



## BAHAMAS - July 2018

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**REALTORS APPLAUD PROPERTY TAX U-TURN AS TURNQUEST SEEKS TO CLARIFY POSITION ..... 1**  
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### Realtors Applaud Property Tax U-Turn As Turnquest Seeks To Clarify Position

THE government's decision to revert to the previous definition of 'owner occupied' properties may have saved 'hundreds of millions of dollars' in real estate value and helped to preserve investor trust in The Bahamas the Bahamas Real Estate Association (BREA) said yesterday.

"The 700-member Bahamas Real Estate Association welcomes Government's decision to revert to the pre-Budget definition of owner-occupied residential property, eliminating the onerous requirement that owners spend six months of the year in residence," said BREA President Christine Wallace-Whitfield in a statement yesterday.

Deputy Prime Minister and Minister of Finance K Peter Turnquest yesterday in a second statement in as many days sought to clarify what he described as "unfortunate and misleading commentary" with respect to the government's decision.

He insisted the government's decision to rollback its revised definition of owner-occupied properties was not a bid to appease irate Lyford Cay residents, but the result of weeks of consultation with industry stakeholders. He also insisted the change did not have any impact on projected tax income, and as such, could not be viewed as a reduction in the tax rate to any individual or group.

"The Government of The Bahamas made no undertaking to reduce any tax rate for any individual or any group with the announced decision to revert to the previous definition of owner-occupied properties," Mr Turnquest stated.

"For Real Property Tax, the government undertook to increase the top end for undeveloped land owned by foreigners. This is what was announced in the Budget Communication. This is what will remain." Turnquest reiterated that what government is undertaking to change is the amendment that quantified the time frame for owner-occupied property.

"This is being done simply because that amendment had the unintended impact of bringing legitimate and non-commercial home ownership under the commercial property tax rate. And that was not the intent."

He explained that part of the policy issue the government tried to address in the amendment that was passed in Parliament was to make a distinction between seasonal and legitimate second homeowners, that being those persons who use their properties not only as a personal second home but also to rent to other visitors versus those who just maintain a second home strictly for themselves and their family.

"That change unfortunately making it seasonal versus six months, threw a category of second home owners into this commercial category, which was not intended," said Mr Turnquest.

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He indicated that government always intended to differentiate between persons who are legitimate owner-occupied versus those who treat their property as a rental property, since the rental property should register as a business and should attract VAT.

Mrs Wallace-Whitfield yesterday highlighted the importance of the luxury market to the overall Bahamian economy.

"The luxury market is very important to the overall economy of The Bahamas. Whether a family is in residence or not, the ownership of that property generates constant income in terms of jobs, maintenance contracts, all sorts of related expenses. The high net worth individual have a lot of choices, including other parts of the Caribbean and Florida where property tax is quite reasonable and foreigners are welcome with an E-5 Visa that entitles them to residency without intolerable demands.," she added.

The government's decision to reverse course comes after concerns from affluent Lyford Cay residents were published in The Tribune last week, saying the government's increased property taxes would drive wealthy second homeowners out of the country and deter new ones.

In a statement on Tuesday, Mr Turnquest noted the government had sought to increase taxes on foreign-owned undeveloped land in The Bahamas, in an effort to discourage land speculation and to encourage development of any such property.

He said the government had also taken steps to improve the tax yield from homes used for commercial purposes by recasting the definition of "owner-occupied" properties and by imposing value added tax on vacation home rentals.

The term "owner-occupied property" had been altered to remove the phrase "or seasonal basis," instead inserting a requirement that an owner must reside in their property for at least six months annually to qualify under this definition.

The Bahamas' second homeowner community, many of whom are in this nation for just a few months per year, ultimately fell out of the "owner-occupied" category and lower tax rates that were reduced in 2016. And, besides the higher tax rate, which the government had doubled from one percent to two percent on the property value above \$500,000, they were also set to lose the \$50,000 "cap" that set the ceiling, or limit, on how much they pay annually to the Public Treasury.

"We understand that Government did not fully appreciate the backlash that the decision to tie six-month residency to a cap on real estate would have but in light of the fear of a mass sell-out and departure, they had the courage to reverse a decision. That is never easy for any official to do, elected or otherwise and so we wanted to express deep appreciation for their willingness to listen to BREAA and others. That one move may have just saved hundreds of millions of dollars in real estate value and helped to preserve trust in The Bahamas," said Mrs Wallace-Whitfield.

## Concerns related to Real Property Tax changes

The Ministry of Finance is aware that clarity in the market is being sought with respect to Property Taxes as it relates in particular to the impact on the second home market. The government accordingly wishes to advise the public of the following:

In the recent budget exercise, the Government sought to increase taxes on foreign-owned undeveloped land in the Bahamas, in an effort to discourage land speculation and to encourage development of any such property. It also took steps to improve the tax yield from homes used for commercial purposes by recasting the definition of "owner-occupied" properties and by imposing VAT on vacation home rentals.

After consultation with a range of stakeholders from a number of islands and across a number of industries which depend upon the second home market for their viability, the government has determined that it intends to revert to the previous definition of owner-occupied properties that was in effect up until June of this year. The government will give effect to this by amendment to the legislation once Parliament resumes following the summer break.

Note that both the increased tax on undeveloped property and the imposition of VAT on vacation home rentals will remain.

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By virtue of this, the same category of persons who qualified for the “owner occupied” property designation prior to the recent changes will continue to be qualified as same. They will be eligible for the \$50,000 cap on real property tax payments – the cap on such payments that was reinstated by the previous administration in 2013.

The government continues to encourage the development of the second home market, being fully cognizant of its contribution to a number of Bahamian communities, especially in the Family Islands. The government also expects those persons who use their properties to generate commercial rental income to be subject to VAT and contribute to the public purse as do commercial operators in other segments of the hospitality industry.

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