

# **BARBADOS INVESTMENT AND DEVELOPMENT CORPORATION**

## **EXISTING BENEFITS AND INCENTIVES OFFERED TO THE MANUFACTURING SECTOR**

### **Duties and Taxes**

Since 1994, all companies in the manufacturing, agricultural and fishing sectors have been granted a waiver of customs duties and taxes payable on inputs. Eligible inputs include raw materials, machinery, equipment and spares. It does not however include motor vehicles.

Effective November 1, 2008 the Ministry of Finance announced that all imports of raw materials, packaging and equipment used by registered manufacturers would be zero-rated for Value Added Tax (VAT) purposes.

### **Small Business Development Act**

Duty free concessions for small manufacturers are contained in the Small Business Development Act (1999). Approved small businesses are accorded the following benefits:

- exemption from the payments of import duties and stamp duty on plant and equipment for use in their business
- exemption from withholding tax on dividends and interest earned on any investments
- exemption from the payment of stamp duty on all documents related to the business where registration of the document is required by law
- a deduction of corporate tax of an amount equal to 20% of actual expenditure incurred in respect of use of technology, market research any other activity that is in the opinion of the Commissioner of Inland Revenue directly related to the development of the business
- Payment of corporate tax at a rate of 25% on profits

### **Fiscal Incentives Act**

The Fiscal Incentives (Amendment) Act (2001) provides a maximum 15-year tax holiday to any manufacturer of an approved product, provided that it meets the definition of an enclave enterprise: manufacturing exclusively for export outside of CARICOM; manufacturing approved products containing a specified percentage of local value added; or being highly capital intensive.

Under the Fiscal Incentives Act, such enterprises are classified as follows

<b>Classification</b>	<b>Criterion</b>	<b>Tax Holiday</b>
Group I Enterprise	Local value added is $\geq 50\%$	15 years
Group II Enterprise	Local Value Added is $\geq 25\%$ but $< 50\%$	13 years
Group III Enterprise	Local Value Added is $\geq 10\%$ but $< 25\%$	11 years
Enclave Enterprise	Enterprise produces exclusively for export to countries outside of CARICOM	15 years

Such enterprises may import duty-free equipment, spare parts, and raw materials from outside CARICOM. Exemptions from VAT are also available to approved enterprises. Dividends and other distributions to shareholders during the tax holiday are also exempt from the payment of income tax. Non-resident shareholders liable to tax in their country of residence are subject to Barbados withholding tax at a lower rate. To qualify for these incentives, the enterprise must apply to the Ministry of Economic Affairs, Empower, Innovation, Trade, Industry and Commerce.

The Fiscal Incentives (Amendment) Act, 2007 provides for a five-year extension of benefits contingent upon new investment by an approved enterprise or the provision of a new regime of benefits based on the production of new products. To qualify for the five year extension, the approved enterprise under Section 11A of the Act, must have invested in a equipment or technology or innovation methods of production and management amounting to \$1 million or more during a three year period prior to application for the extension. To qualify for the new regime of benefits (up to 15 years) the approved enterprise, under Section 11B of the Act, must prove that it intends to manufacture or is engaged in the manufacture of a new product that qualifies for approval.

An approved enterprise whose period of tax holiday has expired on or before the commencement of the Amended Act is still eligible to apply for an additional five-year tax holiday, where the enterprise meets the requirements set out in Section 11A or 11B of the Act.

### **Export Allowance**

Enterprises not obtaining benefits under the Fiscal Incentives Act and generating export profits (other than from exports within CARICOM) may receive an Export Allowance under the Income Tax Act, expressed as a rebate of corporation tax (between 35-93%) on profits. The maximum rebate of 93 % applies if more than 81 % of an enterprise's profits result from extra-regional exports. Enterprises are entitled to a rebate of Corporation Tax on profits as follows:

<b>Export Profits as a % of total profits</b>	<b>Rebate of Income Tax as a % of income tax on export profits</b>
Up to 20	35
21-40	45
41-60	64
61-80	79
81 and up	93

The Export Development Allowance permits a company to deduct from taxable income an additional 50% of what the company spends in developing export markets outside CARICOM.

### **Investment Allowance**

Manufacturing businesses may also qualify for an investment allowance of 20% on plant machinery which is new or imported into Barbados for the first time. Businesses entitled to the export allowance may claim a 40% investment allowance instead of the usual initial allowance of 20%.

### **Market Research and Development Allowance**

In addition manufacturers are entitled to an allowance of 150% of the expenditure incurred for the purpose of promoting export sales to regions outside of CARICOM or for market research and development. Section 12D of the Income Tax Act sets out the types of expenditure which qualify. It includes salaries and wages, traveling and accommodation, advertising and sales promotion. A certificate must be obtained from the BIDD confirming the person is engaged in the business of export, to substantiate the claim.

### **International Business Company Act**

Manufacturing companies classified as International Business Companies under the International Business Companies Act (1991) are also afforded benefits. Benefits under the act include:

- Tax on income on a sliding scale from a maximum of 2.5% to a minimum of 1%.
- Exemption from capital gains tax or estate duty.
- Tax credits in respect of taxes paid outside of Barbados but insofar as it does not reduce the tax payable in Barbados to less than 1%.
- Freedom from exchange control.
- Tax concessions for specially qualified persons.
- Imports of equipment and machinery free of customs duty, consumption tax, VAT and other like duties.

In addition international business companies may apply for a guarantee that all or any of the benefits and exemptions in the Act will be valid for 15 years. In order to benefit from

these incentives however, companies must apply to the Ministry of International Business and International Transport for a license to conduct international business. The license must be renewed annually. A company classified as an International Business Company must not trade within Barbados.

### **Special Technical Assistance Programme**

This programme makes provision for Bds\$7m annually to the manufacturing and services sub-sectors, with an additional Bds\$1m to the Basic Industries to assist in performance enhancement. The programme seeks to address inherent problems associated with high cost of production, inappropriate technology and management and production systems and other associated problems. This fund, administered by the Barbados Investment and development Corporation (BIDC), is intended to assist in helping companies to become globally competitive and to improve their level of exports.

### **Export Credit Insurance Scheme**

The Export Credit Insurance Scheme was established to promote and facilitate the growth of Barbados' manufactured exports. This Scheme provides insurance cover against losses as a result of the non-payment for Barbadian exports by foreign buyers. The Scheme offers a number of facilities and is administered by the Central Bank of Barbados.

### **Enhanced Credit Guarantee Scheme**

The Central Bank of Barbados established an Enhanced Credit Guarantee Scheme for enterprises in the foreign exchange earning sectors, under the following terms:

Any credit institution desirous of participating in the Scheme may apply to the Central Bank to do so and, upon approval, provide credit facilities to eligible borrowers.

The borrower may be an individual, partnership, a corporate body, or an association of individuals, and must have the ability to contract loans and other credit facilities. To qualify the borrowers must meet the following criteria:-

- (a) The enterprise must be in the foreign exchange earning sectors, or be a direct supplier to an enterprise earning foreign exchange.
- (b) Sales in foreign currencies must be at least 75% of gross revenue, or at least 75% of gross revenue must be supplied to enterprises earning foreign exchange.

Under the scheme:

- Credit facilities to be guaranteed shall be the net amount of new credit advanced to the enterprise.
- The maximum amount of credit facilities to be guaranteed shall not exceed 80% of the loan from the credit institution or Bds\$2.0 million, whichever is lower.

- Guarantees may be provided for working capital facilities up to a maximum maturity of three (3) years.
- Guarantees for medium-term facilities may be provided up to a maximum of ten (10) years.
- Credit facilities which may be guaranteed include demand loans, term loans, overdraft, discounts, letters-of-credit, acceptances, payment guarantees, tender bids and contract bonds.

### **Export Finance Guarantee Scheme**

The Export Finance Guarantee Scheme is designed to remove the laborious systems involved in accessing financing for exporters fulfilling the production of goods for export. The Scheme covers both pre and post-shipment costs and evidence of a firm contract or agreement of sale with a foreign buyer is required. This Scheme is offered by the Central Bank of Barbados.

### **Export Rediscount Facility**

The Central Bank has sponsored this facility to assist in the promotion of non-traditional exports from Barbados. The Facility will allow exporters to obtain export finance at minimum cost. All commercial banks operating in Barbados which maintain a reserve account with the Central Bank of Barbados are eligible to participate. All exporters who possess bills receivable for the exportation of non-traditional goods, wholly or partially manufactured in Barbados, are eligible to participate in the Facility. The Central Bank reserves the right to impose discount limits for individual exporters. Only bills with credit periods not in excess of 180 days will be considered for rediscount. Advances against sight bills will be considered upon request.

### **Barbados Investment Fund**

The Barbados Investment Fund (BIF) is a close-ended equity fund administered by the Caribbean Financial Services Corporation (CFSC). The Fund provides equity financing for small and medium sized businesses operating in Barbados and engaged in manufacturing, agro-industry, tourism and several services sub-sectors. The BIF will provide funds for capital costs as well as working capital. Requests for financing through the BIF should be directed to the CFSC.

### **Enterprise Growth Fund Ltd. Range of Funds**

The Enterprise Growth Fund Ltd. (EGFL) provides Barbadian companies in the productive sector with loan financing, venture capital, and technical assistance through a range of funds, including

- Loans & Equity for Small and Medium Sized Businesses
- Small Hotels Investment Fund (SHIF)

- Tourism Loan fund (TLF)
- Agricultural Development Fund (ADF)
- Industrial Investment and Employment Fund (IIEF)
- Innovation Fund (IF)

Most recently EGFL has added the Export Promotion and Marketing Fund, offering grant financing to all export sectors. The Fund offers financing for: the set-up of pioneering/pilot projects aimed at export; training courses, symposia, seminars and workshops on all aspects of export promotion; export market research; advertising and publicity campaigns in foreign markets through the media, catalogues, brochures, etc; product design and consultancy; participation in trade missions, buyer-oriented activities, overseas trade fairs, exhibitions and promotions; the cost of collecting trade information; joint ventures for the development of Barbadian goods and services in foreign markets and any other activities which support the export of Barbadian goods and services.

Applicants for grant financing are required to submit a comprehensive project proposal including details of the project's contribution to the development of new or expanded export markets and their long-term sustainability; potential foreign exchange earnings; employment creation and project costs. The maximum funding per application has been set at Bds\$1 million. Qualifying private companies are required to contribute 20% of the total cost of the project to be financed. That contribution may, in exceptional cases, be waived by the fund's management committee.

### **Tourism and Manufacturing Guarantee Facility (formerly Small Business Guarantee Scheme)**

Effective February 2009, the Central Bank announced a widening of the range of entities eligible for credit guarantees under the Small Business Guarantee Scheme to include medium sized companies in the tourism and manufacturing sectors. Companies with capital of Bds\$2 million (formerly 1 million) and companies with gross revenue of Bds\$4 million (formerly (Bds\$2 million) are now eligible to access the facility. The Central Bank is prepared to guarantee facilities of up to Bds\$150 000 for short-term and Bds\$300 000 for medium-term use. This does not however apply to past-due debts.

Businesses which make use of the facilities provided under this Scheme could derive substantial benefits, including:

- Adequate security for loans
- Increased working capital
- Expansion of fixed assets, machinery and equipment
- Increased cash flow
- Increased sales and profits
- Lower rates of interest
- Expansion and diversification of operations
- Opportunity to employ more people and new skills
- New technology
- New products

In addition, the Central Bank will guarantee technical assistance loans up to a limit of BDS\$50,000 for any one borrower (i.e. within the overall cost of BDS\$300,000 for medium term facilities), where such facilities are for the purpose of market or product research, marketing, product costing, promotion, production/plant layout, accounting and/or information systems, staff training, management/entrepreneurial training, business reorganisation/restructuring or any other relevant areas of technical assistance.

A technical assistance grant may be made available to persons who qualify. The criteria for this grant are as follows: -

- Grants may be given up to \$5,000 and should not exceed 50% of the cost of the business plan, etc.
- Consultant should have performed a number of previous consultancies.
- Consultant should have a degree in a relevant discipline.
- Invoice from consultant should be submitted to the Central Bank of Barbados to verify the cost.
- The grant will normally only be considered in connection with a loan under a Small Business Guarantee or an Industrial Credit Fund loan.
- In exceptional cases a grant may be considered apart from a credit guarantee or ICF loan.

### **Industrial Credit Fund Technical Assistance Grant**

The Central Bank in February 2009 introduced a Technical Assistance Grant to be administered under the Industrial Credit Fund (ICF).

- Grants can be given up to \$5,000 and not exceeding 50% of the cost of the business plan, market research etc.
- Consultant should have performed a number of previous consultancies.
- Consultant should have a degree in a relevant discipline.
- Invoice from consultant should be submitted to the Central Bank to verify the cost.
- The grant will normally only be considered in connection with a loan under a Small Business Guarantee or an Industrial Credit Fund loan.
- In exceptional cases, a grant may be considered apart from a credit guarantee or ICF loan.

The objective of the ICF is to contribute to the development of Barbados by stimulating growth of output, employment and foreign exchange earnings of the Barbados economy. To this end, the ICF also provides medium and long-term credit to productive enterprises operating mainly in the private sector.

ICF resources are channeled to beneficiaries through qualified financial intermediaries. These intermediaries are commercial banks and other financial institutions operating in Barbados. Potential beneficiaries must first approach a financial intermediary with a

project proposal. The intermediary will in turn submit the proposal to the Industrial Credit Fund.

In addition to the technical assistance grant, the ICF's resources can be used to finance:

- a) Fixed assets (excluding real estate purchases)
- b) Working capital (primarily raw material purchases)

### **Environmental Policy Initiatives**

Manufacturing firms are entitled to a 150% tax rebate on attainment of recognized environmental certification such as ISO 14000, the Green Globe Programme or the Leadership in Environmental and Energy Design (LEED) certification.

## **Financial and Other Benefits as Proposed in the Economic and Financial Statement 2008**

1. The preparation of adequate plans for the sustainable redevelopment of the indigenous pottery industry through improving design, technology, quality, marketing and sales and distribution, and through creating incentives for local pottery to be used in local establishments.
2. The development of a viable, high fashion, high quality textile and garment industry based on sea-island cotton, with world class design and world class manufacturing quality, through joint venture and franchise arrangements. It is expected that some growth in the manufacturing sector will be driven by the initiatives to be taken with respect to the manufacture of sea-island cotton garments and products.
3. The creation of incentives for hotels and restaurants and shops and real estate developments that use or sell more locally manufactured goods, in particular furniture.
4. Government is also looking to put in place adequate arrangements at the appropriate time to increase the export promotion effort for locally produced goods.
5. The establishment of the Barbados Quick Response Revolving Seed Capital Fund (SCF). The SCF will be used for creating innovative ideas from a “blank sheet”; strategic visioning retreats; massaging ideas into more sturdy concepts; assisting the entrepreneur with a potentially high performance idea, to survive as the idea is developed; providing funds to address operational emergencies; product development; market research; business plan development; and sourcing investment capital. It is proposed that this fund will be a government financed but private sector managed fund with adequate public accounting by the private sector to Government for the management of the fund. It is proposed that the contribution by Government should be \$500,000.00 per year for three years.
6. The establishment of the Barbados Quick Response Venture Capital Fund (VCF). The Venture Capital Fund will be used to make the initial investment in the implementation of the business plan and will provide a stimulus to attract other equity investment. It is proposed that the venture capital fund will be funded by equity investment from individual investors, trade unions, commercial banks, private sector companies, the Barbados Diaspora and the government. The fund will provide an investment stimulus by contributing, say, 20% of the equity needs of the business. This initial investment will attract other investment partners to

complete the capitalization of each business. Government will provide incentives such as attractive tax credits to encourage private sector investors to participate. Equity agreements will be developed which will include a profitable exit strategy for investors. The benefits to investors will be an appealing return on investment and the benefits to the country as whole will be enterprise development and economic growth. It is proposed that the VCF fund will be managed by a committee, which would include representatives from the private sector and the government. These funds are designed to meet the needs of clients that have potentially profitable and sustainable high-growth business ideas but find it difficult, on a timely basis, to access all the seed and venture capital finance required to meet their needs, from traditional Venture Capital or other Private Equity financial institutions in Barbados.

7. Government will provide \$1.0 million to facilitate the cotton industry in pursuing investment opportunities as well as for payment of seed cotton. It is being proposed that funding be provided in support of the preparation of a feasibility study and the commercialization of cassava production with \$400, 000.00 being provided for this purpose.
8. The creation of a separate allowance called the Energy Conservation and Renewable Energy Deduction. This will allow deductions of a maximum of \$5,000.00 per year over each of five (5) years to cover the costs of an energy audit and fifty per cent of the cost of retrofitting a residence or installing a system to produce electricity from a source other than fossil fuels. This applies also to businesses whether incorporated or unincorporated.
9. For those manufacturers who export their goods they will qualify for a rebate of the environmental levy on the exports.

**Research, Planning & Information Division**  
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