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Sociaal Economische Raad
Social Economic Council

LETTER OF ADVICE

RECEIVED:
DATE: 10/17 hon
SIGN: [signature]

The Honorable Minister of General Affairs/ Prime Minister, Ms. Silveria Jacobs
Government Administration Building
Soualiga Road no. 1
Philipsburg
St. Maarten

October 17th, 2022

Our reference: SER/2022/CB/08

Re: Letter of advice requesting the SER to research the Social and Economic impact of remittances and the taxation thereof.

Honorable Prime Minister Jacobs,

In reply to your request, which was received by the Social Economic Council (hereinafter: SER) on May 6th, 2022, concerning the solicited advice request reference DIV no. 12600 from your office. The advice request originated in Parliament from the Honorable Member of Parliament (hereinafter: MP) formerly of the National Alliance faction, Ms. Solange L. Duncan[1] (hereinafter: MP. Duncan). The solicited advice requested the SER to research the social and economic impact of the influx and outflux of monies through Money Transfer Companies (hereinafter: MTC's) on St. Maarten and the possible taxation thereof. The SER informs you as follows. The SER kindly requests the Ministry of General Affairs to provide MP. S. Duncan with a copy of the advice.

The advice was compiled including the following requested points:

1. The economic and social impact of monies leaving St. Maarten via MTC's such as Western Union, Money Gram, and any other similar organizations.
2. The impact of monies coming into the country via MTC's such as Western Union, Money Gram, and any other similar organizations and ways in which to increase such whilst taking the country's diaspora into account; and
3. The potential impact of taxation of the aforementioned financial transactions.

The research conducted by the SER includes an analysis of the socio, economic and legal aspects of influx and outflux of monies through MTC's and the possible taxation thereof. The SER's findings were discussed in the board meetings of Thursday, August 11th, 25th, September 15th, September 29th, 2022. On behalf of the Honorable MP, Ms. Duncan, the Government, in its request[2], supplied the following reasons substantiating the need for a study to be conducted on the social and economic impact of the influx and outflux of monies through MTC's on St. Maarten:

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[1] MP Duncan resigned from the National Alliance party on June 29th, 2022, and declared herself an Independent Member of Parliament.

[2] Solicited advice request "The impact of the influx and outflux of monies through Money Transfer Agencies (MTC's)" received from the Prime Minister on May 6th, 2022, DIV 12600.

Background:

In 2020, like most parts of the world, St. Maarten was negatively affected by the COVID-19 pandemic. A pandemic that led to many governments implementing far-reaching restrictive measures causing significant economic regression, whilst the expenditures increased. The economic impact of COVID-19 on St. Maarten negatively affected the already strained financial budget of St. Maarten.

Despite St. Maarten's budgetary constraints, the acquisition of liquidity support from the Netherlands, resulted in the successful implementation of the St. Maarten Stimulus and Relief Plan (hereinafter: SSRP).[3] These programs were executed to support businesses and unemployed persons that were affected by the COVID-19 pandemic, during the pandemic.[4] In the first 3 months of its operations, the SSRP managed to disburse a total of ANG 258.3 million[5] in financial support of which ANG 72.68 million was disbursed under the Payroll Support Program through the Social & Health Insurance (hereinafter: SZV) and ANG 7.6 million was disbursed under the Income Support Program and the Unemployment Support Program through the St. Maarten Development Fund (hereinafter: SMDF).[6] The SER[7] derived from documentation provided by MP Duncan from the Central Bank of Curacao and St. Maarten (hereinafter: CBCS), that the impression exists within government that during the pandemic, financial aid provided to the population through the government programs were remitted to families abroad. However, the SER understands that the government intended for the financial aid to be spent locally to support St. Maarten's, at the time, regressing economy and to reduce foreign exchange outflow.[8]
The economic impact of COVID-19 therefore requires the government of St. Maarten to conduct research into new avenues in which the country can generate additional income. As such tax reforms may play a critical part in increasing revenues for the country's recovery and future development. Finally, as the SER was informed by MP Duncan, that the British Virgin Islands (hereinafter: BVI)[9] had successfully implemented a remittance tax of 7% in 2020[10][11] and in conjunction with the reality, that government's revenues need to be increased to achieve sustainable public finances[12], warranted a request to the SER to research the viability of the Implementation of a remittance tax.

The SER would like to emphasize the following concerns pertaining to the implementation of a remittance tax on St. Maarten:

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[3] The SSRP consisted of the Income Support Program, the Unemployment Support Program and the Payroll Support Program. The Income and Unemployment Support programs were managed by the SMDF. The Payroll Support program was managed by SZV. Source: SSRP Stimulus & Relief Plan: Emergency measures to mitigate the effects of COVID-19 of April 19th, 2020, condensed version.

[4] Presentation CFT, Sint Maarten's Road to Sustainable Public Finances, June 28th, 2022. P. 3-4.

[5] The SER retrieved this data from the website of the SSRP, https://www.ssrp.sx/.

[6] In 2020 and 2021 a total of ANG 16.9 million was disbursed through the SMDF. The data was received by e-mail from SMDF on September 20th, 2022. In 2020 and 2021 a total of ANG 96.62 million was disbursed through the SZV. The data was received by e-mail on September 21st, 2022, from the Ministry of Finance.

[7] A letter of response sent to MP Duncan, on the queries sent to the Ministry of Finance and the CBCS, Ref: 3628/2020-A, June 30th, 2020, p. 2.

[8] Ibid.

[9] BVI had introduced a 7% remittance tax in 20209 resulting in added funds of ANG 3.6 million within 1 year of implementation.

[10] Financing and Money Services Act, 2020(Amendment), No. 6, of the BVI introduced on April 20th, 2020.

[11] BVI News, "Over $2M collected from gov't money transfer tax so far", May 12, 2021.

[12] The government has not submitted a balanced budget since 2013 according to the most recently released Presentation on Sustainable Public Finances by the CFT, in which an increase in government 's revenue is advised.

Considerations:

1. Taking into consideration that the current net remittance outflow on average makes up 1.37-1.5% of the current Gross Domestic Product (hereinafter: GDP), suggesting that in comparison to the current GDP the net outflow is low;
2. Taking into consideration that the projected additional tax revenue with a contrived remittance tax of 2.5% represents an estimated ANG 1.2 million equal to 0.4% increase of St. Maarten tax revenues received in 2020. The calculation does not take any spillover effects into account.
3. Taking into consideration, that the SER[13] was informed that the average MTC customer stems from a low-income migrant community and should therefore be considered stemming from a vulnerable group of persons in the community;
4. Considering that the migrant community will be most negatively affected by the implementation of a remittance tax;
5. Considering that in 2021, 67% of St. Maarten's outflow of remittances was sent to Jamaica, Colombia, Dominican Republic, and the US;
6. Considering that by implementing a remittance tax, the cost of remitting funds abroad will increase which does not align with the Sustainable Development Goals (hereinafter: SDG's) of the United Nations (hereinafter: UN), to which St. Maarten has committed itself in achieving by 2030. Reference is made to SDG goal 10-C.[14]
7. Considering that the implementation of a remittance tax may result in an increase in the number of unregulated MTC's and the use of MTC's established in Saint Martin to avoid the additional cost;

Advice:

As such the SER has provided several advice points to improve the quality of life of the population of St. Maarten:

1. The SER recommends implementing taxes that focus on the ability-to-pay principle[15] rather than the implementation of a tax that focuses on the taxation of remittances sent abroad by migrants, which based on research, the SER has found, most often stems from lower income communities.[16] In addition, the remittances most often consist of financial aid[17] provided to vulnerable persons living in Small Island Developing States (hereinafter: SIDS).

[13] The SER has received confirmation from the MTC's that the average MTC user are migrant workers that stem from lower income occupations and communities, such as hospitality workers, construction workers and entertainment industry (such as exotic dancers). The e-mail was received on September 15th and 20th, 2022.

[14] SDG 10-c aims to reduce to less than 3% the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5%, by 2030. https://sdgs.un.org/goals/goal10.

[15] The ability to Pay Principal focuses is a basic principle of taxation based on which tax laws are analyzed. The ability to Pay The principle focuses on taxation based on a person's earnings and ability to contribute.

[16] The SER has received confirmation from the MTC's that the average MTC users are migrant workers that stem from lower income communities and fulfill occupations that fall within the lower end of the pay scale, such as hospitality workers, construction workers and entertainment industry (such as exotic dancers). The e-mail was received on September 15th and 20th, 2022.

[17] UN News, "Remittances matter: 8 facts you don't know about the money migrants send back home", published on 15 June 2019.

2. The SER advises refraining from implementing a remittance tax, as the SER is of the opinion that increasing governments revenues can be achieved through the execution of other actions and or the implementation of other forms of taxation, such as increasing tax compliance, the implementation of a casino tax[18], import tax and or sales tax[19]. The SER awaits the pending tax reforms to allow the SER to carry out its advisory role on this matter.[20]
3. The SER advises refraining from implementing a remittance tax, as the SER is of the opinion that implementing a remittance tax will not deter MTC users from remitting funds abroad as based on research, the SER has found that remittances consist of funds to cover basic expenses of families and are therefore considered a priority. As a result, the implementation of a remittance tax may not lead to a reduction in foreign exchange outflow.
4. The SER advises from refraining from implementing a remittance tax, as the SER is of the opinion that the economic impact from deterred remittance users is low as the total net remittances on average represents 1.5% of St. Maarten's GDP.
5. The SER advises from refraining from implementing a remittance tax, as the remittance tax would have to be high to significantly contribute to St. Maarten's tax revenues which contradicts international agreed upon standards such as SDG 10-c.
6. In the event the government intends to implement a remittance tax, the SER recommends conducting additional research to ascertain the side effects of a spillover to other means of remitting funds that can limit potential government's tax revenues by introducing a remittance tax.
7. In the event the government intends to implement a remittance tax, the SER notes that considering that the country's outstanding debt is projected to rise to ANG 1.5 billion by 2022, the implementation of a remittance tax would need to form part of a larger package of measurements that aim to increase government's revenues to allow for sustainable government finances.
8. In the event the government intends to implement a remittance tax, the SER recommends strengthening the regulatory tools the CBCS may have to avoid a surge in MTC's operating without a permit obtained through the CBCS, that will also allow for an increase in bank licensing fees, turnover tax, and profit tax once they are properly registered.

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[18] The IMF proposed a gambling tax on gambling winnings and to no longer exempt casinos from paying turnover tax on St. Maarten. Reference is made to the IMF Technical Assistance Report – Sustainable Tax Reform, No. 21/231, published in October 2021, p. 29.

[19] The Government of St. Maarten is exploring the implementation of a sales and or import tax on the purchases of goods. Reference is made to an article that was placed in the Daily Herald referencing the implementation of a 7.5% import tax. https://www.thedailyherald.sx/islands/7-5-tax-proposed-for-online-purchases-to-level-playing-field-stimulate-buying-local

[20] The SER is aware that additional research needs to be conducted to assess the proposed forms of taxation on their suitability, however due to the scope of this request, the SER aims to provide its views in a separate advice report on tax reform.

Sociaal Economische Raad

Social Economic Council

We trust to have informed you sufficiently herewith.

Should you require any additional information after reading the above, please feel free to contact us at your earliest convenience.

Respectfully,

Ir. Damien D.E. Richardson
Chairman

Gerard M.C. Richardson
Secretary-General

Cc: The Honorable MP, Ms. S.L. Duncan.

- The Honorable Minister of Finance, A. Irion.

- The Honorable Acting Minister of Tourism Economic Affairs, Traffic and Telecommunication, O. Ottley.

1. Remittance Flows on St. Maarten.

1.1. Defining Remittances

Based on research conducted by the SER, from an international perspective, remittances are referred to as "migrant remittances".[21] [22] [23] [24] Migrant remittances are defined as cash or goods that are sent to families abroad by a (undocumented) migrant and/or guest worker employed in foreign countries, such as St. Maarten. When discussing remittances, the SER has limited its research to migrant remittances as the literature presented by the International Monetary Fund (hereinafter: IMF), UN and World Bank on the social and economic effects of remittances most commonly refer to remittances as migrant remittances. Furthermore, based on data provided by the Department of Immigration and Border Patrol from the labor survey conducted in 2018 [25], it has been established that St. Maarten has a large migrant community that forms part of St. Maarten's labor force.

1.2. Money Transfer Agencies on St. Maarten

On St. Maarten, remittances are conducted through commercial banks and MTC's. The SER has derived from data provided by the CBCS that most remittances on St. Maarten take place via commercial banks. See Table 1. Nevertheless, MTC's are remittance service providers through which cash or goods, deposited by the sender, can be transferred to a MTC located in the country of the receiver, without the use of a bank account.[26] These amounts can be deposited directly on a bank account in the receiving country or paid out in cash, therefore a bank account is not required by the sender nor the receiver to gain access to the remittance.

Table 1: A table of the total amount of remittances transferred via MTC's and commercial banks between 2015-2019. The data was provided by the CBCS by e-mail dated August 17th, 2022.

Table 1: Remittance Outflux St. Maarten (in million ANG)

St. Maarten	2015	2016	2017	2018	2019
MTC's	58.80	73.80	59.20	21.70	31.80
Commercial Banks	90.50	106.40	88.20	63.50	91.20
Total Gross outflow	149.30	180.20	147.40	85.20	123.00
% Of foreign exchange outflow	6.2%	7.40%	6.40%	3.20%	4.70%

*The data includes the total amount of ANG that was remitted by the 3 MTC permit holders currently active on St. Maarten between 2015 and 2020.

[21] IMF 2020, A. Sayeh," The Impact of COVID-19 on Remittance Flows, p. 2.
[22] World Bank 2017, D. Ratha," Why Taxing Remittances is a Bad Idea", p. 1.
[23] United Nations, International Day of Remittances, p. 1.
[24] The sixth edition of the International Monetary Fund's (IMF) Balance of Payment Manual and International Investment Position Manual (BPM6) defines remittances as "household income from foreign economies arising mainly from the temporary or permanent movement of people to those economies. Remittances include cash and non-cash items that flow through formal channels, such as via electronic wire, or through informal channels, such as money or goods carried across borders."
[25] E-mail received from the Department of Immigration and Border Patrol dated June 5th, 2019.
[26] E-mail received from MTC dated September 15th and September 20th, 2022.

Currently, St. Maarten's MTC's consists of 3 permit holders, which are United Payment Services N.V. (known as Western Union), Union Caribe Sint Maarten N.V. (known as Money Gram) and C-Post International N.V. Together, these 3 permit holders are conduit to an average outflow of ANG 49 million per year and an estimated 23.6 million in 2020.[27] The actual flow of remittances using a MTC may in practice be a lot larger, in addition to these permit holders, there are many businesses providing unregistered remittance services without a permit on St. Maarten. Data provided by the IMF shows that these informal remittance flows are estimated to be up to 50% larger than is reported.[28]

Table 2: A table of the total amount of remittances transferred via MTC's between 2015-2020. The data was provided by the CBCS.

Table 2: Remittance Flow MTC's (in million ANG)							
Sint Maarten	**2015**	**2016**	**2017**	**2018**	**2019**	**2020-I**	**2020 Estimate**
Outflux	58.80	73.80	59.20	21.70	31.80	5.90	23.60
Influx	14.10	19.30	12.60	0.70	4.10	0.20	0.80
Net outflow	44.70	54.50	46.60	21.00	27.70	5.70	22.80
Curacao							
Outflux	109.8	108.4	103.4	101.9	95.7	20.4	81.6
Influx	37.2	30.7	30.2	33.2	30.8	6.3	25.2
Net outflow	72.6	77.7	73.2	68.7	64.9	14.1	56.4

2. The Social Impact of Remittances.

2.1. The Social Impact of Remittance Receivers

On St. Maarten, like in most countries, (im-)migrants make up the largest group of persons that make use of MTC's usually originating from small island developing states[29][30]. Therefore, remittance flows into small island developing states, provide a much-needed lifeline to these families by increasing the family's disposable income to cover necessary expenses. In its research the SER found that remittances represent up to 60% of a recipient's families on average, and typically more than double a family's disposable income. Research shows further that such income is typically used for consumption, such as food, housing, education, and minor entrepreneurial activities.[31] Therefore, the remittance outflow to small island developing states (SIDS) results in poverty alleviation and aids in improving the socioeconomic standing of these families. In addition, data shows that in 2018, remittance flows to receiving countries reached $350 billion and is estimated to grow to $5.4 trillion[32] by 2030, surpassing foreign direct investment,

[27] Data provided by the CBCS up until 2021, through which an average calculation was made.

[28] International institutions such as the IMF, UN and World Bank have estimated the illegal remittance flows at roughly 50%. According to the CBCS, these numbers are unknown for St. Maarten.

[29] Reference is made to chapter 1.1 Defining Remittances.

[30] The UN defines Small Island Developing States (SIDS) as" a *distinct group of 38 UN Member States and 20 Non-UN Members/Associate Members of United Nations regional commissions that face unique social, economic and environmental vulnerabilities. "A list has been provided via: https://en.unesco.org/sids/about.*

[31] UN News, "Remittances matter: 8 facts you don't know about the money migrants send back home", published on 15 June 2019.

[32] https://www.ifad.org/en/web/latest/-/global-remittances-flows-expected-to-reach-us-5.4-trillion-by-2030-spurred-on-by-digitalization.

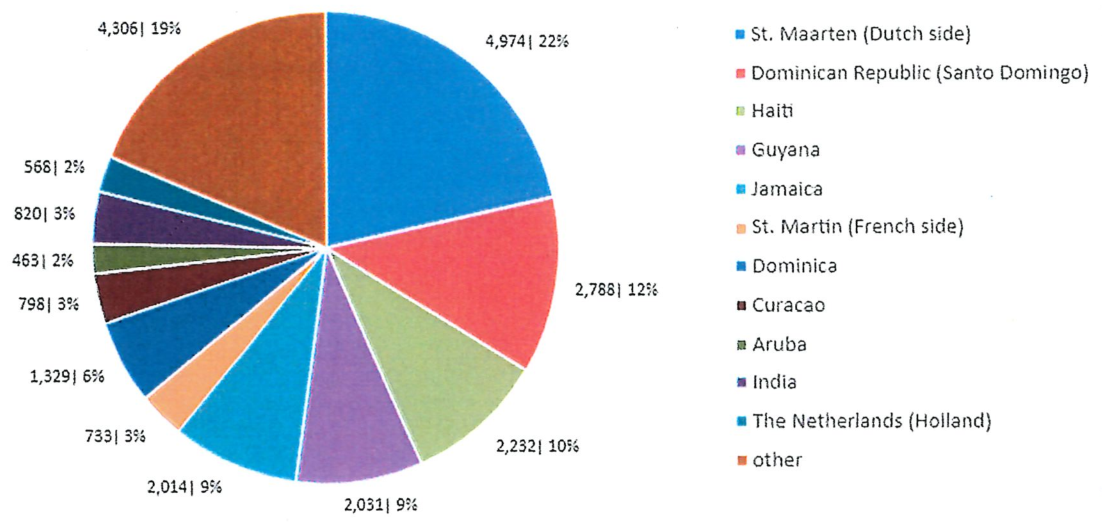
portfolio investment, and foreign aid as the sole, most significant source of income from abroad.[33] The SER would also like to note that in analyzing the potential financial effects of remittances, only first round effects were considered and neglected the second- and third- round effects of outflow of remittances into developing countries. Therefore, the actual economic gains can be much greater than the actual reported remittance outflow.

2.2. The Social Demographic remittance receivers on St. Maarten

Based on data provided by the MTC's[34] and in conjunction with data retrieved from the international organizations[35], the SER has concluded that most common MTC users abroad and on St. Maarten are migrants. Specifically on St. Maarten, these migrants usually stem from lower income communities and fulfill jobs at the lower end of the pay scale. Furthermore, based on the data provided by the Department of Immigration and Border Patrol in 2018, the SER has derived that St. Maarten (labor force) has a large migrant population.[36] In 2018, the labor force consisted of, next to persons with the Dutch nationality and born on St. Maarten, which represent up to 4,974 persons (22%), of 2,788 (12%) migrants from the Dominican Republic and 2,232 (10%) migrants from Haiti. Furthermore, the SER notes that most remittances flow[37] to Jamaica, Colombia, Dominican Republic, Haiti, Curacao, and the United States. Most remittances flow into St. Maarten from the United States and the Dominican Republic.[38]

Graph 1 below provides an overview of the active labor force in 2018 defined by the various nationalities.

Graph 1: Labor Force 2018



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[33] A. Sayeh, IMF publication, Financial and Development, "COVID-19 pandemic and the impact on remittance flows", published in June 2020.

[34] The SER has received confirmation from the MTC's that the average MTC users are migrant workers that stem from lower income communities and fulfill occupations that fall within the lower end of the pay scale, such as hospitality workers, construction workers and entertainment industry (such as exotic dancers). The e-mail was received on September 15th and 20th, 2022.

[35] Reference is made to chapter 1.1 Defining Remittances.

[36] E-mail received from the Department of Immigration and Border Patrol dated June 5th, 2019.

[37] Outflow ranges from high to low.

[38] E-mail received from the CBCS by email dated August 18th, 2022.

2.3. The Social Impact of Remittance Senders

In addition to having a positive effect on the social economic standing of receivers in developing countries, sending remittances abroad can also have a positive effect on the overall wellbeing of senders. As most remittances are sent to the families of the sender and are used to cover basic expenses. The knowledge of aiding their families abroad can have a sense of relief on the sender, which may result in less stress and thus has been proven to influence overall health.

However, the SER notes that on St. Maarten, the remittance of funds abroad can also significantly limit the financial capabilities of the migrant workers that make use of MTC's services on St. Maarten. Data provided by the UN shows that migrants remit on average up to 15% of their income.[39] Relatively speaking, the SER understands that 15% remittance should not negatively impact the sender's financial position. However, taking the excessive cost of living on St. Maarten into consideration and the conclusion[40] that many migrant senders' stem from the low-income communities, the impact of remitting 15% can have a significant impact on the financial position of the migrant community on St. Maarten. The SER notes that the latter should be addressed through the implementation of sound policies that aim at improving the purchasing power and addressing the excessive cost of living on St. Maarten. Reference is made to the SER's advice on the Cost of Living[41] and the One-time increase of the minimum hourly wage[42].

3. The Economic impact of remittances.

Throughout 2015 up until 2020, St. Maarten reported an average net outflow of ANG 38.9 million annually.[43] An all-time high was reported in 2016, equal to a net outflow of ANG 54 million. However, from 2017 onward the remittances net outflow dropped to an amount roughly equal to ANG 25 million a year, which can be attributed to effects of hurricane Irma and the COVID-19 Pandemic.[44] The SER notes, that the remittance flows are currently projected to increase, as the College Financieel Toezicht (hereinafter: CFT) in conjunction with the IMF estimate that St. Maarten's economic growth will increase to pre-COVID-19 heights by 2024.[45] As such, St. Maarten should see an increase in its remittance outflows to other countries.

To get a better understanding of the significance of St. Maarten's remittance outflow for its economy, the SER has compared the GDP earned in St. Maarten from 2015 – 2021 to the net remittance flow, depicted as a percentage % of the GDP. In 2020, the Department of Statistics reported a GDP of ANG 2,095.3 million.[46]

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39 UN News "Remittances matter: 8 facts you don't know about the money migrants send back home", published on 15 June 2019.

40 On August 16th, 2022, the SER sent a data request to SZV to allow the SER to cross-reference its data on the migrant labor force with the average earned income reported to SZV by this group. When finalizing the advice, the SER had not received a response.

41 The Cost-of-Living advice outlines the need for a two-part study to be conducted on the cost of living and price developments on St. Maarten allowing for the sound and grounded establishment of policy changes. Advice: https://ser.sx/publications/letter-of-advice-research-request-cost-of-living-on-st-maarten/

42 Letter of advice concerning a 'a one-time increase of the minimum hourly wage'. The SER advised increasing the hourly minimum wage. Advice: https://ser.sx/publications/letter-of-advice-one-time-minimum-hourly-wage-increase/.

43 E-mail received from the CBCS dated August 17th, 2022.

44 E-mail received from the Department of Statistics on July 25th, 2022. Press Release" 2020 Real growth down by 17.9% due to the pandemic", published on 2nd March 2022.

45 Presentation CFT "Sint Maarten's Road to Sustainable Public Finances", June 28th, 2022.

46 E-mail received from the Department of Statistics on July 25th, 2022. Press Release" 2020 Real growth down by 17.9% due to the pandemic", published on 2nd March 2022.

In 2020, a net outflow of ANG 28 million was reported by the CBCS. In analyzing the data, the SER would like to note, that although the remittance outflows may represent great sums, when compared to the GDP that St. Maarten has earned in 2020, the net outflow represents an estimated 1.37% of that GDP, whereas the average remittance to GDP ratio amongst 176 countries worldwide represents a ratio of 5.6%[47]. In addition, the SER has provided an overview of various remittance to GDP ratios of other islands in the Caribbean, that show that St. Maarten is at the lower end of the scale as it pertains to remittance to GDP ratio's worldwide and locally. Below an overview is provided of the (net) outflow of remittances from 2015 – 2021.

Table 3: A table of the various GDP to remittance outflux ratios of other Caribbean countries in 2020.

Remittance to GDP Ratio	**2020**
Haiti	23.82%
Jamaica	22.00%
St. Vincent & Grenadines	6.96%
Grenada	6.75%
Saint Lucia	3.69%
Antigua & Barbuda	2.65%
Barbados	2.31%
Aruba	1.40%
St. Maarten	1.37%
Trinidad & Tobago	0.91%

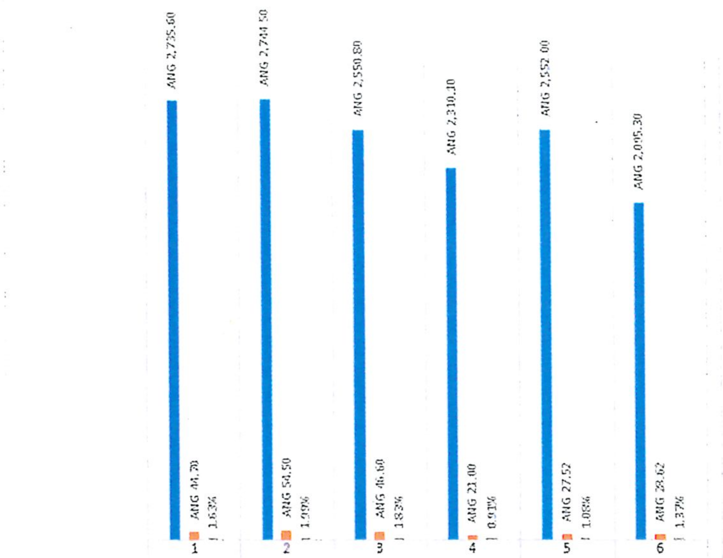
* Data has been provided by the World Bank.
** The data includes a total of the incoming and outgoing of remittances.

Furthermore, the SER notes that, as previously discussed in paragraph 2.3, migrants on average spend 15% of their earnings on remittances. Therefore, based on research conducted by the SER, the average of 38.9 million ANG in remittances should represent an estimated 15% of a migrant's income and the remaining 85% would be spent locally. Finally, in 2020 and 2021 a total of ANG 16.9 million Income and Unemployment Support and ANG 96.62 million was disbursed through the Payroll Support program.[48] If the SER follows the impression that financial support may be remitted abroad, remittances of SSRP recipients would be estimated to represent 15% of that income. 15% of ANG 113.5 million[49] amounts to ANG 17 million. A representation of 0.8% of St. Maarten's GDP earned in 2020. As such, the SER has established that, if the remittances remained on St. Maarten through the implementation of policies that promote local spending, the impact for the economy of St. Maarten would be low.

[47] The data on worldwide remittances was provided by the World Bank. https://www.theglobaleconomy.com/rankings/remittances_percent_gdp/.
[48] Data provided by the Ministry of Finance and the SMDF in e-mail dated September 20th and September 21st, 2022.
[49] The total amount of funds disbursed in 2020 and 2021 through the Income, Unemployment and Payroll Support programs.

Graph 2: A graph that depicts the Remittances/GDP Ratio from 2015 – 2020. The data was provided by the CBCS.

REMITTANCE OUTFLOW/ GDP RATIO



	1	2	3	4	5	6
Total GDP	ANG 2,735.6	ANG 2,744.5	ANG 2,550.8	ANG 2,310.1	ANG 2,552.0	ANG 2,095.3
Remittance ANG	ANG 44.70	ANG 54.50	ANG 46.60	ANG 21.00	ANG 27.52	ANG 28.62
Remittance in %	1.63%	1.99%	1.83%	0.91%	1.08%	1.37%

4. Implementation of a remittance Tax

4.1. <u>Government's Financial Position</u>

For the SER to understand the need for the implementation of policies providing for additional revenue streams, the SER finds it necessary to understand the government's financial outlook as it pertains to its current debt position. As such the SER has reviewed various advice reports published by the CFT on the established 2021 and established 2022 country budget. In reviewing the reports, the SER understands that, in 2021, the government's outstanding debt was projected to rise to ANG 1.5 billion by the end of 2022, resulting in a debt ratio of 71%. The SER understands that a debt ratio of 71% represents: a debt equal to 71% of the nominal GDP. In the previous year, the government's outstanding debt was projected to rise to ANG 1.38 billion resulting in a debt ratio of 79%. Although the increasing outstanding government debt is a direct result of structural mismanagement of government's funds, the SER understands that because of various natural disasters such as hurricane Irma and the worldwide COVID-19 pandemic, these numbers have increased substantially. For the government to be able to continue to conduct its role, amongst others, additional revenue streams should be acquired.

4.2. <u>Tax reform</u>

The SER understands that for the government to implement sustainable government public finances, the government must increase its tax revenue, in conjunction with improving its monetary management. Although it is well known that St. Maarten needs structural tax reform, the proposed taxes should guarantee consistent revenues and support economic growth. According to data provided by the IMF, St. Maarten has lost about 15% of its tax revenues since 2016 as the economy struggled due to economic regression caused by natural disasters and the COVID-19 Pandemic.[50] However, the SER would like to note that currently St. Maarten is considered at the lower end as it pertains to its tax-to-GDP ratio compared to other countries in the Caribbean.[51] The tax-to-GDP ratio compares the earned tax revenues of a country to the country's earned GDP. Therefore, it can be concluded that there is room for an increase in taxes, without significantly harming St. Maarten's international tax position[52]. A position that may influence the investment climate of a country making it more attractive to invest. As such the SER understands that there is room for an increase of taxes, however questions the implementation of a remittance tax as the most justified method to do so.

4.3. Opting for a remittance tax

The SER understands that both the IMF[53] and CFT[54] have proposed various tax recommendations, which include the enforcement of (already existing) property tax, the implementation of a casino tax and boat tax. The Government of St. Maarten has proposed the implementation of a 7.5 import tax on private purchases.[55] Such taxes better align with the ability-to-pay principle, as these are taxes focuses on taxing individuals based on their earnings and their ability to contribute to governments revenues, rather than taxing persons stemming from low-income communities that remit funds to provide financial aid to developing countries by. Furthermore, as on St. Maarten, a substantial portion of MTC users stem from a low-income background [4344], the SER notes that introducing a remittance tax for MTC users would result in an additional burden on a group of persons that is already strained due to limited financial capabilities, limited family support and limited access to social services[56]. The SER recommends taking the aforementioned into consideration when introducing new forms of taxation that may indirectly disproportionately affect a specific group within the community.

Reasons for considering the implementation of a remittance tax, is the fact that a similar tax was implemented in the BVI in 2020. The additional tax revenue that was collected amounted to roughly ANG 3.6 million[57] and is equally divided amongst different national development initiatives.[58] The tax resulted in additional income, however the latest proposed amendments in the law have proven that the taxation of remittances may not be the right approach. The SER notes that in a recent meeting with the cabinet of ministers of the BVI, it was decided to lower the 7% remittance tax to 3.5% as the remittance tax was

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50 IMF Technical Assistance Report – Sustainable Tax Reform, No. 21/231, published in October 2021, p. 10.

51 Presentation CFT, Sint Maarten's Road to Sustainable Public Finances, June 28th, 2022.

52 The tax competition position of a country can influences the investment climate of a country. A high tax burden lowers the desire to invest, whilst a lower tax burden increases the investment climate of a country. St. Maarten's tax ratio to GDP is lower than most countries in the Caribbean. Reference: Presentation CFT, Sint Maarten's Road to Sustainable Public Finances, June 28th, 2022.

53 IMF Technical Assistance Report – Sustainable Tax Reform, No. 21/231, published in October 2021, p. 8 and P. 15.

54 Presentation CFT, Sint Maarten's Road to Sustainable Public Finances, June 28th, 2022.

55 Daily herald, 7.5% tax proposed for online purchases, to level playing field, stimulate buying local, dated September 16th, 2022.

56 For example, reference is made to article 2 paragraph 2 section 3 of the National Ordinance regulating the provision of financial assistance, AB 2015, no.9, in which social benefits can be limited for temporary stays, circumstances that are inherent to migrants. Although exceptions are made, the general rule is limiting.

57 BVI had introduced a 7% remittance tax in 2020 resulting in added funds of ANG 3.6 million within 1 year of implementation.

58 Such as programs benefiting senior citizens and first-time homeowners. Including the funding of educational programs, agricultural programs and the fishing industry. Reference is made to the Financing and Money Services Act, 2020 (Amendment), No. 6, of the BVI introduced on April 20th, 2020.

heavily criticized. A large segment of the population utilizes the remittances to support their families abroad, including students completing their studies abroad. At this time, the remittance tax is considered highly controversial.[59] Although the SER commends that the collected funds are equally divided amongst 5 distinct categories of national development initiatives and the increased tax revenue of ANG 3.6 million, the SER estimates that the same outcome can be achieved through the enforcement of the proposed tax alternatives, increasing tax compliance in conjunction with better management of the government's funds. Therefore, the SER advises refraining from implementing a remittance tax, as the SER is of the opinion that increasing governments revenues can be achieved through the implementation of other forms of taxation. The SER awaits the pending tax reforms to allow the SER to carry out its advisory role on this matter.

Finally, the implementation of a remittance tax could result in a shift of persons opting for unregulated MTC's as these businesses will not be subject to taxation, therefore making their services cheaper. As unregulated MTC's operate outside the purview of the regulatory body the CBCS, alluding to an increase in unmonitored transactions, the implementation of a remittance tax carries an increased risk of money laundering activities. The shift may further affect the licensing fees paid to government, as licensing fees depend on the sum of permit holder's remittance transactions. The SER therefore advises in the event the government intends to implement a remittance tax; the SER recommends strengthening the regulatory tools the CBCS may have to avoid a surge in MTC's operating without a permit obtained through the CBCS.

4.4. Prospective Tax revenues

As the reasoning behind the request focuses on increasing the government's revenue streams, the SER in conducting its research, has analyzed the potential additional tax revenue the introduction of a remittance tax could have for the government of St. Maarten. Based on data received from the CBCS, in 2020, 40.73 million ANG was remitted abroad. As such, the SER estimates that the government of St. Maarten has received ANG 407.300 (1% licensing fee) in licensing fees from remittances transferred through MTC's in St. Maarten from the total of 17.6 million. The SER estimates that the implementation of a contrived remittance tax of 2.5% would allow for an additional tax revenue stream of ANG 1.2 million. However, as the implementation of a remittance tax drives the cost of remittances up, MTC service users may opt for other (cheaper) alternatives to remit funds abroad. These options may include opting for unregulated MTC's or MTC's located on the French side of the island. Unregulated MTC's and MTC's located on the French side are not subject to St. Maarten's tax legislation. As a result, the spillover can negatively impact existing tax revenues obtained through existing taxes such as the turnover tax, profit tax and the licensing fees from MTC's located on the Dutch side. The SER recommends conducting additional research to ascertain the side effects of a spillover to other methods of remitting funds, for the government's tax revenues, before introducing a remittance tax. Finally, the SER notes that considering that the country's outstanding debt is projected to rise to ANG 1.5 billion by 2022, the implementation of a remittance tax would need to form part of a larger package of measurements that aim to increase government's revenues to allow for sustainable government finances.

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[59] BVI News, "7% remittance tax to be reduced to 3.5%", published on 25th July 2022.

Table 4: A table of the total amount of tax revenue the Government of St. Maarten received in 2016 up until 2020. The data was provided by the IMF in its report[60] on Taxation to the Government of St. Maarten. The table is provided to give additional context to the prospective tax revenues in relation to existing tax revenues.

Table 4: Tax Revenues 2016–2020 (in million ANG)

St. Maarten	2016	2017	2018	2019	2020
Wage and Personal Income Tax	141.72	136.34	132.80	142.43	135.26
Turnover Tax	132.58	117.59	117.49	141.02	102.20
Profit Tax	42.33	33.92	20.83	25.51	38.63
Bank License Fee[61]	24.12	21.58	25.79	17.06	17.08
Real Property Transfer Tax	12.74	11.23	10.22	15.45	7.47
Motor Vehicle Tax	9.60	9.98	9.42	10.37	7.65
Stamp Duties	1.33	0.89	1.47	0.82	0.96
Other	0.20	0.09	0.13	0.09	0.11
Total	364.62	331.62	318.15	352.75	309.36

5. <u>Legal Impact</u>

The SER notes that in implementing a new tax, such a tax may only be levied pursuant to and in accordance with a national ordinance and can only be obtained by absolute majority within Parliament.[62] Therefore, the implementation of a remittance tax will require its own legal basis established through the formal legislative trajectory.

Furthermore, the SER understands that when implementing new legislation, the proposal must form an effective and proportionate response to a social problem. As a result, there should be sufficient certainty that the proposed legislation will lead to a solution or reduction of the problem and that there are no less intrusive alternatives. Should the proposed legislation not meet these conditions, there are insufficient grounds to proceed with implementation of new legislation. As a result, the government should opt for an alternative that is less onerous or simply refrain from intervening. The SER understands that the government has not drafted legislation but is simply conducting research on the implementation of a remittance tax. However, should the government opt for the implementation of a remittance tax, the SER considers it for reasons of efficiency, significant to include the legal analysis of the request to the SER.

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[60] IMF Technical Assistance Report – Sustainable Tax Reform, No. 21/231, published in October 2021, p. 11.
[61] The bank licensing fees consist of fees received from MTC's and commercial banks.
[62] Article 99 Constitution of St. Maarten, AB 2010, GT no. 1.

5.1. Effectiveness

The SER understands that new legislation is considered effective when the proposed legislation provides a solution to an existing problem. It was brought to the SER's attention that the introduction of a remittance tax is being researched due to the impression that exists within the government that financial aid (SSRP) is being remitted abroad as opposed to supporting the (at the time) regressing economy of St. Maarten. Furthermore, it is the SER's understanding that the government is researching avenues in which it can increase government revenues, as the SER understands that the government's finances are currently not sustainable. The proposed implementation of a remittance tax aims to reduce the number of remittances abroad or provide the government with additional tax revenue.
According to research conducted by international organizations, remittances sent abroad mainly consist of financial aid to a migrant's family living abroad to cover basic expenses. The SER is of the opinion that the implementation of a remittance tax will not defer MTC's users from remitting funds abroad as these usually cover basic necessary expenses of a migrant's family abroad. As the implementation of a remittance tax would create a new revenue stream, however the SER notes that the introduction of said tax could also result in the simultaneous decrease of existing tax revenues.[63] Therefore, the SER has concluded that the effectiveness of the implementation of a remittance tax cannot be guaranteed. Therefore, the SER does not consider the proposed form of taxation effective to meet the prescribed goal of the tax, reducing the number of remittances abroad and increasing government's tax revenues.

5.2. Proportionate

The SER considers the negative effects, such as the increased cost of remitting funds, disproportionate to the goal of a remittance tax, considering that the most common users of MTC services stem from the lower income earning communities on St. Maarten. Furthermore, the limited economic significance for St. Maarten's economy and the ability to opt for less intrusive government intervention, has allowed the SER to take the position that a remittance tax will therefore increase the cost for a of taxpayers that are already significantly limited in their financial capabilities. Alternatives such as dispersing a portion of the financial aid in the form of (food)vouchers or credits towards specific organizations. Therefore, the SER recommends conducting research into the establishment of less onerous legal instruments to stimulate the economy of St. Maarten.

[63] Reference is made to paragraph 4.4: Prospective Tax Revenues.

5.3. Conflicts International Standards

Finally, as the transaction cost of migrant remittances from an international perspective is still quite high, the SER would like to note that the implementation of a remittance tax will undoubtedly increase the transaction cost of remittances on St. Maarten. The SER notes, that St. Maarten has committed itself to working towards the achievement of the SDG goals[64]. In following the Sustainable Development Goals of the UN, and more specifically SDG 10.C[65], the UN aims to reduce the transaction cost of remittances to less than 3% by 2030.[66] Based on the fee structures of the registered MTC's on St. Maarten, the transaction cost of remittances currently averages between 1-6% in addition to the sending amount.[67] Therefore, dependent on the height of the tax, the tax could be considered a deterrent in achieving these SDGs (Sustainable Development Goal) (Sustainable Development Goal).

Table 5: Remittance Fees (in ANG)

MTC/Bank fees	Fees (ANG)	Example: ANG 360 remittance
Western Union*	No information available	n/a
C-Post International	Transfer fee ANG 9.00 for transactions of ANG 180.00 or less. Transaction + ANG 180.00 charged based on a %. The higher the amount, the lower the percentage. ANG 360 is charged at 4-5%. + 1% license fee.	ANG 381.60
Money Gram*	No information available	n/a
Commercial Banks		
Banco di Caribe	Swift confirmation ANG 5.30 + 0.1% with a minimum of ANG 47.50. Includes license fee	ANG 413.00
Republic Bank	Commission Fee ANG 35 + Transfer Fee ANG 35	ANG 430.00
Winward Island Bank (WIB)	Commission Fee ANG 18,00 + Transfer Fee 47,50	ANG 425.50

* The SER has reached out to Western Union and Money Gram however the SER was unable to retrieve the requested data.

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64 https://unsdg.un.org/un-in-action/sint-maarten.

65 SDG 10-c aims to reduce to less than 3% the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5%, by 2030. https://sdgs.un.org/goals/goal10

66 According to data provided by the UN, a cost reduction of 3% globally will allow remittance senders/receivers to save an added US$ 20 billion annually.

67 The SER has received confirmation through e-mail or retrieved the fees from the various websites of the 3-permit holder MTC's on St. Maarten. The fees vary and therefore, an estimation has been used, considering fees that apply to the top 5 countries receiving remittances from St. Maarten.