

SUMMARY OF THE BUDGETARY PROPOSALS RELATING TO LAND TAX



KEY FINDINGS ON BUDGETARY PROPOSALS

- **Municipal Solid Waste Tax (MSWT)** removed: the MSWT was implemented in the previous fiscal year.
- **Improved Residential Property** bands changed. The value bands were reduced with the net effect being an increase in the land tax payable subject to the value of the property. However the net impact after the removal of the MSWT is a reduction in the overall tax with the higher percentage reductions being at the lower end of the scale.
- **Non-Residential Property tax rates** increased. The 40% increase from 0.5% to 0.7% although offset to some degree by the removal of the MSWT, can have an overall a net increase in costs of approximately 17%.
- **The proposed increase for Vacant Land** is from 0.6% to 0.8%, an increase in the holding cost of vacant land by 33%.
- **Deductions discontinued:** The removal of the Approved Provident or Superannuation Fund Contribution and Registered Retirement Savings Plan Contributions (maximum combined \$10,000 deduction) and the home improvement / mortgage interest deduction (maximum \$10,000) is not likely to endear new buyers to the already fragile real estate market.

The recent budgetary proposals tabled by the Minister of Finance the Hon. Chris Sinckler, included a number of amendments to the land tax rates for all categories of properties. The amendments included a reduction in the residential value bands and an increase in the non-residential and unimproved land rates.

The stated objective of the amendments is to raise an additional \$44M in revenue. Also notable is the removal of the Municipal Solid Waste Tax (MSWT) that was implemented in the previous fiscal year. Whereas the effect of the amendments to the land tax schedule are net increases across the board, the removal of the MSWT will serve to offset these increases but only for some categories of properties. It should be noted that given the MSWT was not assessed on the unimproved land category there would be no offset from its repeal for the vacant land calculation. The reality is that property market values have declined by 20 - 40% in the recent 5-year period and as such there should be a corresponding reduction in the land tax to be paid, however in some instances this decline in values is not reflected in the land tax valuations. Note the revaluation period is every three years with the 2014 - 2015 period being the most recent valuation year.

It is notable that the Barbados Revenue Authority took a different approach last year breaking from the long tradition of sending out separate Valuation Assessment notices. Property owners were not made aware of any change in the value of their properties until the actual bill was received. In fact many tax payers were asked to pay the MSWT based upon a new valuation assessment of which they were not previously informed.

IMPROVED RESIDENTIAL PROPERTY

The rates for this category remained the same however the value bands were reduced with the net effect being an increase in the land tax payable subject to the value of the property. While the reduction in the bands has increased the land tax component, the net impact after the removal of the MSWT is a reduction in the overall tax due on this category with the higher percentage reductions being at the lower end of the scale. The charts below illustrate the net impact of the proposed increase in the land tax and the removal of the MSWT * for a range of property values.

PROPERTY VALUE	LAND TAX AND MSWT 2014/2015	PROPOSED LAND TAX 2015/2016	IMPACT	% CHANGE
\$500,000	\$685	\$525	-\$160	-23%
\$1,000,000	\$3,310	\$2,775	-\$535	-16%
\$1,500,000	\$6,685	\$6,525	-\$160	-2%
\$2,000,000	\$10,810	\$10,275	-\$535	-5%
\$2,500,000	\$14,935	\$14,025	-\$910	-6%

TABLE 1

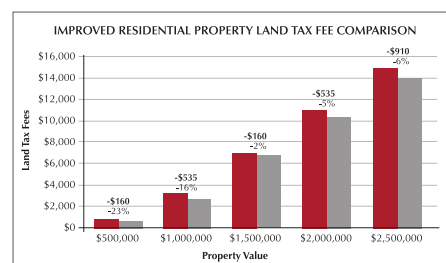


CHART 1

* Note the calculation of the MSWT in the illustration assumes that 25% of the improved property value is attributed to the site (land) value. The MSWT has therefore been calculated on the amount. This ratio would vary by property; as such any specific property calculation should refer to the site value reflected in that particular land tax valuation.

Sentiment plays a significant role in the marketplace, particularly at the bottom of the cycle when most market participants are sitting on their hands waiting on a signal to get back into the market.



Sapphire Beach



Somerley

NON-RESIDENTIAL PROPERTY

The proposed schedule has increased the rate from 0.5% to 0.7% (a 40% increase) for this category. This is offset to some degree by the removal of the MSWT, however the overall impact is a net increase in costs of approximately 17% *. Ultimately these increases will be passed on to the consumer whether in the form of increased rents or in the pass through of CAM charges for office/retail properties or an increase in the prices of the products or services provided.

PROPERTY VALUE	LAND TAX AND MSWT 2014/2015	PROPOSED LAND TAX 2015/2016	IMPACT	% CHANGE
\$500,000	\$2,995	\$3,500	\$505	17%
\$1,000,000	\$5,990	\$7,000	\$1,010	17%
\$1,500,000	\$8,985	\$10,500	\$1,515	17%
\$2,000,000	\$11,980	\$14,000	\$2,020	17%
\$2,500,000	\$14,975	\$17,500	\$2,525	17%

TABLE 2

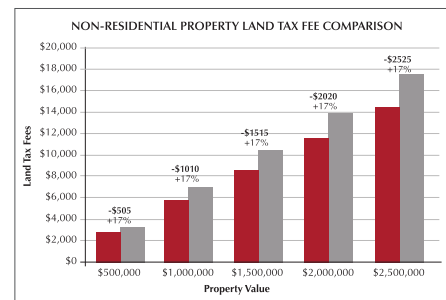


CHART 2

■ 2014 / 2015 ■ Proposed 2015/2016

* Note the calculation of the MSWT in the illustration assumes that 33% of the improved property value is attributed to the site (land) value. The MSWT has therefore been calculated on the amount. This ratio would vary by property; as such any specific property calculation should refer to the site value reflected in that particular land tax valuation.

VACANT LAND

The proposed increase for this category is from 0.6% to 0.8%. As noted above, the MSWT was not applied to this category and as such there is no corresponding offset by its repeal. This amounts to an increase in the holding cost of vacant land by 33% and is likely to further constrict the market for land sales. For generations Barbadians have purchased land lots as investments and "put them down" for their children. While this has had the undesirable

VACANT LAND	LAND TAX 2014/2015	PROPOSED LAND TAX 2015/2016	IMPACT	% CHANGE
\$500,000	\$3,000	\$4,000	\$1,000	33%
\$1,000,000	\$6,000	\$8,000	\$2,000	33%
\$1,500,000	\$9,000	\$12,000	\$3,000	33%
\$2,000,000	\$12,000	\$16,000	\$4,000	33%
\$2,500,000	\$15,000	\$20,000	\$5,000	33%

TABLE 3

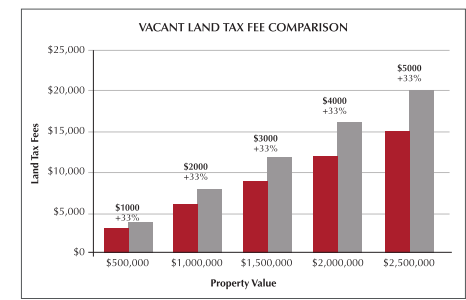


CHART 3

■ 2014 / 2015 ■ Proposed 2015/2016

consequence of leaving vacant lots in developments and sometimes unmaintained lots, it was a way to start the next generation on the property ladder. Additional costs may also serve to displace funds set aside for the maintenance of vacant lots and result in the lots being less well maintained.

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FURTHER OBSERVATION

With the majority of increases in the Unimproved Land category, perhaps another question that the shift in tax rates may raise is what is the definition of an improved property? The Land Tax Act refers to the Land Valuation Act for the definition where it is stated as follows:

“improvements”, in relation to land, means those physical additional and alternations thereto and all works for the benefit of the land made or done on the land by the owner or any of his predecessors in title which, at the date on which the improved value or site value is required to be ascertained, have the effect of increasing its value; but

- (a) the destruction or removal of timber or vegetable growth;
- (b) the reclamation of land by draining or filling together with any retaining walls or other works appurtenant thereto;
- (c) the excavation, grading or leveling of land, shall not be deemed to be improvements

This definition is obviously somewhat ambiguous and subject to interpretation.

SUMMARY

Sentiment plays a significant role in the marketplace, particularly at the bottom of the cycle when most market participants are sitting on their hands waiting on a signal to get back into the market. Typically the signals the market is looking for are incentives - whether in the form of first-time buyer concessions, incentives to construct properties for rental, incentives to develop abandoned or dilapidated properties (perhaps by way of an expansion of the SDA areas) or other incentives to re-enter the market.

When combined with the removal of the other deductions namely the Approved provident or Superannuation Fund Contribution and Registered Retirement Savings Plan Contributions (maximum combined \$10,000 deduction) and the home improvement / mortgage interest deduction (maximum \$10,000) the new schedule is not likely to endear new buyers to the market. The new proposals would likely result in the dampening of an already fragile market which appeared to be in the early stages of recovery.

**For additional information please
CONTACT OUR**

Knowledge Department
T: 1(246)434-9000
E: knowledge@terra-caribbean.com

‘Somerley’ Worthing, Christ Church, Barbados, BB15009 T: (246) 434-9000

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