

OBJECTS AND REASONS

This Bill would amend the *Income Tax Act, Cap. 73* to give effect to the economic and financial policies proposed by the Minister of Finance for the year 2007.

Arrangement of Sections

Section

1. Short title.
2. Amendment of section 9 of Cap. 73.
3. Amendment of section 12B of Cap. 73.
4. Amendment of section 12C of Cap. 73.
5. Amendment of section 12E of Cap. 73.
6. Amendment of section 12H of Cap. 73.
7. Amendment of section 14 of Cap. 73.
8. Amendment of section 23 of Cap. 73.
9. Amendment of section 23K of Cap. 73.
10. Amendment of section 24A of Cap. 73.
11. Amendment of section 24F of Cap. 73.
12. Amendment of section 36B of Cap. 73.

Section

13. Amendment of section 37 of Cap. 73.
14. Amendment of section 37E of Cap. 73.
15. Amendment of section 38B of Cap. 73.
16. Amendment of section 46D of Cap. 73.
17. Amendment of section 46E of Cap. 73.
18. Amendment of Cap. 73.
19. Amendment of section 65D of Cap. 73.
20. Amendment of enactments set out in Schedule.

SCHEDULE

BARBADOS

A Bill entitled

An Act to amend the *Income Tax Act*.

ENACTED by the Parliament of Barbados as follows:

1. This Act may be cited as the *Income Tax (Amendment)* Short title
(No.) Act, 2007.

Amendment
of section 9
of
Cap. 73.

2. Section 9 of the *Income Tax Act*, in this Act referred to as the principal Act, is amended in subsection (1),

(a) by inserting immediately after paragraph (e) the following as paragraph (f):

"(f) income of a government agency not carried on mainly for the purpose of profit and established for the purpose of promoting the development of the agricultural, manufacturing, tourism and industrial sectors of the economy;"

(b) by inserting in paragraph (l) immediately after sub-paragraph (ii) the following new sub-paragraphs:

"(iii) in respect of income year 2007 and subsequent income years, amounts received by a resident company registered in Barbados as dividends, other than preference dividends, from a non-resident company when the Barbados resident is a shareholder representing at least 10 per cent of the capital of the non-resident company and such shareholding be not held solely for the purpose of portfolio investments;

(iv) in respect of income year 2007 and subsequent income years, amounts paid by a resident company as dividends, other than preference dividends, to a non-resident shareholder when the amount of dividends paid are derived from income earned from sources outside of Barbados;"

Amendment
of section
12B of
Cap. 73.
Cap. 341.

3. Section 12B of the principal Act is amended in subsection (3), by deleting the words "*Hotel Aids Act*" and substituting the words "*Tourism Development Act*".

4. Section 12C of the principal Act is amended in subsection (2), in the definition of "commercial buildings", by deleting the words "*Hotel Aids Act*" and substituting the words "*Tourism Development Act*".

Amendment
of section
12C of
Cap. 73.
Cap. 341.

5. Section 12E of the principal Act is amended by inserting immediately after section 12E.9 the following section as 12E.10:

Amendment
of section
12E of
Cap. 73.

12E. 10 (1) With effect from income year 2007, where a company has in an income year incurred any expenditure for the purpose of achieving an internationally recognized environmental certification, then in calculating the assessable income of that company in any income year, there shall be deducted an amount equal to 150 per cent of the actual amount expended in that year.

(2) The benefit described in subsection (1) may only be granted on the certificate of the Minister responsible for the Environment to the effect that the company claiming the benefit has incurred those costs in achieving an internationally recognized environmental certification."

6. Section 12H of the principal Act is amended by inserting immediately after

Amendment
of section
12H of Cap.
73.

(a) subsection (1), the following as subsection (1A):

"(1A) Where a company carrying on business in Barbados provides services to the international business sector and earns assessable income in respect of those services, then that income shall be deemed to be foreign currency earnings in accordance with subsection (1).";

(b) paragraph (d) of subsection (2), the following as paragraph (e):

"(e) "international business sector" means the sector comprising resident companies that carry on all of their business overseas."

Amendment
of section 14
of Cap. 73.

7. Section 14 of the principal act is amended by deleting paragraph (aa) and substituting the following:

"(aa) where expenditure in respect of a motor vehicle provided for the use of a director or an employee exceeds \$75 000, the excess is not a capital expenditure on machinery or plant;"

Amendment
of section 23
of Cap. 73.

8. Section 23 of the principal Act is amended by deleting subsections (3) and (4) and substituting the following:

"(3) With effect from income year 2006, notwithstanding subsections (1) and (2), in calculating the assessable income of a person for an income year in respect of residential property, a loss sustained by that person in respect of residential property in an income year shall be deducted from the assessable income in respect of rent from residential property in that income year; and where that loss exceeds the assessable income in respect of rent from residential property of that person, the amount of the excess shall be carried forward and shall be deducted in computing the assessable income from residential property of that person for the ensuing 9 income years.

(4) With effect from income year 2006, notwithstanding subsections (1) and (2), in calculating the assessable income of a person for an income year, a loss sustained by that person in respect of sources of income other than that from residential property, shall be deducted from those other sources and no part of such loss shall be deducted from the assessable income in respect of residential property of that person for an income year."

9. Section 23K of the principal Act is amended in paragraph (a) by deleting the words "*Off-Shore Banking Act*" appearing in sub-paragraph (iv) and substituting the words "*International Financial Services Act*".

Amendment
of section
23K of
Cap. 73.
Cap. 325.

10. Section 24A of the principal Act is amended in subsection (2), by deleting the words "\$4 000" appearing in paragraph (b) and substituting the words "\$10 000".

Amendment
of section
24A of
Cap. 73.

11. Section 24F of the principal Act is amended

Amendment
of section
24F of
Cap. 73.

(a) in subsection (2), by deleting the words "\$4 000" appearing in paragraph (b) and substituting the words "\$10 000"; and

(b) in subsection (3), by deleting the words "\$6 000" appearing in paragraph (a) and substituting the words "\$10 000".

12. The principal Act is amended by deleting section 36B and substituting the following:

Amend-
ment of
section 36B
of
Cap. 73.

"Co-
operative
Societies.
Cap. 378A.

36B. (1) With effect from income year 2007, in calculating the taxable income for an income year of an individual there shall be deducted from the assessable income of that individual, in respect of an investment in shares during that income year with co-operative societies registered under the *Co-operative Societies Act*, an amount not exceeding \$10 000 for each year on the certificate to that effect of an officer within the meaning of section 2 of the *Co-operative Societies Act*.

(2) Where an individual referred to in subsection (1) withdraws any shares within 5 years of the year in which they were invested from a co-operative society in respect of which a deduction was made, the amount so withdrawn shall be brought back into charge to tax in the year in which the withdrawal was made.

(3) In this section, "shares" means deposits in co-operative societies classified as "shares".

Amendment
of section 37
of Cap. 73.

13. Section 37 of the principal Act is amended

(a) by re-numbering subsection (1C) as (1D) and inserting immediately after subsection (1B) the following as (1C):

"(1C) With effect from income year 2007, where expenditure is incurred in an income year by an individual for the purchase or installation of "environmentally preferred products", in respect of residential property referred to in subsection (1), an additional amount up to a maximum of \$5 000 may be deducted in respect of that expenditure.";

(b) in subsection (4), by deleting the words "12B(1)" and "13B(1)" and substituting the words "12B.1" and "13B.1" respectively;

(c) by inserting in subsection (5) in the appropriate alphabetical order the following definition:

" "environmentally preferred products" means

(a) those products that cause significantly less harm to human health or to the environment than alternative products that serve the same purpose; or

(b) products the consumption of which contribute significantly to the preservation of the environment

as determined by the Minister by Order, after consultation with the Minister responsible for Energy and the Environment."

14. Section 37E of the principal Act is amended by deleting subsection (3) and substituting the following: Amendment
of section
37E of Cap.
73.

"(3) With effect from income year 2007, notwithstanding subsection (1) of sections 36B, 37B and 37E the deduction permitted may be claimed as follows:

- (a) in respect of shares in co-operative societies referred to in section 36B(1) ... up to \$10 000;
- (b) in respect of shares referred to in section 37B(1) ... up to \$10 000;
- (c) in respect of investments made in mutual funds only ... up to \$10 000;
- (d) in respect of a combination of investments in mutual funds, new shares and shares of co-operative societies ... up to \$10 000."

15. Section 38B of the principal Act is amended Amendment
of section
38B of
Cap. 73.

(a) in subsection (1), by deleting paragraph (b) and substituting the following:

"(b) in the case of an individual who is 60 years of age or over and in receipt of a pension, the amount of \$40 000 in respect of income year 2007 and subsequent income years;" and

(b) by deleting subsections (9) and (10) and substituting the following subsections:

"(9) With effect from income year 2006, where in an income year an individual has income other than income from residential property, any excess allowances of that individual may only be deducted from residential property income where the allowances exceed the

other income of the individual; and no other deductions under sections 24A, 24B, 24C, 24D, 24F, 36B, 36C, 37, 37B, 37D and 37E shall be made against residential property income of the individual in respect of that income year.

(10) With effect from income year 2006, "Other income" for the purposes of subsection (9) means the gross income, including exempt income less expenses not being expenses of a capital, private or domestic nature or deductions allowed under sections, 23, 24A, 24B, 24C, 24D, 24F, 36B, 36C, 37, 37B, 37D and 37E."

Amendment
of section
46D of Cap.
73.

16. The principal Act is amended by deleting section 46D and substituting the following:

"**46D.** Notwithstanding section 43, with effect from income year 2007, the tax payable by a company that is engaged in the business of manufacturing is 15 per cent of every complete dollar of its taxable income."

Amendment
of section
46 of
Cap. 73.

17. The principal Act is amended by inserting immediately after section 46E the following as section 46F:

"Tax
payable
by
companies
engaged in
the
construction
of houses.

46F. (1) Notwithstanding sections 42 to 46E and subject to subsection (2), with effect from income year 2007, the tax payable by a person engaged in the construction of houses for sale at a price of less than \$150 000 each inclusive of land, is 15 per cent of every complete dollar of taxable income directly relating to the construction and sale of those houses.

(2) The construction of houses referred to in subsection (1) shall be in respect of projects of more than 15 houses inclusive of the land thereon, and those houses shall be sold to persons acquiring their first dwelling house for use by those persons as their residence."

18. The principal Act is amended by inserting immediately after section 64G the following as section 64H: Amendment of Cap. 73.

"Withholding tax from shares invested in Co-operative Societies. Cap. 378A. 64H. (1) The manager of a co-operative society registered under the *Co-operative Societies Act*, shall, unless the Commissioner otherwise directs, withhold tax at the rate of 20 per cent from any shares invested in the society by a resident individual, and in respect of which a deduction was made under section 36B where the withdrawal is made within 5 years of being invested.

(2) The tax withheld under subsection (1) shall be paid to the Commissioner within 7 days of being withheld and shall be accompanied by a return in such form as is approved by the Commissioner."

19. The principal Act is amended by deleting section 65D and substituting the following: Amendment of section 65D of Cap. 73.

"Reverse tax credit. 65D. (1) Where an employed individual who

- (a) is resident in Barbados;
- (b) for income year 2007, earns less than \$15 000 annually, but not more than \$1 250 monthly;
- (c) for income year 2008, earns less than \$16 500 annually, but not more than \$1 375 monthly; or
- (d) for income year 2009 and subsequent income years earns less than \$18 000 annually, but not more than \$1 500 monthly,

applies to the Commissioner in such form as the Commissioner approves, within 2 years of the income year in which the earnings were paid, that person shall be entitled to a credit in accordance with subsection (2).

(2) The credit to which an individual referred to in subsection (1) is entitled is as follows:

- (a) for income year 2007, the amount of \$800;
- (b) for income year 2008, the amount of \$1 100;
- (c) for income year 2009, and subsequent income years the amount of \$1 300.

(3) Subsections (1) and (2) shall not apply

- (a) to self employed persons;
- (b) to directors of companies that are controlled by 5 or less persons;
- (c) to beneficiaries of a trust or an estate within the meaning of section 40; or
- (d) in respect of earnings payable to the estate of a deceased person."

Amendment
of
enactments
set out in
Schedule.

20. The enactments set out in Column 1 of the *Schedule* to this Act are amended in the manner specified opposite thereto in Column 2 of the *Schedule* to this Act.

SCHEDULE

(Section 20)

Column 1	Column 2
Enactments	Amendments
1. <i>Special Development Areas Act, Cap. 237A</i>	In section 8(a) delete the words "30 per cent" and substitute the words "15 per cent".
2. <i>Small Business Development Act, Cap. 318C</i>	In section 7(3) delete the words "20 per cent" appearing in paragraph (a) and substitute the words "15 per cent".