourism provided one in every five jobs in the State of Hawaii; this total includes direct and indirect jobs. Tourism is the primary source of revenue for the communities through visitor expenditures and tourism related capital investment. Based on data projections from the State of Hawaii Department of Economic Development and Tourism, in 2007 it is estimated that tourism will account for 12.8 billion US dollars in spending for travel and tourism, which will create 22.3% of all jobs in the State.

In the Canary Islands, the economic boom of recent years has been far greater than the expansion that is occurring in other regions of the European Union. The services sector especially the tourist sector is the powerhouse of the Canary Islands economy. Visitors occupy almost the entire hotel supply all year round and average stay is longer than any other Spanish holiday region.

These two destinations have enjoyed strong hotel occupancy and a lucrative tourism sector because of the incentives provided to the sector.

### 10.1 Hawaii

Hawaii consists of 132 islands of which 8 key islands are identified, with 7 being habitable. The remaining 124 only form three (3) miles in totality. The eight major islands (which make up over 99% of the total land area) are Oahu, Maui, Hawaii (known as Big Island), Kauai, Molokai, Lanai, Kahoolawe (uninhabited) and Niihau (privately owned).

The history of Hawaii has seen major immigration from a multitude of areas from Polynesia to Puerto Rico and this has resulted in a multicultural environment much like the Caribbean.

Hawaii's cost of living is one of America's highest, with its per capita personal income below average. In fact, Hawaii's cost of living for a family of four is estimated to be approximately 27% higher than the U.S. average for a comparable standard of living. In 1999, Hawaii's average per capita personal income of \$27,544 was 3.5% below the U.S. average. .

Hawaii's major sources of annual income include:

- Tourism \$10.3 billion (1999)
- Federal Defence Spending \$4.2 billion(1999)
- Sugar \$133.1 million (1998)
- Pineapple \$145.1 million (1998)

Many have embraced Aloha, tourism, since visitors are Hawaii's major source of income. The Islands host approximately 7 million people each year whose average expenditures (excluding airfares) exceed 10 billion dollars (1999).

Hawaii offers a variety of tax incentives, credits and exemptions which attract new business ventures and help existing business to stimulate overall growth in Hawaii's economy.

Hawaii's TAX Incentives are:

- Hawaii has only two levels of government taxation: state and local
- No personal property tax
- No tax on inventories, furniture, equipment or machinery
- Credit against taxes paid on the purchase of capital goods, machinery, and equipment
- No state tax on goods manufactured for export
- No stock transfer tax
- No unincorporated business tax
- Manufactured products or those produced for export are exempted from general excise tax including custom computer software
- Tax rates: Corporate tax is 4.4% of income up to \$25,000 US dollars; 5.4% of taxable income up to \$100,000.00US dollars, and 6.4% of income exceeding \$100,000.00 US dollars
- Capital gains tax is 4% for corporations
- Manufacturers and wholesalers are taxed at .05% of gross proceeds
- Insurance solicitors are taxed .15%
- Contractors are taxed 4% of gross proceeds. All sales of goods and services are taxed at 4% of gross income
- Enterprise Zones Programme is established to increase business activity and create jobs in areas with above normal unemployment. This includes a 7 year exemption from general excise taxes on gross proceeds, an 80% tax credit and income tax credit on unemployment taxes paid during the first year

As result of these incentives, operating costs for the hotel sector are very low, putting Hawaii in a very competitive position as compared to the Caribbean:

- Hawaii Convention Centre is ranked number one overall as the most attractive convention centre in North America according to the METROPOLL x STUDY.
- Hawaii has the most progressive tax credit in the United States with 100% return on cash investments.
- Hawaii's TAT or Hotel Tax rate is 11.41%

## 10.2 The Canary Islands

The Canary Islands are located in the Atlantic Ocean 100 km from the west coast of North Africa and 1100 km south west of mainland Spain. The islands extend almost 300 miles, east to west 60 miles.

The Canary Islands also known as the Canaries consist primarily of seven (7) key islands, La Palma, Gomera, El Hierro, Gran Canaria, Tenerife, Fuerteventura and Lanzarote. The islands are split into two (2) areas; the Province

of Las Palmas and the Province of Santa Cruz de Tenerife. The capital is Santa Cruz de Tenerife, with 200,000 inhabitants. Large ports in bays are very important for sea traffic between Europe, Africa and America. There are 1.65 million residents, the majority resident on Gran Canaria (700K) and Tenerife (700K). Of those, 80,000 are resident foreigners from South America, Germany and Britain. Residents are Spanish speaking and known as Canarians.

The islands close proximity to Europe has made it an ideal destination for many Europeans and British alike. Hotels accommodate more than 10 million visitors a year for an average of approximately ten (10) days in accommodation described as some of the best in Europe.

Tourism represents 80% of GDP and the islands are described as “specialist” in tourism. Visitors come for a variety of reasons, traditionally the beautiful beaches. However the islands have made a significant effort to develop their nature holidays, with land and sea-based adventures. Visitors have a choice of luxurious spa-based hotels and resorts to self contained apartments. Hotels accommodate 400,000 visitors. There are 13 golf courses, 141 nature reserves, 4 national parks and 29 archaeological monuments. The destination is visited by numerous cruise ships annually. Special events are tourist attractions like their February Carnival, June Corpus Christi celebration and several other cultural and religious celebrations.

Special tax discounts act as regulators and incentives to businesses and residents to offset the high cost of imported goods resulting in cheaper shopping on the mainland. In 1982 the islands gained autonomy however, benefit from their Spanish ownership as they have European Union standards in most areas e.g. public health, safety, education etc.

The Canary Islands’ economic and fiscal regime has created a flourishing hotel industry and robust tourism sector. The Canary Islands Economic and Fiscal Regime Act (REF) law 30/1972:

- This Act has created the Canary Islands as a special investment zone. A free zone in the Canary Islands allows all kinds of goods to enter the free zone regardless of where they are from. All operations carried out within the free zone are exempt from all indirect taxes
- Provides reserves for investing in the Canary Islands
- Tax allowances for the production of tangible goods
- Discounts for investing in the Canary Islands
- Fiscal advantages in indirect taxation
- Freedom of depreciation from job creating investments
- Estate Tax and stamp duties for acquiring assets
- 50% reduction on the total amount of taxes due on the [portion of income arising from sale of goods produced in Canary Islands that meet special conditions
- General indirect tax replaces VAT. The advantages are: lower rate of tax, application of 0% on certain goods and services
- Two Import exercise duties are maintained on the Canary Islands: production and import duty and a special tariff on island goods import duty. Both are very low rates

### 10.3 Conclusions

The following conclusions can be noted when comparing tax and other incentives in Hawaii and Canary Islands compared to those in the CARIFORUM countries.

- Unlike the Caribbean, VAT or reduced sales taxes in one form or the other is utilized in both countries which were researched. A selective reduction of sales tax rates to replace import duties can stimulate tourism and the hotel sector in the Caribbean.
- Incentives in the tourism sector are more general than only hotel concessions. These incentives most often include food and beverage, entertainment and auxiliary services. In the Caribbean it is noted that the primary concessions are the hotel sector, however the taxes of the auxiliary services are often passed on to the hotel sector.
- Incentives are provided not only to new investors, but also to ongoing businesses. The Caribbean islands mostly provide incentives that stimulate development of new capacity. This policy should be re-evaluated in light of available capacity and world trends and carrying capacity.
- Separate sales taxes are creating a high taxation level for Caribbean hotels. The Caribbean hotel sector should be allowed to move away from hotel occupancy tax and incorporate general sales tax in their fiscal regime. Room tax can be phased out and replaced by a sales tax.
- Departure tax for airline passengers is common in the CARIFORUM countries, although this is not universally applied. However there should be a more user- friendly implementation of this tax, i.e. adding to the ticket as a sales tax, or a levy on the airline ticket.
- The fiscal regime of the CARIFORUM islands creates an expensive tourism experience due to the high indirect taxes on inputs. Fiscal incentives should be reviewed to lower taxes on inputs used by the hotel sector.
- The present regimes of taxes do not encourage growth in the hotel sector in some countries of the CARIFORUM region. If growth continues to slow down, investor confidence within the region will soon decline.
- The viability of the hotel sector in the CARIFORUM region is threatened by the monopolistic pricing of electricity in the region. As electricity costs continue to rise, the hotel sector in the CARIFORUM region will lose its competitive edge.

## 11. OVERALL FINDINGS AND RECOMMENDATIONS

There is an urgent need for CARIFORUM governments to have a harmonized approach to concessions for hotel investments, and to apply same concessions to hotels that are constantly upgrading their product. Concessions should be granted to hotels that invest in improving technology. Duty free concessions on inputs that can improve efficiency, environmental management, and training materials should be mandatory. These concessions should be tied into a hotel operating licences that will reduce the bureaucracy involved in applying for concessions.

The coordination of hotel investment should be facilitated by a One Stop Shop concept, with the view of greatly improving the response time for approval of a hotel projects and creating a more efficient government administrative system. While concessions do exist on the books in all CARIFORUM countries, the implementation of these concessions may be too slow in a world of real time action. Further, CARIFORUM governments must move from the position of giving up revenues via start-up concessions, to facilitating the process thus creating linkages from hotel investments. Often the induced impact from hotel construction into the economy outweighs revenue granted to facilitate start-up construction.

A number of recommendations can be derived to achieve a more simplified tax regime for the hotel sector with the CARIFORUM countries. While it is reasonable to conclude that it will be very difficult to arrive at a single model of taxation for the hotel sector throughout the CARIFORUM countries, some major areas can be addressed.

The fundamental issue with the taxation of the hotel sector in CARIFORUM countries, is that the hotel sector is not viewed as an export industry, and it is not treated as such in the national taxation policies. Although incentives are provided for the start up of Hotels, the tax burden of the hotel sector is high. Taxation of the hotel sector is attractive because the persons being taxed are foreign tourists. This high level of taxation can have a direct impact on the competitiveness of the hotel product in the individual countries. UNCTAD (1998) noted that, *"Fiscal policy on many developing countries places a heavy burden on tourism service suppliers (particularly small and medium sized enterprises). While most governments provide for tax and duty drawback paid by exports of goods, this is usually not applied to exports of the tourism services"*.

National taxation is critical in any discussion or study of the competitiveness of the hotel sector in the CARIFORUM countries. Any item which will make the island more expensive will have a negative impact on revenues for the wider economy. It is critical that the Governments of the CARIFORUM region make a strong commitment to review the present taxation of the hotel sector, and not increase the taxation of this sector beyond the current level.

The hotel sector in all of the CARIFORUM countries is under threat from rising taxation, both direct and indirect. If this is not addressed by the governments of the region, the hotel sectors in the CARIFORUM countries will not be able to compete and attract visitors to the islands.



## Overall Findings and Recommendations

|    | FINDING  | RECOMMENDATION  |
|----|--|---|
| 1. | <b>The governments of the CARIFORUM countries have relied on fiscal and financial incentives for attracting investments in the hotel sector.</b>   | <p>These incentives concentrate on start up costs. The concessions and incentives need to also apply to inputs and operating costs. Governments in the CARIFORUM countries must review the incentives regime with regard to hotel operations. Emphasis must be placed on creating an enabling environment so that hotels can not only open but remain competitive in pricing of their hotel product. This can be achieved by extending the incentives to certain key operational inputs such as technology, food, beverage, cleaning supplies, linens, restaurant equipment, etc.</p> <p>Incentives should be more accessible to all hotel operators: small, medium, large or local/foreign. Conditions for qualifying should be clear and precise.</p> |
| 2. | <b>Research on hotel operating costs revealed that data is neither available nor compiled. Hotels view this information as confidential.</b>   | <p>Consider a research desk at CHA to collect this data on an annual basis as part of the membership process.</p> <p>Have the Online questionnaire running on the CHA website for continuous entry and updating.</p> <p>CHA must work with their membership to ensure they appreciate the importance of sharing data.</p>   |
| 3. | <b>The present CET tariff regime is complex and excessive. Import duties are a major source of income for all the government of the CARIFORUM countries.</b>   | <p>Governments can consider the lowering of import duties on principle inputs such as food and beverage for the hotels. Though the duties will be lowered, hotels will increase volume purchase and therefore the tax will no longer be a restriction on their purchases.</p>   |
| 4. | <b>Hotels complained about the excessive government bureaucracy related to obtaining tax incentives.</b>   | <p>Governments must make every effort to reduce the red tape associated with the applying for and approval of concessions for the hotel sector.</p>   |
| 5. | <b>Manufacturing, Agriculture and Hotels enjoy tax incentives on their investment. Agriculture and Manufacturing enjoy concessions on operational inputs, while the hotel sector inputs and outputs are taxed.</b> | <p>Governments can consider creating duty free zones for the hotel sector. This would facilitate the entry of all inputs being consumed by the hotel to be imported duty free within the hotel by foreign guests.</p>   |

|     | FINDING   | RECOMMENDATION   |
|-----|---|--|
| 6.  | <b>Tax incentives in the hotel sector are limited, while in some countries tax incentives for Manufacturing and Agriculture are continuous.</b>                         | Governments should consider allowing longer tax concessions for hotels that improve on the infrastructure in the community during the construction phase.  |
| 7.  | <b>The structural costs related to Hotel sector are higher than agriculture and manufacturing due to the higher capital outlay and greater need for infrastructure.</b> | Governments should consider allowing longer tax concessions for hotels that improve on the community infrastructure during the construction phase.   |
| 8.  | <b>Hotels pay a series of licences and direct taxes all due on different accounting periods during the financial year.</b>  | It may be more efficient for the Government to apply a new form of licensing on hotel operators. This can be a simplified tax scale combining: Property Tax, Hotel Licences, Pool license, Liquor licences and trade licences based on room count. This can be in the form of a specific Hotel Trade Licence.  |
| 9.  | <b>Departure Tax is a tax levied on departing visitors and is a moderate income generator for governments. However it is seen as a nuisance tax by the visitors.</b>    | Departure tax should be added automatically to airline or seaport tickets and paid in by the airline or agent operating at the airports or seaport.  |
| 10. | <b>Room Tax is an occupancy tax or hotel tax which is a sales tax on hotel occupancy and is a moderate generator of income in all countries researched.</b>             | Room tax should be revised based on hotel size and concept. All-inclusive hotels have other income grouped with the room rate. This may be an unfair application towards hotel room tax.   |
| 11. | <b>The biggest operating cost is an empty hotel room.</b>   | Governments must view the hotel sector as a 'business' and must play an active role in creating an enabling environment for hotels to succeed. Such an environment must have adequate airlift and fiscal policies which address land base tourism. Tourism should be included in Government development plans. |
| 12. | <b>Lack of awareness and understanding of hotel sector by some public service agencies</b>  | CHA and the national associations must embrace the public sector agencies as partners of the hotel industry. It may be wise to have a representative from Ministry of Finance and Ministry of Tourism in the national associations.  |

## APPENDIX A: SUMMARY TABLE OF TOURISM INVESTMENT INCENTIVES IN SELECTED COUNTRIES

| BARBADOS | PRIMARY TOURISM LEGISLATION & OTHER INCENTIVE LEGISLATION   | DOUBLE TAXATION & BILATERAL INVESTMENT PROTECTION TREATIES | TOURISM PROMOTION ORGANISATIONS AND AGENCIES <sup>10</sup>                    | COVERAGE OF KEY INVESTMENT INCENTIVE INSTRUMENTS   | INTEREST RATES FOR INVESTMENT FINANCING | BANKS & INSTITUTIONS PROVIDING TOURISM PROJECT FINANCING   |
|----------|---|--|---|--|---|--|
|          | Tourism Development Act 2002/7 - final approval by the Minister of Tourism<br><br>Special Development Areas Act | United States<br>Canada<br>Several European countries      | Barbados Tourism Investment Inc.<br><br>Tourism Development Corporation (TDC) | Geographical areas incentives for hotels, conference centres & tourism projects;<br>DF import of building materials & equipment during construction & rehabilitation; DF <sup>11</sup> import of supplies for refurbishment of hotels, restaurants, villas and sports & recreation facilities; extended tax holidays, write off capital expenditure and accelerated write off of interest; training; marketing.<br><br>150% tax rebate for company contributions to the TDC. | 7.5 - 8%                                | First Caribbean International Bank<br>Royal Bank of Canada<br>Bank of Nova Scotia<br>Eastern Caribbean Securities Exchange<br>Barbados National Bank<br>Caribbean Development Bank<br>RBTT Bank<br>Barbados Ltd.<br>Caribbean Financial Services Corporation |

<sup>10</sup> Excluding hotel association, tourism ministry and tourism authority

<sup>11</sup> DF = Duty Free

| PRIMARY TOURISM LEGISLATION & OTHER INCENTIVE LEGISLATION | DOUBLE TAXATION & BILATERAL INVESTMENT PROTECTION TREATIES   | TOURISM PROMOTION ORGANISATIONS AND AGENCIES | COVERAGE OF KEY INVESTMENT INCENTIVE INSTRUMENTS  | INTEREST RATES FOR INVESTMENT FINANCING | BANKS & INSTITUTIONS PROVIDING TOURISM PROJECT FINANCING   |
|---|--|--|---|---|--|
| DOMINICAN REPUBLIC  | Law 158-01 grants incentives<br><br>Law 16-95 Foreign Investment instrument  |  | Incentives including tax exemptions for projects and the deductions for investment - 100% income tax waiver, construction charges and purchase of real property and customs duties for 10 years; up to 20% deduction from individual or company earnings for tourism investment; official fund for tourism promotion and for creation of new "Tourist Poles" - areas identified for tourism development. Incentives for infrastructure, international financing selling or leasing property belonging to the state. |   | Challenging due to fraud and weakness in some banking institutions.<br><br>Government working to strengthen Central Bank independence in order to conduct monetary policy. Strategy for recapitalization of private banks. |
| JAMAICA   | Hotels Incentives Act - applications processed by Ministry of Tourism before concessions granted<br><br>Resort Cottages Incentives Act | Jamaica Promotions Corporation (JAMPRO)      | 10 years tax relief and DF concessions on construction materials and furnishings for new hotels less than 10 rooms, existing hotels adding to a minimum of 10 rooms or 30% of existing room stock, hotels undergoing extensive structural changes; relief from Import Tax and Import Duty on construction materials and furnishings for 11 - 15 years for convention type hotels with 350+ rooms.   |   | Commercial banks.  |

|                   | PRIMARY TOURISM<br>LEGISLATION<br>& OTHER INCENTIVE<br>LEGISLATION    | DOUBLE TAXATION &<br>BILATERAL INVESTMENT<br>PROTECTION TREATIES | TOURISM PROMOTION<br>ORGANISATIONS AND<br>AGENCIES | COVERAGE OF KEY INVESTMENT<br>INCENTIVE INSTRUMENTS  | INTEREST RATES<br>FOR INVESTMENT<br>FINANCING | BANKS & INSTITUTIONS<br>PROVIDING TOURISM<br>PROJECT FINANCING   |
|-------------------|---|--|--|--|---|--|
|                   |   |  |  | Short term incentive packages and concessions for special attractions; encourages small resort operations of 10 rooms or less, owned by locals and located in a district, village or town; 7 year tax holiday and DF imports.  |   |  |
| ST. LUCIA         | Tourism Incentives Act - applications through the Ministry of Tourism |  | St. Lucia Development Corporation                  | Incentives apply to tourism projects including hotel construction, renovation, transformation, furnishing, recreational facilities, construction, refurbishing and equipping of restaurants.   |   |  |
| ANTIGUA & BARBUDA | Fiscal Incentives Act   |  |  | Incentives available include 5-15 year tax holidays for new hotels, waivers of customs duties and other indirect taxes e.g. consumption tax on imports of materials and equipment used in the construction and operation of the hotel facility, tax free repatriation of capital earnings. | 11 - 13%                                      | Indigenous banks<br>First Caribbean International Bank<br>Royal Bank of Canada<br>Bank of Nova Scotia<br>Eastern Caribbean Securities Exchange<br>Antigua & Barbuda Development Bank |

|         | PRIMARY TOURISM<br>LEGISLATION<br>& OTHER INCENTIVE<br>LEGISLATION                     | DOUBLE TAXATION &<br>BILATERAL INVESTMENT<br>PROTECTION TREATIES | TOURISM PROMOTION<br>ORGANISATIONS AND<br>AGENCIES | COVERAGE OF KEY INVESTMENT INCENTIVE<br>INSTRUMENTS  | INTEREST RATES<br>FOR INVESTMENT<br>FINANCING | BANKS &<br>INSTITUTIONS<br>PROVIDING TOURISM<br>PROJECT FINANCING   |
|---------|--|--|--|--|---|---|
|         |  |  |  |  |   | Caribbean<br>Development<br>Bank  |
| BAHAMAS | Tariff Act<br>Free Trade Zone Act<br>Hotel<br>Encouragement Act<br>Hawksbill Creek Act |  | Bahamas<br>Investment<br>Authority                 | No capital gains tax, withholding<br>tax, profit remittance, personal<br>income, dividends, and payroll<br>and interest taxes.<br><br>Investment incentives for<br>tourism apply to hotel resorts,<br>upscale condominiums, marinas,<br>international business centres.  | 7-12%   | 410 licensed<br>banks   |
| BELIZE  | Belize Fiscal<br>Incentives Act  |  |  | Tax holidays and duty<br>exemptions for existing and<br>prospective investors. Incentives<br>for SME's in hotel, restaurant and<br>tourism related services include<br>full/partial duty exemptions, 2<br>year exemptions on approved<br>businesses, renewal of duty<br>exemptions up to 5 years,<br>customs duty exemption for<br>building materials, machinery,<br>operating plant and equipment,<br>specialized tools, transport<br>vehicles, office equipment,<br>appliances, fixtures & fittings and<br>parts |   | Alliance Bank<br>Atlantic Bank<br>Belize Bank<br>Development<br>Financial<br>Corporation<br>Bank of Nova<br>Scotia<br>First Caribbean<br>Bank<br>Caribbean<br>Development<br>Bank |

|          | PRIMARY TOURISM<br>LEGISLATION<br>& OTHER INCENTIVE<br>LEGISLATION           | DOUBLE TAXATION &<br>BILATERAL<br>INVESTMENT<br>PROTECTION TREATIES | TOURISM PROMOTION<br>ORGANISATIONS AND<br>AGENCIES  | COVERAGE OF KEY INVESTMENT INCENTIVE<br>INSTRUMENTS   | INTEREST RATES<br>FOR INVESTMENT<br>FINANCING | BANKS & INSTITUTIONS<br>PROVIDING TOURISM PROJECT<br>FINANCING  |
|----------|--|---|---|---|---|---|
|          |  |   |   |   |   | Caribbean<br>Development Bank   |
| DOMINICA | Hotels Aid Act<br><br>Income Tax<br>Act                                      |   | Dominican<br>National<br>Development<br>Corporation | 20 year tax holidays for approved<br>hotel developments; exemption<br>from import duties, consumption<br>tax on materials & equipment used<br>in construction and furnishing hotel<br>projects; 100% repatriation of profits<br>by foreign investors, withholding<br>taxes exempted on payment of<br>dividends, interest and other<br>transaction costs; no capital gains<br>tax. | 11 - 14%                                      | Commercial banks  |
| GRENADA  | Tourism<br>Development<br>Act<br><br>Alien Land<br>Holding<br>Regulation Act |   | Grenada<br>Development<br>Corporation               | Full exemption from taxes on<br>corporate profits for up to 10 years<br>and for 10+ room new hotel<br>projects; exemption from customs<br>duties and taxes on materials and<br>equipment for new hotels and the<br>repair and upgrading of existing<br>hotels.  | 11 - 13%                                      | Commercial<br>indigenous banks<br>Grenada<br>Development Bank<br>First Caribbean Bank<br>Royal Bank of Canada<br>Bank of Nova Scotia<br>Royal Bank of Trinidad<br>& Tobago<br>Eastern Caribbean |

|                      | PRIMARY TOURISM<br>LEGISLATION<br>& OTHER INCENTIVE<br>LEGISLATION | DOUBLE TAXATION &<br>BILATERAL<br>INVESTMENT<br>PROTECTION TREATIES | TOURISM PROMOTION<br>ORGANISATIONS AND<br>AGENCIES | COVERAGE OF KEY INVESTMENT INCENTIVE<br>INSTRUMENTS   | INTEREST RATES<br>FOR INVESTMENT<br>FINANCING | BANKS & INSTITUTIONS<br>PROVIDING TOURISM PROJECT<br>FINANCING  |
|----------------------|--|---|--|---|---|---|
|                      |  |   |  |   |   | Securities Exchange<br>Caribbean<br>Development Bank  |
| GUYANA               |  |   | GO-INVEST  | Presently no formal incentives but rather at the discretion of the Government. Tourism investment proposals currently under review.   | 15 - 17%<br>(19% interest on overdraft)       | Limited access to local financing   |
| ST. KITTS &<br>NEVIS | Fiscal<br>Incentives Act   |   |  | Maximum tax holiday of 15 years; additional tax rebates up to 5 years; waiver of import duties on construction materials and equipment for hotel projects; repatriation of funds representing profits, dividends and seed capital with Ministry of Finance approval; investment protection; DF concessions for construction, refurbishment and expansion of existing hotels; special tax waivers for certain hotel investors. |   | Royal Bank of Canada<br>Bank of Nova Scotia<br>First Caribbean Bank<br>First Nation Bank of St.<br>Kitts and Nevis<br>Bank of Nevis<br>Caribbean Banking<br>Corporation |
| SURINAME             | Policies and<br>legislation to                                     |   |  | Lack of investment incentives.  | 12% (US\$)                                    | Challenges in<br>accessing financing.   |



|                      | PRIMARY TOURISM<br>LEGISLATION<br>& OTHER INCENTIVE<br>LEGISLATION | DOUBLE TAXATION &<br>BILATERAL INVESTMENT<br>PROTECTION TREATIES | TOURISM PROMOTION<br>ORGANISATIONS AND<br>AGENCIES | COVERAGE OF KEY INVESTMENT<br>INCENTIVE INSTRUMENTS   | INTEREST RATES<br>FOR INVESTMENT<br>FINANCING | BANKS & INSTITUTIONS<br>PROVIDING TOURISM<br>PROJECT FINANCING |
|----------------------|--|--|--|---|---|--|
|                      | stimulate private<br>sector activity are<br>under<br>development.  |  |  |   | 205<br>(Suriname \$)                          |  |
| TRINIDAD &<br>TOBAGO | Tourism<br>Development<br>Act<br><br>Hotel<br>Development<br>Act   |  |  | For tourism development<br>throughout the island.<br><br>For hotel owners and<br>operators: 5 - 10 years tax<br>exemption, accelerated<br>depreciation on equipment<br>owned by hoteliers, free<br>repatriation of capital and<br>dividends, tax exemption on<br>accrued dividends, tax<br>exemption on interest and<br>approved loans for a<br>maximum of 10 years,<br>customs duties exemptions<br>on building materials, hotel<br>equipment and other articles<br>exclusively in the construction<br>and equipping of hotels,<br>and exemption from double<br>taxation where applicable. | 7.5 - 9.5%                                    | Six commercial<br>banks  |

## APPENDIX B: BIOGRAPHY

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