

## TECHNICAL COOPERATION (TC) ABSTRACT

### I. BASIC PROJECT DATA

<b>Country/Region:</b>	Belize
<b>TC Name:</b>	Support for trade and tax policy reform
<b>TC Number:</b>	BL-T1059
<b>Team members:</b>	Fernando Velayos (IFD/FMM), team leader; Mario Umaña (INT/TIU), alternate team leader; Alberto Barreix (IFD/FMM); Dougal Martin (CID/CNI); Agnes Rojas (IFD/FMM); Venetia Eck-Salazar (CID/CBL); and Marina Massini (IFD/FMM).
<b>Type of operation:</b>	Client support
<b>Reference to Request:</b>	<a href="#">IDBDOCS-#38573893</a>
<b>Date of TC Abstract:</b>	June 5, 2014
<b>Beneficiary:</b>	Ministry of Finance of Belize (MOF)
<b>Executing Agency:</b>	Inter-American Development Bank (IDB)
<b>IDB Funding Requested:</b>	US\$405,000
<b>Local counterpart funding:</b>	US\$0
<b>Total:</b>	US\$405,000
<b>Disbursement period:</b>	24 months
<b>Required start date:</b>	July, 2014
<b>Type of consultants:</b>	Individual
<b>Prepared by Unit:</b>	IFD/FMM
<b>UDR:</b>	IFD/FMM
<b>Included in Country Strategy:</b>	Yes
<b>TC included in CPD:</b>	Yes
<b>GCI-9 Sector Priority:</b>	Competitive Regional and Global Integration, Institutions for growth and social welfare

### II. OBJECTIVE AND JUSTIFICATION

- 2.1 Belize has had one of the most revenue-effective systems in the Central America and Caribbean Region in the last decade. However, revenues have remained flat at around 22% of GDP, in a context where public debt amounted to 75% of GDP in 2012. Belize's tax system generates revenue in a manner that damages incentives, inequitable and complex<sup>1</sup>.
- 2.2 Belize's indirect tax collection comes from three main taxes: trade-related taxes with 22% of total tax collection, General Sales Tax-GST (27%), and excises (3.5%). Besides the efficiency problem, the existence of various trade-related taxes adds administrative complexity, and some may go against World Trade Organization (WTO) non-discrimination principles. Revenue coming from GST is eroded by numerous exemptions and a zero-rate on many products, which generates differentiated effective rates across sectors. In addition, the tourism

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<sup>1</sup> These adverse outcomes stem from five main problems: (i) too many different taxes; (ii) over-reliance on sub-optimal forms of taxation; (iii) relatively high nominal rates, counterbalanced by numerous exemptions; (iv) special tax regimes; and (v) fragmentation of tax administration. Additionally, these taxation issues are closely linked to trade policy, where there are significant tax and non-tax impediments to trade.

- sector is exempted from the GST, but is subject to the Hotel and Tourism Accommodation Tax (HTAC), adding more complexity to the system.
- 2.3 In terms of direct taxation, Belize charges a Business Tax (BT) in lieu of a “true” corporate income tax. It is a distortive element of the tax system because it does not tax net income, and of the existence of numerous rates (0.75% to 25%).
  - 2.4 Belize’s tax expenditures also manifest through fiscal and export incentives. The current incentives policy is based on three legal instruments: Fiscal Incentives Law, Export Processing Zone (EPZ) and Commercial Free Zone (CFZ). This is complex, fiscally costly and non-compliant with WTO obligations (Dec 2015).
  - 2.5 Regarding tax administration, it is organized by type of tax instead of functions. Four agencies are in charge of tax collection (not counting Social Security). Lack of coordination and duplication of functions characterize this system.
  - 2.6 This project will: (i) provide support for studies and proposals to address the problems in the above mentioned areas; (ii) reinforce the technical expertise and know-how of the MOF public servants regarding tax and trade reforms; (iii) create a model/tool that assesses present and future tax and trade reforms (different scenarios); and (iv) support the Government in facilitating the dialogue with the different stakeholders of the potential tax and trade reforms.
  - 2.7 This TC is aligned with the Bank’s Trade and Tax Policy strategy and the Country Strategy with Belize 2013-2017, and with the sectorial priorities defined in GCI-9 (AB-2764), specifically related with competitive regional and global integration, and institutional strengthening for fiscal efficiency and sustainability.

### III. DESCRIPTION OF ACTIVITIES AND OUTPUTS

- 3.1 **Component I. Institutional Strengthening for Belize Tax Administration.** It will support the development of a proposal to consolidate some of the revenue collection agencies, building on previous works on the subject. It will include the possible elimination of the tax collection function of the Belize Tourism Board. In addition, will be designed a model/tool for tax and trade reforms assessment that will permit the assessment of different tax and trade reforms scenarios. The personnel of the MOF will be trained on how to use this tool.
- 3.2 **Component II. Analysis of the economic consequences of tax reforms for Belize.** It includes the preparation of the following studies: (i) Indirect taxation reform. This study will analyze the consequences of a reduction (streamlining) of trade related taxes (import duties, RRD and ET) and excise taxes, a simultaneous maximization of the GST tax base, and the repeal of the HTAC. The analysis will include the revenue, price and equity analysis; (ii) Income tax reform. The study will analyze the potential of a gradual phase-in of a conventional corporate income tax, to replace the current BT, focusing on the economic consequences of such reform: revenue implications and effective tax burden before and after the

change in different sectors of the economy; and (iii) Tax incentives policy to boost investment. This study will propose an incentive framework that adheres to international practices that it is WTO compliant.

- 3.3 **Component III. Dissemination, discussion and validation of the reform proposals.** It aims at supporting the Belizean Government in the engaging a discussion around the proposals for reform with key stakeholders.

#### IV. BUDGET

Activity	Description	IDB Funds	Counterpart	Total
Component I.	Consultancy/travel	100,000	0	100,000
Component II.	Consultancy/travel	240,000	0	240,000
Component III.	Consultancy/travel	30,000	0	30,000
Supervision and monitoring		35,000	0	35,000
<b>Total</b>		<b>405,000</b>	<b>0</b>	<b>405,000</b>

#### V. EXECUTING AGENCY AND EXECUTION STRUCTURE

- 5.1 The MOF has requested, the Bank to be the executing agency of this TC. This is based on the Bank's ability to identify highly qualified consultants, on its experience as an execution agency and as compliance with internal requirements might delay the execution of the TC. Moreover, contracting by the Bank would enhance independence, which is crucial for the potential reform success.
- 5.2 The MOF will be the beneficiary. It will participate in the preparation and approval of the Terms of Reference (TOR) and products to be delivered. The Bank, as executing agency, will be in charge of the acquisition of goods and services, and the hiring of the consultants in compliance with the Bank's policies (documents GN-2349-9 and GN-2350-9).
- 5.3 The Fiscal and Municipal Management Division (IFD/FMM) will be in charge of the execution and supervision, in coordination with the Bank's Integration and Trade Unit (INT/TIU) and the Country Office in Belize (CID/CBL).

#### VI. PROJECT RISKS AND ISSUES

- 6.1 A) If quality data wouldn't be available, the work could not be carried out.
- 6.2 B) The Government may face resistance from tax administrations' staff in case one or some have to be consolidated.

#### VII. ENVIRONMENTAL AND SOCIAL CLASSIFICATION

- 7.1 This TC is not expected to cause significant social or environmental impacts. Therefore, a C classification is proposed.