Focus on St. Lucia Budget 2017
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We are pleased to provide a commentary on the first budget presented by the recently appointed Prime Minister of St. Lucia, the Honourable Allen Chastanet.

This budget was read against the background of an economic scenario in St. Lucia characterized by high debt and unemployment and a persistent fiscal deficit.

These circumstances are commonplace in smaller regional economies which have faced unique challenges in a globally competitive environment. These territories are compelled to diversify their economic and tax base to incentivize the private sector and to change some of the existing policies and practices that are no longer sustainable in today’s environment.

Undoubtedly, as the pace of change intensifies, our regional governments will be forced to make even tougher choices. Careful consideration would have to be given to defining the size, shape and role of government, to tax policy and to maintaining the right equilibrium between social and strategic priorities. With innovative leadership, the future can be brighter but this will require changes in the way that governments operate, combined with significant improvements in the pace and quality of execution and the speed of decision making.

Success in the region has been accomplished where governments have taken the bitter medicine at the right time and in the correct dosage and, at the same time, embraced a private sector led pro-growth strategy. The St. Lucia experience should be no different.

We look forward to engaging in a dialogue with you and to an exchange of views with our readers and clients.
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The better the question. The better the answer. The better the world works.
A New Vision...

In his first budget presentation since the United Worker’s Party returned to office on 6 June 2016, the Honourable Prime Minister, Allen Chastanet, delivered his address in the face of a challenging economic environment.

The Honourable Prime Minister has laid out a bold, ambitious program, which pursues an aggressive growth strategy, while controlling expenditure in order to manage debt and create fiscal space for much needed social programs.

The pro-growth reforms are being driven by the new vision and the following areas are of strategic focus: creating sustainable employment; reengineering social services; public sector reform; improving security and justice; building capacity in renewal energy and adapting to climate change.

With an unemployment rate of approximately 20%, creating sustainable employment is a key component of the new vision. With an ambitious program in place to build up the room stock on the island, the Honourable Prime Minister reported commitments to build an additional 2,000 rooms over 4 years by investors, which is an increase of over 50% of the current room stock, based upon stronger foreign direct investment inflows. The increase in room stock is promised to add over 3,000 jobs during the construction phase and over 4,000 during operation.

The tourism led strategy, coupled with a National Apprenticeship Program, creates the eligibility for employment. The importance of agriculture as part of the national plan cannot be underestimated and is premised on both a diversification of crop types and growing options, coupled with a revitalization of the banana industry and the use of technology.

The road infrastructure program, the Castries re-development, including the Head Office Program, the development of the Hewanororra International Airport and the Desert Star Holdings Project (Pearl of the Caribbean) are all significant components of the plan to create sustainable employment.

The Desert Star Holdings Project is phased over 20 years and has the potential to transform not only the economy of Vieux Fort, but potentially all of St. Lucia. With world class horse racing facilities, marinas, hotels, mixed use residential development and the upgrading of the natural deep water harbour in the south, the impact should be transformational.

Without a growth led strategy, it will be almost impossible to pursue a more equitable social services program. The Honourable Prime Minister announced a focus on sports, after school programs, a transformation of education and, in particular, how education is delivered. He also addressed advancing the health care reform agenda, by considering both public private partnerships for services and an introduction of a national health insurance program.
Reforming government is particularly interesting, but entirely necessary in order to increase efficiency and improve the ease of doing business on the island.

Improving security, clearing the court backlog, improving border patrol and improving crime fighting strategies were announced as key components of the plan to restore St. Lucia to safety. Crime is no doubt a problem for the region as a whole, but for the islands that get it right, their overall well-being and tourism-led performance indicators will be positively impacted.

A number of energy and climate change initiatives were discussed as currently being evaluated in order to make the island more competitive and resilient to changes in the climate, while encouraging investment and creating jobs.

The Honourable Prime Minister has stated that tax reforms are a major priority over the medium term and work has already started in a number of areas focused on appropriately lowering and more equitably redistributing the tax burden, while enhancing the efficiency of the tax system and reducing tax compliance costs. In the face of economic challenges, thoughtful tax policy can play a positive role in the growth of the economy.

The 2.5% decrease in the rate of Value Added Tax (VAT) was implemented as at 1 February 2017, as part of the initial measures toward VAT reform. The impact of this change is anticipated to be a decrease in prices to the consumer or an increase in margin to the business owner, both of which could have the impact of potentially increasing confidence and stimulating the economy.

In an environment where the competitive advantages are limited, the manufacturers would likely welcome the deferral of VAT on imports as a means to better cash flow management.

The Honourable Prime Minister proposed sweeping changes to Personal Income Tax (PIT), however the details will not be announced until later in the year. The changes are intended to simplify the system, which was made unnecessarily complex by 28 deductions. The changes will allow taxpayers to dispense with the filing of annual tax returns, introduce more progressivity in the system and foster more effective deployment of the resources of the Inland Revenue.

The Honourable Prime Minister reported that changes have been made to the Citizenship by Investment Program (CIP) to encourage greater participation, while simultaneously working through the mechanism of a Sovereign Wealth Fund, which will allow participants in the CIP program the option of making an investment in the fund.

For those high net worth individuals not seeking citizenship, but keen on residing and paying taxes in St. Lucia, the Government is working through the details of a Foreign Residency Program, which will increase investment and consumption, as well as, complement the Head Office Regime announced by the Honourable Prime Minister.
In order to directly fund the Road Infrastructure Program, the Honourable Prime Minister announced an increase of a maximum of XCD$1.50 of the excise tax to gasoline and diesel. This will inevitably increase the price of gas at the pump but is deemed critical to the rehabilitation of St. Lucia’s roads and bridges.

Another revenue raising measure contained in the Budget Estimates is a phased increase in the airport taxes and fees to US$98. The resulting impact of this on passenger volume has to be carefully countered by increased room stock, airlift and tourism marketing.

The Honourable Prime Minister stated that they will be addressing the national debt problem by better understanding the profile of the debt, the roll-over risk and attendant interest costs.

The current budget assumes over $300 million of additional borrowing to fund primarily capital projects. The premise of increasing a national deficit is typically frowned upon, but doing so can be an appropriate strategy if it is married with expected faster economic growth as proposed in the announced measures.

In summary, the Honourable Prime Minister defined the challenges facing the Government and focused on measures designed to increase growth, while controlling expenditures, reducing transfers and building a more sustainable St. Lucia.

The strategies articulated are not without risk, but differential investment is necessary for differential growth.

Rendra Gopee
Partner, St. Lucia and OECS
The Honourable Prime Minister proposed fundamental changes to the personal income tax system in St. Lucia, which are geared towards making the system more progressive and more simplistic (from an administrative perspective) as outlined in the table below:

<table>
<thead>
<tr>
<th>Item</th>
<th>Current System</th>
<th>Proposed Changes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rate of Tax</strong></td>
<td><strong>Band</strong>&lt;br&gt;(\leq 10,000)&lt;br&gt;(10,001 - 20,000)&lt;br&gt;(20,001 - 30,000)&lt;br&gt;(&gt;30,000)&lt;br&gt;</td>
<td>Rate&lt;br&gt;10%&lt;br&gt;15%&lt;br&gt;20%&lt;br&gt;30%&lt;br&gt;Changes unknown, however, a cap on PIT has been proposed.</td>
</tr>
<tr>
<td><strong>Personal Allowance</strong></td>
<td>Individuals are entitled to a personal allowance of $18,000, with the exception of pensioners whose personal allowance is $24,000.&lt;br&gt;</td>
<td>The personal allowance system will be reformed.</td>
</tr>
<tr>
<td><strong>Deductions</strong></td>
<td>In calculating the chargeable income of an individual, there is an array of 28 different deductions which may be claimed. Some of these deductions are subject to numerical caps.</td>
<td>Current deductions which are available to be claimed by an individual will be reformed.</td>
</tr>
<tr>
<td><strong>Tax Return System</strong></td>
<td>Each individual is required to file a personal Income Tax Return (ITR) each year.</td>
<td>Taxpayers will no longer be required to file ITRs. This is, however, assumed to be applicable only to individuals whose exclusive source of income is employment income.</td>
</tr>
</tbody>
</table>
## Comparative Analysis

The following table indicates that St. Lucia currently ranks in the mid-range of other countries within the Caribbean region, based upon top headline rates of tax.

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Country</th>
<th>Chargeable Income¹ ($XCD)</th>
<th>Income Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Antigua</td>
<td>Not applicable</td>
<td>0%</td>
</tr>
<tr>
<td>1</td>
<td>St. Kitts/Nevis</td>
<td>Not applicable</td>
<td>0%</td>
</tr>
<tr>
<td>3</td>
<td>Jamaica</td>
<td>&gt;$12,590</td>
<td>25%</td>
</tr>
<tr>
<td>4</td>
<td>Grenada</td>
<td>≤$24,000 $24,000</td>
<td>10% 30%</td>
</tr>
<tr>
<td>4</td>
<td>St. Lucia</td>
<td>≤$10,000 $10,001 - $20,000</td>
<td>10% 15% 20% 30%</td>
</tr>
<tr>
<td>4</td>
<td>Trinidad &amp; Tobago</td>
<td>≤$388,530 $388,530</td>
<td>25% 30%</td>
</tr>
<tr>
<td>7</td>
<td>St. Vincent</td>
<td>≤$5,000 $5,001 - $10,000 $10,001 - $20,000 &gt;$20,000</td>
<td>10% 20% 30% 32.5%</td>
</tr>
<tr>
<td>8</td>
<td>Barbados</td>
<td>≤$47,250 $47,250</td>
<td>16% 33.5%</td>
</tr>
<tr>
<td>9</td>
<td>Dominica</td>
<td>≤$20,000 $20,001 - $30,000 &gt;$30,000</td>
<td>15% 25% 35%</td>
</tr>
<tr>
<td>10</td>
<td>Guyana</td>
<td>≤$18,576 $18,576</td>
<td>28% 40%</td>
</tr>
</tbody>
</table>

We wish to note that this relative comparison with countries within the region is based purely on the top headline rates of tax in the respective countries. In this regard, there are a number of material factors, such as the availability of allowances and exemptions, which may impact how St. Lucia’s effective tax rate would compare to the other territories within the Caribbean region.

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¹ Chargeable Income refers to assessable income after claims for personal allowances and deductions.
Reform of Tax Exempt Personal Allowance

Under the current PIT system, individuals are entitled to a personal allowance of $18,000, whilst pensioners are entitled to a personal allowance of $24,000.

The personal allowance operates as an equivalent to a nil rate tax band. As such, a tax liability only arises where the individual’s income exceeds the personal allowance. The personal allowance system is practically more beneficial to a taxpayer on a higher income tax rate since it allows the taxpayer to shelter income that would otherwise be taxable at a higher rate.

It is proposed that the personal allowance system will be reformed with a view towards simplification and progressivity.

Tax Deductions

In addition to the reform of the tax exempt personal allowance, the previously available tax deductions which could be claimed by individuals are proposed to also be reformed.

Under the current system, individuals can reduce chargeable income by making a claim of any combination of the 28 existing deductions, some of which have limits and some of which do not.

The Honourable Prime Minister reported that the proliferation of tax deductions has resulted in:

1. The requirements of taxpayers to file to verify claims of deductions;
2. A considerable amount of resources being allocated by Inland Revenue in processing tax returns;
3. The huge variance between tax collected and tax due from taxpayers as a result of deductions claimed during the year; and
4. The magnitude of deductions claimed is correlated to income. Simply put, high income-earners have the ability to make significant claims for deductions thereby significantly reducing chargeable income and tax otherwise due.

International best practice suggests that significant limits be placed upon the myriad of personal allowances and deductions currently available in St. Lucia. These tax allowances increase the complexity of the tax system, increase the work load of the St. Lucian Inland Revenue Department (IRD), make it more difficult for the Government to predict its revenues and disproportionately benefit higher rate tax payers.

Income Tax Return System

Under the current PIT system, given the availability of a wide array of deductions which may be claimed, all individuals, whether in receipt of employment income or not, are required to file ITRs to verify the deductions which have been claimed.
It is proposed that the requirement for taxpayers to file ITRs will be removed. We assume, however, that this measure will only apply to individuals who are only in receipt of emolument income, a system which is substantively similar to other jurisdictions within the Caribbean region, such as Jamaica and Trinidad & Tobago.

In Jamaica, only licensed professionals (e.g. lawyers, accountants and doctors) who are in receipt of employment income are required to file ITRs. In T&T, where an individual is in receipt of employment income, it is the obligation of the employer to deduct the requisite amount of tax from the salary of the employee via the PAYE system and remit the same to the tax authorities. The employers are then required to submit a return to the tax authorities in respect of all of its employees. Given that it is the responsibility of the employer to submit a return for its employees, individuals that are exclusively in receipt of employment income are specifically excluded from the requirement to file ITRs, unless such individuals earn multiple sources of income of employment income or are in a tax refund position.

On the basis that the IRD will no longer be required to review thousands of personal ITRs, the new system should be substantially more time-saving and cost effective.

Additionally, given that the personal allowance system and entitlement of individuals to claim deductions will be reformed, it is expected that the documents which are required to be filed by both individuals and employers with the IRD will be minimal. Consequently, there will be limited interaction between the IRD and individual taxpayers and most filing requirements will be executed directly through employers, thus streamlining the process, saving time and allowing for the IRD to focus on more productive revenue generating operations, such as field audits.

**Cap on Income Tax**

The Honourable Prime Minister has signaled that it is the intention of the Government to place a cap on PIT.

It should be noted, however, that such a measure may encourage individuals to engage in tax avoidance strategies whereby income which would usually be taxed at a corporate level is diverted into income subject to tax at the individual level.

The Honourable Prime Minister has stated that further details on the reform of the PIT system would be provided before the end of 2017. It is presumed that the measures would take effect in calendar year 2018.
Deferred VAT System for Importation of Goods

In an effort to ease the cash flow issues experienced by importers in St. Lucia, the Government plans to introduce a deferral system with regard to the payment of VAT on imports by manufacturers. The deferred VAT scheme does not impact upon customs duty, which must still be paid at the time of importation.

Typically, the main benefits of a VAT deferral system are as follows:

- Importers do not have to pay VAT immediately each time goods are to be cleared; and
- Faster clearance of goods by the Customs and Excise Department.

Under the proposed deferral system, it is assumed that importers can request a deferred payment to reduce possible cash flow difficulties as a result of significant expenditure on imports. Taxpayers who meet the specified requirements will be allowed to access the VAT deferral system.

The system will be designed to eliminate the VAT payment on imports of raw materials and no such payment is required subsequently, to the extent that the manufacturer is allowed to claim the full input VAT (i.e. the manufacturer has less than 10% exempt sales).

For example, where a manufacturer has VAT payable on imports of $100,000, under the current system the manufacturer will be required to pay VAT of $12,500 prior to being allowed to clear the goods. Such VAT paid on imports would subsequently be claimed against the output tax for the period.

Under the proposed system, no VAT on imports would be payable and subsequently claimed as input tax, and the goods can be cleared immediately. The manufacturer would report his sales as usual and account for the output tax thereon. If the manufacturer is entitled to claim 100% of inputs for that month (the case with most manufacturers) this will give rise to a nil effect and no cash VAT payment on the transaction.

A payment will, however, be required to the extent that a portion of this input VAT is not claimable and the manufacturer does not have a VAT refund. This gives manufacturers immediate use of the imports to manufacture and sell the goods produced.

The IRD has already produced draft legislation to allow for the implementation of the VAT deferral tax on capital goods. It was proposed that this draft legislation be amended to incorporate raw materials imported by approved manufacturers.

In addition to the improved cash flow of the importers, the proposed VAT deferral system should improve the perception of the “ease of doing business” in St. Lucia.
Reduction of Standard VAT Rate

The Honourable Prime Minister’s Budget Speech noted that effective 1 February 2017, the standard rate of VAT in St. Lucia was reduced from 15% to 12.5%.

This rate reduction was in keeping with the Government’s manifesto to reduce VAT as a means of easing the burden on consumers in St. Lucia, with a further view to its eventual elimination.

It is instructive to note, however, that the decrease in the VAT rate will only benefit the final consumer where suppliers have adjusted their prices accordingly.

Furthermore, recent experiences in other jurisdictions have shown that a reduction in the rate of VAT is usually accompanied by a broadening of the VAT base, i.e. goods and services which are currently zero-rated or exempt for the purposes of VAT are recharacterized to standard rated supplies subject to VAT, in order to alleviate the possible erosion in VAT revenues.

Moreover, a reduction in the number of zero-rated and exempt items is in keeping with recommended best practice of the International Monetary Fund, as it ought to improve the administrative efficiency of the VAT system.

It should be noted that the current VAT Act of St. Lucia provides an exhaustive list of non-standard exemptions and zero-rated domestic supplies for VAT purposes which hinder the efficiency of the VAT system.

In light of the foregoing, it may be anticipated that there will be future amendments to VAT legislation to reduce the list of goods and services which are exempt and zero-rated for the purposes of VAT.

In consideration of the reduction in the rate of VAT, the following table highlights the current VAT/General Consumption Tax (GCT) rates on standard-rated commercial supplies in a few Caribbean territories:

<table>
<thead>
<tr>
<th>Rank (Highest to Lowest)</th>
<th>Country</th>
<th>Standard VAT Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Barbados</td>
<td>17.5%</td>
</tr>
<tr>
<td>2</td>
<td>St. Kitts/Nevis</td>
<td>17%</td>
</tr>
<tr>
<td>3</td>
<td>Jamaica</td>
<td>16.5%</td>
</tr>
<tr>
<td>4</td>
<td>St. Vincent</td>
<td>16%</td>
</tr>
<tr>
<td>5</td>
<td>Antigua</td>
<td>15%</td>
</tr>
<tr>
<td>5</td>
<td>Dominica</td>
<td>15%</td>
</tr>
<tr>
<td>5</td>
<td>Grenada</td>
<td>15%</td>
</tr>
<tr>
<td>8</td>
<td>Guyana</td>
<td>14%</td>
</tr>
<tr>
<td>9</td>
<td>St. Lucia</td>
<td>12.5%</td>
</tr>
<tr>
<td>9</td>
<td>Trinidad &amp; Tobago</td>
<td>12.5%</td>
</tr>
</tbody>
</table>
From a regional perspective, St. Lucia, along with Trinidad & Tobago, has the lowest standard VAT rate.

**Miscellaneous Tax Measures**

**Airport Taxes and Fees**

The Estimates accompanying the Honourable Prime Minister’s Budget detailed a phased increase in airport taxes and fees that would raise the sum payable by airline passengers to a total of US$98. The additional funds arising from the increase is earmarked to be used for general public purposes, to assist with tourism marketing initiatives and to allow the Government to make the necessary investment with a view to improving the quality of the island’s airports and traveler experience.

As depicted in the accompanying chart, the increase places St. Lucia’s airport taxes and fees within the higher band of comparable jurisdictions in the region. As such, it is important to understand the impact that the increase in costs may have on passenger load, as any decrease in passenger load resulting from the increase in taxes would have a negative impact on St. Lucia’s overall economy.

![Caribbean Airport Taxes and Fees](chart)

*Source: CDB Thematic Study: Making Air Transport Work Better for the Caribbean - 2015*

International studies have in the past demonstrated a correlation between increased airport taxes and fees and decreases in passenger volume, suggesting that one can expect passenger price sensitivity to this announced increase. Without the benefit of a professional study, it is not possible to comment on the benefits that can be expected from the additional tax as compared to the anticipated impact on the St. Lucian economy.
economy that may be expected from decreased passenger volume arising from the tax.

Perhaps mindful of this delicate balance, the Government announced various initiatives to increase the room stock on the island by 2,000 rooms over the next 4 years. It is assumed that with increased room stock, supported by appropriate marketing, will come increased airlift and passenger volume, thereby counter balancing the impact of the airport tax and fee increase on passenger demand. In addition, the improvement in the airport infrastructure partly paid for by the increased airport taxes and fees should have a positive impact on passenger experience, thereby assisting with improving the attractiveness of St. Lucia as a choice tourism destination.

Road Improvement Tax

The Honourable Prime Minister announced a rise in excise tax on gasoline and diesel resulting in an increase in the tax from XCD2.50 to a maximum of XCD4.00 per gallon, effective June 2017.

In piloting the additional excise tax, the Honourable Prime Minister was careful to explain that the revenues derived from the increase would be deployed exclusively toward maintaining and upgrading the road network and associated infrastructure of the island such as bridges. This expenditure, he explained, has been made necessary by the tremendous increase in road traffic arising from higher importation of motor vehicles to the island over the years. By way of illustration, the Honourable Prime Minister recited that in 2016, 3,137 cars were imported to the island resulting in a growth rate of 40.8% when compared to the prior year.

Based on current gasoline prices, by our estimation, the increase in excise tax should raise the price of gasoline in St. Lucia to approximately XCD$2.91(US$1.08) per litre. This ranks amongst the highest in the region as outlined in the accompanying chart.

![Comparative Analysis of Gasoline Prices](https://www.globalpetrolprices.com)

**Source:** [www.globalpetrolprices.com](http://www.globalpetrolprices.com)
In furtherance of its pro-growth agenda, the Government announced the introduction of a number of initiatives to attract foreign investors to St. Lucia. Since many of these initiatives were outlined only in broad and general terms, we are not able to provide any critical commentary thereon. Nonetheless, we have sought to provide more background on the concepts below for the benefit of our readership.

The International Business Companies (IBC) Act has been amended to allow for the headquarters of regional companies to be located in St. Lucia.

A headquarter company (HC) is a holding company designed for specific (management and administrative) purposes in a group structure. Headquarter companies are often formed where multinational groups of companies have significant economic interest in a region to oversee and coordinate a group’s business interest in a particular region. Such centers will usually provide the full range of administrative and management functions associated with a head office; for example, treasury and tax management, internal audit, public relations, market research and marketing, insurance and accounting.

Tax advantages are but one of a myriad of features that characterize an attractive HC location. In many instances, non-tax considerations outweigh tax considerations for a multinational company in its selection process. The most important non-tax considerations would be as follows:

- Proximity to the region being managed
- Quality of specialized employees
- Availability of technology
- Modern infrastructure
- High quality of life

From a tax perspective, important features would include:

- Low tax regime
- No tax on dividends
- No capital gains taxes
- No withholding taxes on distributions or payments to non-residents
- Freedom from exchange controls
- Low tax on employee/consultant income
- Low VAT and Customs Duties on the importation of specialized equipment
- Developed network of Double Tax Treaties

Although details of the proposed changes to the IBC Act were not provided, from a tax perspective, St. Lucia already possesses many positive tax attributes due to the intersection between its Income Tax and IBC regime. Therefore, the island does have an appropriately attractive fundamental tax base that may be enhanced to attract headquarter companies to the island.
Creation of a foreign tax residency program to operate in conjunction with the CIP.

Following the global financial crisis in 2008, many countries, including Canada, countries in Europe and Latin America, have increased the level of taxation on High Net Wealth Individuals (HNWIs). This has resulted in many HNWIs resident in such high tax countries seeking to relocate themselves and their families to other more tax favourable jurisdictions.

Recognizing this demand and the benefits to be obtained from a residency program, a number of countries, such as the UAE, Hong Kong, Jersey, Singapore, Barbados and Switzerland, have been actively targeting HNWIs and offering them attractive tax incentives to relocate to their jurisdictions.

In view of the above, the Honourable Prime Minister announced the Government's intention to introduce a residency program in addition to the CIP, in order to attract HNWIs who wish to relocate to the Island but do not necessarily require a St. Lucian passport. In order to qualify, the foreign resident will have to invest in real estate, establish a company that hires more than 10 people or invest in the Sovereign Wealth Fund.

One of the benefits of the tax residency program is that HNWIs who opt for this program are likely to spend more time in St. Lucia each year than those individuals who are currently registered under the CIP. This is so they will be able to substantiate their claim to be tax resident in the Island in the event of a challenge by an overseas tax authority. A program such as this is therefore likely to provide more sustainable economic benefits to the country than is currently experienced under the CIP. Such benefits include investment in real estate, contribution to local taxes, increased spending on local goods and services and a contribution to tourism arrivals.

In order for St. Lucia to excel in this new program, it will be necessary to ensure that its system of personal taxation for targeted HNWIs is competitive with the tax regimes that exist in alternative jurisdictions. In conjunction with tax incentives, it is extremely important that a streamlined, user friendly process be developed to allow a foreign resident to obtain permanent resident status on the island.

The establishment of a Sovereign Wealth Fund that will allow CIP participants the option of investing along-side the Government of St. Lucia.

Sovereign wealth funds play an important role in national economic security, economic strategy and contribution to national revenues. Over the last 30 years, many resource rich countries, such as Norway, the United Arab Emirates, Canada (Alberta), Botswana, Qatar and Trinidad & Tobago, have sought to invest excess hydrocarbon-based revenues for the benefit of future generations through the creation of sovereign wealth funds. Such funds have typically invested the revenues generated from the particular country's natural resources on the international markets, rather than in the domestic market, in order to increase the investment returns for the country.
The Honourable Prime Minister announced that his Government has decided to begin the work necessary to create a Sovereign Wealth Fund into which revenues from the CIP and Residency Program will be channelled.

The main objective of the fund as stated by the Honourable Prime Minister is to build a pool of reserves for general public purposes, as well as to fund strategic investments that have the potential to provide long term benefits to the Island’s economy. A secondary stated objective of the fund is to provide a national investment vehicle into which investors, such as CIP participants, can co-invest together with the Government.
**Current Tax Rates**

**Income Tax Rate**

The following income tax rates and allowances are currently applicable for income year 2017.

<table>
<thead>
<tr>
<th>Band of Taxable Income</th>
<th>Rate of Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1 - $10,000</td>
<td>10%</td>
</tr>
<tr>
<td>$10,001 - $20,000</td>
<td>15%</td>
</tr>
<tr>
<td>$20,001 - $30,000</td>
<td>20%</td>
</tr>
<tr>
<td>Over $30,000</td>
<td>30%</td>
</tr>
</tbody>
</table>

The first $6,000 of pension income received by an individual over 60 years of age is exempt.

**Main Allowances available to Individuals**

- **Basic Personal Allowance**: $18,000
- **Dependent Spouse Allowance**: $1,500
- **Maintenance or Alimony**: 100% where recipient is taxable thereon
- **Child Allowance**
  - Under the age of 16 years: $1,000
  - Child over the age of 10 years and who was a student during the Income Year: $2,000
  - Child or Relative, where claimant is acting as a parent, who irrespective of age was a University student in St. Lucia or elsewhere: $5,000
- **An invalid or incapacitated child, irrespective of age**: $1,000
- **Life insurance premiums paid to a local company and National Insurance contributions**: 100% of expenditure capped at the lower of 10% of assessable income or $8,000
- **Owner Occupied Residential Property Allowances**
  - Mortgage Interest: $18,000 (maximum)
  - Taxes: 100%
  - Insurance Premiums: 100%
  - Upkeep and Maintenance: $10,000 (maximum)
• Contributions to the St. Lucia National Trust or contributions made under deed of covenant for not less than 3 years to a religious, charitable, medical or educational institution or sporting body or fund of a public character

• Medical Expenses

  Up to 25% of assessable income

  Medical Expenses
  Up to $400 unless supported by documentary evidence for the excess

• Payments to a Co-operative or Building Society $5,000 (maximum)

• Student Loan Interest $3,000 (maximum)

• New Shares in a Resident Public Company $5,000 (maximum)

• Housekeeper Allowance $200

• Dependent Relative Allowance $350

**National Insurance contributions**

% of maximum insurable earnings¹

<table>
<thead>
<tr>
<th>Employee</th>
<th>Employer</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Insurance</td>
<td>5%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Self-employed persons must choose one of the following categories to determine their monthly income for the purpose of calculating monthly contributions.

<table>
<thead>
<tr>
<th>Category</th>
<th>Monthly Income as a Percentage of Maximum Insurable Earnings ($5,000)</th>
<th>Effective Monthly income based on Maximum Insurable Earnings of ($5,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Special</td>
<td>10%</td>
<td>$500</td>
</tr>
<tr>
<td>A</td>
<td>20%</td>
<td>$1,000</td>
</tr>
<tr>
<td>B</td>
<td>30%</td>
<td>$1,500</td>
</tr>
<tr>
<td>C</td>
<td>40%</td>
<td>$2,000</td>
</tr>
<tr>
<td>D</td>
<td>50%</td>
<td>$2,500</td>
</tr>
<tr>
<td>E</td>
<td>60%</td>
<td>$3,000</td>
</tr>
<tr>
<td>F</td>
<td>70%</td>
<td>$3,500</td>
</tr>
<tr>
<td>G</td>
<td>80%</td>
<td>$4,000</td>
</tr>
<tr>
<td>H</td>
<td>90%</td>
<td>$4,500</td>
</tr>
<tr>
<td>I</td>
<td>100%</td>
<td>$5,000</td>
</tr>
</tbody>
</table>

¹ The maximum insurable earnings are capped at $5,000 per month.
Corporation Tax

- Basic rate: 30%*

* This rate applies only to companies that are in good standing with the Inland Revenue Department. Non-compliant companies are subject to tax at the rate of 33 1/3%.

Withholding Tax Rates

- Payment to Residents
  - Payments to Contractors: 10%
  - Payments made to persons withdrawing from a pension fund: 10%
  - Payments made on the surrender of a life insurance policy within 10 years of the date on which it was effected: 10%

- Payments by Residents to Non-Residents of Non-Treaty Countries
  - Dividends: 0%
  - Interest or Discount: 15%
  - Royalties: 25%
  - Rents: 0%
  - Management, Personal and Technical Service Fees: 25%
  - Commissions or Fees: 25%
  - Premiums (excluding Reinsurance): 25%
  - Branch Profit Remittance Tax: 0%

Value Added Tax

- Most Goods and Services: 12.5%
- Hotel Accommodation: 10%
- Supply of Food and Beverages by a Restaurant: 10%
- Supply of Financial Services: Exempt
- Sale/Transfer/Disposition of Residential Property: Exempt
- Leases of Real Property for Residential/Agricultural: Exempt
- Basic Food Items: 0%
- Exports: 0%
- Certain Supplies of Services to Non-residents: 0%
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- Tax controversy/disputes
- Tax accounting

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- Statutory reporting (including compilation)
- Payroll
- Financial advisory support

Indirect Tax Services
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- Property tax
- Insurance premium tax
- Hotel accommodation tax
- Stamp duty
- Financial services tax

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- Global employment tax services
- Global business immigration services
- Personal tax services

International Tax Services
- Cross-border corporate income tax advisory
- Double tax treaty analysis
- Tax-effective supply chain management
- Withholding tax

Transaction Tax Services
- Evaluation of significant tax exposures
- VAT and other indirect assessments
- International tax
- Tax structuring
- Identification of post-transactional tax reduction options
Caveat

This publication was prepared by Ernst & Young Services Limited and provides a brief summary of the Economic Policy Statement delivered by the Honourable Allen Chastanet, Prime Minister and Minister for Finance, Economic Growth, Job Creation, External Affairs and the Public Services in Parliament on 9 May 2017. The contents are intended as a general guide for the benefit of our clients and associates and are for information purposes only.

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