



Pannell Kerr Forster

Tax News

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SYNOPSIS ST. VINCENT & THE GRENADINES 2003 BUDGET ADDRESS

INTRODUCTION

Last evening, in an approximately four hour address, Prime Minister, the Honourable Dr. Ralph Gonsalves, delivered to the House of Parliament his 'people-oriented budget' which was compiled after consultation with the wider society.

Continuing the focus of his 2002 budget presentation, Dr. Gonsalves underscored the pivotal role of education in providing the impetus for national development and poverty alleviation.

The Prime Minister also highlighted a number of programmes and initiatives aimed at stimulating and bolstering the vital productive sectors of tourism and agriculture.

EDUCATION

Education, Youth and Sports have been allocated 17% of the 2003 budget.

The Prime Minister has indicated that his Government's education strategy is geared towards the development of basic skills, entrepreneurship, citizenship, critical thinking, talent and social responsibility.

During 2003, Government's initiatives will focus on:-

- Increasing the number of schools which are now a part of the computerisation of schools programme through the injection of a further \$4.5 million in this programme in 2003;
- The construction of four (4) learning resource centres, equipped with computer facilities at a cost of \$2.2 million. These will complement the two (2) existing learning resource centres;
- The launching of the National Institute of Technology;
- Expansion and improvement in the physical infrastructure of primary and secondary schools, including the allocation of \$2.1 million for the construction of additional schools;

EDUCATION (CONT'D)

- The allocation of \$1.5 million for each of the next three years for the provision of an additional five hundred (500) secondary places in each year;
- Increasing the physical capacity of both the St. Vincent Technical College and Community College;
- The refurbishing of five (5) multipurpose centres in 2003;
- The construction of a state-of-the-art learning resource centre at the Community College at a cost of \$6 million;
- On the technical development of teachers at the Community and Technical Colleges;
- Increasing accessibility of student loan funds to students wishing to attend tertiary institutions
- Increasing the limit on student loans from \$80,000 to \$120,000;
- The award of thirty (30) undergraduate scholarships in 2002 financed through funds obtained from the European Union;
- Provisioning financial assistance to 183 students attending university.

SOCIAL DEVELOPMENT AND POVERTY ALLEVIATION

Dr. Gonsalves asserted that one of the focal points of his Government is to launch a campaign against poverty and attendant ills of illiteracy, inadequate housing and disease. To this end:-

- Two (2) day care centres for the elderly have been earmarked for Black Point and Cane Grove;
- Four hundred thousand dollars have been allocated for the commencement of a \$2.7 million project for improving the Lewis Punnett Home.

Strategies formulated for poverty reduction include:-

- Establishment of the National Economic and Social Development Council;
- Implementation of pilot study programmes dubbed Children Against Poverty (CAP);

- Turning dead capital into live capital through providing title to long standing occupants of lands;
- Injecting a further \$2 million into social welfare;
- Continuance of the Youth Empowerment Service (YES) programme; and
- Increasing, by 280, the number of beneficiaries of the non-contributory pension programme.

AGRICULTURE

The Prime Minister indicated that despite the decline in its contribution to GDP, the agricultural sector remains the most important productive sector in St. Vincent and the Grenadines. During 2001, there was a 7.2% decline in this sector; its contribution to GDP fell to 11.2% compared to 12.5% in 2000. For the 2003 fiscal year, Government has allotted \$26.9 million to the Ministry of Agriculture, Lands and Fisheries.

Government's new diversification thrust will be concentrated on banana production and will focus on the optimal and sustainable use of the country's arable land, forestry and marine resources. Over the medium and short term, these will include:-

- Building a quality agricultural labour force;
- Providing financing for initiatives in the public and private sectors;
- Institutional and infrastructural development and strengthening;
- Incentives for farmers and other private sector entities;
- Development of informational support systems;
- Implementation of the arrowroot rehabilitation programme;
- Enhancement of pest and disease control measures; and
- Penetration of new markets.

Bananas

During 2001, a number of restructuring initiatives were undertaken, by Central Government including the assumption of \$18.4 million of the Association's debt and the acquisition of input trading operations and growers' receivables.

Bananas (Cont'd)

Priority will be accorded to the improvement of banana quality through the observation of good agricultural practices as required in the European Good Agriculture Practices (EUREGAP) Certification programme.

In pursuing this programme, in 2003, Government, in conjunction with the European Union, will provide \$2.1 million to aid in the continuation of the National Irrigation Programme. This will be complemented by a water resource study, which is to be financed by the European Union, to determine the availability of water for future irrigation programmes.

Arrowroot

The Government has implemented a strategic five year action plan for the arrowroot industry having at an estimated cost of \$15.7 million of which \$2.4 million will be spent in 2003. Elements of this plan are:-

- The refurbishment of the factory at Owia;
- The relocation of the pulverising plant to Orange Hill; and
- Increasing the acreage under cultivation from 150 to 1,500 acres over five years.

Other

Other initiatives include:-

- The establishment in the first quarter of a packing plant for root crops;
- The construction of a modern cassava factory at Orange Hill;
- The setting-up of a coconut water bottling plant using the FAO's patented technology;
- The allocation of \$260,000 for the construction of a modern chicken hatchery and breeding farm; and
- Upgrading, at an estimated cost of \$13.6 million, the New Kingstown Fish Market and fishing facilities at Bequia and Union Island to European Union standards.

TOURISM

In 2001 this sector was adversely affected by the events of September 11 and recorded a 0.8% decline in visitor arrivals.

The Prime Minister emphasised that tourism offers the greatest opportunity for income diversification and job creation.

The main features of Government's Tourism Strategic Development Plan include:-

- Increased public awareness through tourism campaigns;
- Intensified regional promotional activities which will be funded by the increase in the budget allocation to the Tourism Promotion Programme from \$3.2 million in 2002 to \$4.9 million in 2003;
- Improving the market intelligence capacity of the Ministry of Tourism and Culture;
- The utilisation of the tourist police and regular constabulary in improving the security of visitors;
- Enactment of legislation relating to industry standards; and
- Development and enhancement of popular recreational sites.

Other developments in the sector were also highlighted. These include:-

- The promotion of St. Vincent and the Grenadines as a tourism destination on network television in the U.S.A.;
- The selection by Disney Studios of this country as the location to film a major motion picture, contributing an anticipated US\$6 million to the economy;
- The successful promotion of St. Vincent and the Grenadines as a venue for regional and international conferences and meetings;
- The re-opening of the tourism office in Toronto;
- The allocation of \$1.5 million in the 2003 budget to the implementation of an all-island sustainable master land use plan in Canouan;
- The opening of "The Moorings" yacht charter base in Canouan;
- Undertaking training workshops to enhance the human resource capacity in the tourism sector;

TOURISM (CONT'D)

- The exploration of new investment opportunities for hotel construction at Mt. Wynne-Peter's Hope and Union Island.

MANUFACTURING AND INDUSTRY

In 2001, this sector contributed 6.1% to GDP compared to 5.8% in 2000. The Prime Minister highlighted his Government's intention to reverse the downward trend evident in this industry over the past 10 years. Government's initiatives will include:-

- The re-introduction of a product development and processing facility on the premises of the old Agrolab; and
- The establishment of two (2) modern business parks covering a total space of 85,000 square feet at Diamond and Campden Park.

The Government is on the verge of concluding a contractual agreement with an overseas private sector entity in an effort to ensure the financial viability of the Call Centre.

FINANCIAL SECTOR

Dr. Gonsalves indicated that a sound financial system, together with effective and responsive supervisory agencies, is the prerequisites to sustainable economic growth. Also, he highlighted the pivotal role that the development of the regional money and capital markets will play in the efficient deployment of financial resources in the development of our productive sectors and the lowering of the cost of funds, even to regional Governments. To this end, Government is committed to the establishment of regulatory agencies to supervise the activities of:-

- Insurance companies;
- Building and loan associations;
- Money transfer agency services; and
- Non-bank financial institutions.

Dr. Gonsalves informed that the National Commercial Bank (SVG) Limited has been subject to a corporate reorganisation plan as a precursor to an amalgamation of the sub-region's indigenous

banks in an effort to enhance their competitiveness and improve their operational efficiency. Also, the National Commercial Bank (SVG) Limited will be subject to certain institutional strengthening programmes.

INTERNATIONAL FINANCIAL SERVICES SECTOR

The Prime Minister indicated that his Government's efforts at removing St. Vincent and the Grenadines from the list of Non-Cooperative Countries or Territories (NCCT) are bearing fruit. In this regard, his Government has embarked on a number of programmes including:-

- Removing the marketing functions of the international financial services sector from the Offshore Authority;
- Mandating that all banks maintain a physical presence in St. Vincent and the Grenadines;
- Strengthening the regulatory and supervisory capacity of the Offshore Authority;
- Mandating that existing banks comply with anti-money laundering regulations;
- Performance of site inspections by the supervisory arm of the Offshore Authority; and
- The establishment of the Financial Intelligence Unit.

NATIONAL INSURANCE SCHEME

Effective January 1, 2003, the following summarises the maximum insurable earnings, together with their related maximum contributions:-

	Insurable Earnings \$	Contributions Employee \$	Employer \$
Weekly	870	21.75	30.45
Monthly	3,770	94.25	131.95

During 2003, construction will commence on the National Insurance Headquarters Building.

YOUTH, SPORTS & CULTURE

The Prime Minister stressed the need for institutional reform and capacity building within the Youth Department and indicated that construction of the National Stadium will be completed by July 2003.

TRANSPORT AND COMMUNICATIONS

Telecommunications

Licenses have been granted to three operators in the telecommunications industry as part of the phased liberalisation of that sector.

Government intends to establish a management information system to link Government departments through an intranet system.

Air Transport

Dr. Gonsalves informed that current air transport constraints continue put St. Vincent and the Grenadines in a somewhat less favourable position relative to all our Caribbean neighbours and acts as a hindrance to the development in St. Vincent and the Grenadines.

To ensure reliable air transportation service into St. Vincent and the Grenadines, Government has:-

- Increased its investment in the regional airline, LIAT;
- Established a hub in St. Lucia;
- Sourced funds to undertake extensive rehabilitation at the E. T. Joshua airport;
- Commenced discussions, which are at an advanced stage, for setting up a hub arrangement in Barbados;
- Earmarked funds, in the estimates, for the rehabilitation of Union Island airport;
- Commenced plans for the extension and development of the Canouan airport; and
- Committed 10.1% of \$11 million of a financing package for LIAT.

HOUSING

The Prime Minister indicated his Government's commitment to the low-income housing programme.

The initial phase of the programme, which involves the construction of 200 low-income houses, is estimated to cost EC\$10 million and will be launched at:-

- Diamond
- Green Hill
- Peters' Hope
- Troumaca
- Petit Bordel
- Orange Hill
- Owia
- Fancy

Also, in an effort to stimulate home construction, certain fiscal incentives have been extended to residential property developers.

HEALTH

The 2003 budget allocation of \$41.7 million to the Ministry of Health and the Environment represents 9% of the total budgeted expenditure. From this allocation, a total of \$14.6 million has been earmarked for recurrent spending at the Milton Cato Memorial Hospital.

The following developments have taken place in the sector:-

- The commencement of construction of health clinics at Biabou and Greggs;
- The addition of a medical consultant, pathologist, radiologist, urologist and senior registrar to the medical staff of the Milton Cato Memorial Hospital

Provisions have also been made for the creation of 21 new student nurse positions at the School of Nursing.

Allocations of \$250,000 and \$800,00 have been made to recurrent spending and capital expenditure respectively in the fight against HIV/AIDS.

CENTRAL WATER AND SEWERAGE AUTHORITY: WATER AND SOLID WASTE

Dr. Gonsalves highlighted major projects to be undertaken by the Central Water and Sewerage Authority in the upcoming year in order to improve the quality of services and meet consumers' demands.

The projects include:-

- The Windward Water project, on which construction will commence during the first half of the upcoming year;
- Studies for the finalisation of designs for the Grenadines Water Supplies project; and
- Completion of the Park Hill Water project; and
- The Meter Replacement programme.

The Prime Minister also stated that the preparatory work on the Belle Isle Hill landfill has commenced and construction work is expected to commence in January 2003.

ENERGY

The Prime Minister informed that the Mayreau Electrification project is expected to be completed early January at a cost just under \$4 million.

To improve reliable electricity supply and the quality of public lighting, St. Vincent Electricity Services Limited has already committed \$7 million to purchasing two new generators of 1.5 mw and 3.5 mw each.

During 2003, the company expects to commence development of the Lowmans' Bay power plant project, which together with its transmission lines, is estimated to cost of \$54 million. This facility is expected to become fully operational in 2004. VINLEC's capital budget for the next five years is estimated at \$112 million.

As a result of the Caracas Energy agreement between St. Vincent and the Grenadines and the Bolivarian Republic of Venezuela, consumers are expected to save \$0.02/unit on their fuel surcharge.

DISASTER MITIGATION AND MANAGEMENT

The Prime Minister stated that while preparedness and responsiveness will continue to be emphasized, greater focus will be placed on mitigation and risk reduction. The Government is in the process of implementing the Emergency Recovery and Disaster Management Project. In the fiscal year 2003, \$4.5 million has been allocated to be spent on the St. Vincent and the Grenadines Recovery and Mitigation Project.

RESOURCE REQUIREMENTS

The total budget of \$459.9 million comprises recurrent expenditure, excluding loan amortisation, of \$293.11 million, capital expenditure, \$136.38 million and loan amortisation of \$30.38 million, an increase of \$40.01 million or 9.5% more than the previous year's budget.

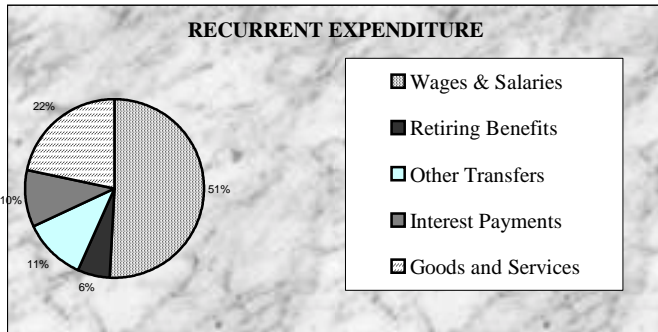
The recurrent revenue, and capital grants and other receipts are estimated at \$323.63 (2002: \$310.08) million and \$136.24 (2002: \$108.58) million respectively. The overall deficit is estimated at \$82.64 million, which is to be financed through external loans of \$38.90 million and domestic borrowings of \$26.21 million and development bond issue of \$17.53 million.

The budget figures for 2003 presented with comparatives for the previous four years are as follows:-

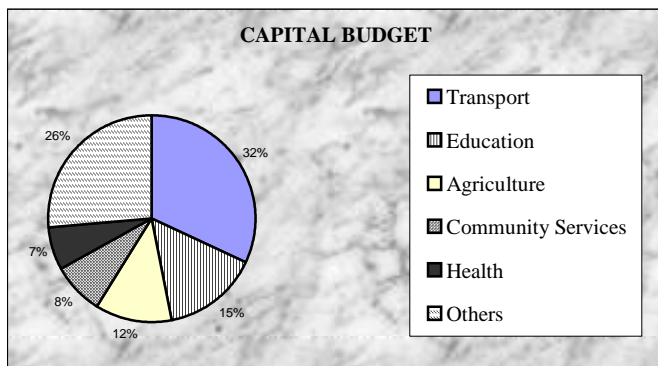
	2003	2002	2001	2000	1999
Current Revenue	323.63	310.08	305.61	289.58	269.23
Current Expenditure	323.49	309.74	305.23	286.31	264.74
Current Account Balance	0.14	0.34	0.38	3.27	4.49
Capital Grant	34.79	29.54	50.60	48.60	57.14
Other Capital Receipts	18.81	12.35	22.20	31.29	26.68
Funds available for PSIP	53.74	42.23	73.18	83.16	88.31
Less: Capital Expenditure	136.38	109.81	132.48	137.83	135.63
Overall Deficit	(82.64)	(67.58)	(59.30)	(54.67)	(47.32)
Financed by:-					
External Loans	38.90	29.81	43.50	37.47	27.25
Local Loans	26.21	14.61	15.80	17.20	20.07
Development Bonds	17.53	23.16	0	0	0
	82.64	67.58	59.30	54.67	47.32

RESOURCE REQUIREMENTS (CONT'D)

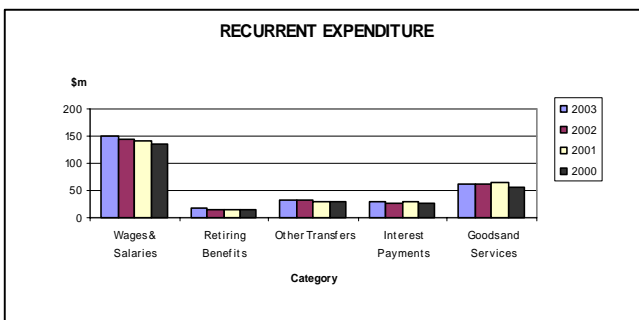
The recurrent expenditure is proportioned between the various expense categories as follows:-



The Capital expenditure is proportioned between the various sectors as follows:-



The recurrent expenditure for 2003 with comparatives from the previous three years is as follows:-



FISCAL MEASURES

During 2003, the Government will continue its initiative to: broaden the tax base, reduce its dependence on revenue from international trade and improving the effectiveness of the various revenue collection agencies. Among the various initiatives

are the establishment of a Tax Policy Unit within the Ministry of Finance and Planning, the streamlining of the SIGTAX computerised system and strengthening of the audit division within the Inland Revenue Department.

The following summarises the new fiscal measures effective for the year commencing January 1, 2003:-

- Company tax on income accruing from hotels will be reduced to 30%;
- Income derived by a housing developer from the sale or rental of houses valued up to \$300,000 will be exempt from income;
- The standard deduction available to an individual will be increased to \$13,000;
- The cruise ship service charge will be reduced to harmonise with other regional jurisdictions;
- The environmental levy will be reduced to \$4 per head;
- Vehicles imported for the transport of goods will be subject to \$3,000 surcharge;
- A consumption tax will replace the excise tax on local and CARICOM produced brandy, vodka, whisky and gin;
- The excise duty on rum will be increased by \$0.25 per liquid gallon;
- The planning and application fees, warehouse rent and containers on private premises inspection fees will be increased.

PUBLIC DEBTS

The Prime Minister indicated that estimates provided by the Ministry of Finance and Planning show that as at September 30, 2002, the public debt amounted to \$718 million, which is 75% of GDP.

The Ottley Hall debt of \$156.3 million accounts for 21.7% of the overall public debt and 34.8% of the external debt.

The Government, in October of this year, received a proposal from the Italian State Agency SACE for a complete restructuring of this loan at highly concessionary interest rates. This proposal now has to go to the SACE's Board of Directors for final approval.

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