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GOVT MAKES GOOD ON PROPERTY TAX U-TURN1

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The government is reversing taxation policy that threatened to destabilise the Bahamian second home market with legal reforms tabled alongside the 2019-2020 budget.

Marlon Johnson, the Ministry of Finance's acting financial secretary, yesterday confirmed that included in the Real Property Tax Amendment Bill 2019 is a clause that reverts to the definition of "owner-occupied property" in effect prior to last year's Budget.

The change makes good on a promise given by KP Turnquest, deputy prime minister, some nine to ten months ago after the government inserted a previous requirement that homeowners must reside in their property for at least six months annually to qualify as an "owner-occupied property".

The Minnis administration reversed course after an outcry from second homeowners, realtors and other Bahamian businesses and industries that rely heavily on this market. They argued that this requirement would both push property owners into a higher-rate tax bracket and eliminate the \$50,000 cap on their annual payments, resulting in major tax hikes.

This, homeowners and local industries added, would prompt existing owners to sell while also deterring potential buyers, thereby undermining economic activity - especially in the Family Islands - while also reducing the government's tax take.

The Real Property Tax Amendment Bill attempts to allay these fears, and restore market certainty, by reintroducing the words "seasonal basis" to the definition of "owner-occupied property" and restore second homeowners to the lower tax bracket.

The Bill's "objects and reasons" section, outlining the rationale for its tabling in Parliament, says the change is designed "to alter the definition of 'owner-occupied property' to change from 'resides in such property exclusively as a dwelling house on a permanent basis that is six months' or longer to 'resides in such property exclusively as a dwelling house on a permanent or seasonal basis'."

Mr Johnson, affirming that the restoration of "seasonal basis" was designed to fulfill the promise given by the deputy prime minister last August, told Tribune Business that the reversion would have no "substantial impact" on government revenues.

He added that the Public Treasury's income from this source was likely to see "a marginal increase" as a result of lifting the real property tax "cap" from \$50,000 to \$60,000 in the 2019-2020 budget.

"When we put in the definition originally it was just to clarify seasonality," Mr Johnson said of the change with last year's Budget. "We will continue, at the technical level in the Ministry, to look at that qualification and how best to state seasonality.

"It wasn't an attempt to glean any special revenues from that move. We'll continue to look at that during the year to find ways to better define 'seasonality'."

The return to the previous definition was not highlighted in the 2019-2020 Budget communication, and instead buried among the mass of legislative changes required to give effect to the Minnis administration's tax changes and reforms.

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While concerns over the negative economic fall-out won the argument, the Government's pledge to reinstate the "seasonal basis" definition last year came under fire from its political opponents and other critics on the basis it was granting a 'tax break' to wealthy foreigners who could most afford to pay.

For instance, the Lyford Cay Property Owners Association last year warned the Government that the "insensitive and irrational changes" to the Real Property Tax Act's "owner-occupied" definition were starting to undermine confidence among the very high-end North American investors this nation wants to attract.

The association's chairman, Henry Cabot Lodge III, said tax rates that were "too high and unpredictable" would lead to consequences impacting "every sector of the economy that services Lyford Cay", as existing homeowners sought to exit and new buyers were deterred.

Now, the latest change clarifies in law that The Bahamas' second homeowner community - many of whom are in this nation for just a few months per year - will not fall out of the "owner-occupied" category and lower tax rates that were reduced in 2016.

Nor will they face the higher tax rate, which the government previously doubled from 1 percent to 2 percent on the portion of a property's value above \$500,000. Mario Carey, founder of Better Homes and Gardens Real Estate MCR Bahamas Group, yesterday told Tribune Business that the Government's move will boost market confidence and give participants greater certainty.

"I think it will give people comfort in knowing that our government is not counting days (how long people are here)," he said. "When you reside here, live here, we don't count days. You don't want to confuse that; you want to leave it open so people have flexibility. 'Seasonal basis' is the key term.

"I think it's good. I think the market will respond positively. I think it will give us some confidence in the market that they're holding true to their promise."

One realtor, speaking on condition of anonymity, agreed of the change that "this is how it should be", but said second homeowners who earned rental income from their properties needed to pay VAT on these earnings.

They added: "I'm glad they're doing it. They should never have messed with it previously, but they did. It's going to help. You can reside in your home but will still have to pay VAT on rentals."

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