

Sociaal Economische Raad  
Social Economic Council

# Letter of Advice

## Concerning Turnover Tax and border control

SER /15/BP/19  
June 26th, 2015



## Information

The Social Economic Council Sint Maarten (“Sociaal Economische Raad”, referred to below as “SER”) is an independent advisory body to the government of Sint Maarten. The SER advises upon request by one or more Ministers (solicited) or on its own initiative (unsolicited) on all important social economic issues.

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## Colophon

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To the Prime Minister Mr. M.F. Gumbs,  
the Minister of Finance Mr. J. Hassink,  
the Minister of Justice Mr. Dennis Richardson,  
the Minister of Tourism, Economic Affairs, Traffic and Telecommunication  
Mr. Claret Connor.  
Clem Labega Square  
Philipsburg, Sint Maarten

Philipsburg, June 26th, 2015

## **LETTER OF ADVICE**

***Our reference: SER /15/BP/19***

***Re: Letter of advice concerning Turnover Tax and border control***

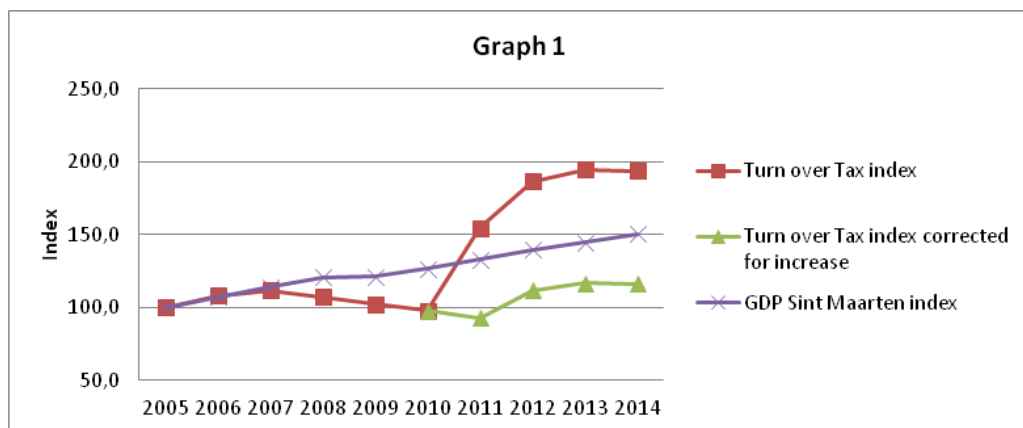
Honorable Ministers,

The Social Economic Council (SER) advises government not to raise the rate of Turnover Tax (TOT) to meet future budget demands on the revenue side. TOT was raised by 2 percent points (from 3 to 5 percent in 2011, an increase of 66.6%), and this resulted in 19.3 percent less TOT revenue than should have been collected according to the GDP in 2013 (see Table A, and Graph 1 on page 4). Independent of the precise explanation behind this, it means that:

- fewer businesses pay more TOT than before 2011; more tax is levied over a shrinking TOT tax base, and this is in the long as well as the short run an unsustainable situation. It also shows that both consumers and businesses have found ways to avoid (in)directly paying TOT.
- Consumers want less expensive products, and therefore bypass the local economy and import products themselves.
- Compliant businesses are already under strain because of the raise, and they avoid TOT by changing their economic behavior.

Any further raise of TOT will deepen those unwanted outcomes, and each time the TOT rate is raised the relative revenue of TOT will decrease. The below graph illustrates the development of TOT relative to the GDP.

Graph 1 - Turn over Tax 2005-2014



The Social Economic Council (SER) is aware that our country is in the second ‘skeleton’ budget year according to different reports in the media. Although the SER agrees with government that the supervision of the CFT is valuable for the financial management of the country, and that both sides should continue to cooperate with each other, the outcome of working under the Kingdom Law of Financial Oversight is, for now, a skeleton budget.

The SER is concerned about a continuation of the skeleton budget because this prevents government from executing social economic and other policies which would benefit the country. Given the constraints of the Kingdom Law of Financial Oversight, the logic outcome of this situation is to increase tax revenues or to decrease certain expenditures, or to do both. Using the collected data on the tax categories which generated the largest revenues over the last 10 years (table A), the SER addresses the revenue side of the budget in this advice, and TOT in particular. SER has not taken the development of the expenditures of government into consideration in this advice although they clearly form part of the solution to leave the skeleton budget behind us.

The collected data (table A) show that all the major tax categories mentioned below, the raised Turnover Tax (TOT) and Room Tax excluded, have not kept up with the development of the GDP over the last 10 years. The mentioned taxes together form 78.2 percent of the total tax revenue (2014). The values of the blue cells were not known at the time of writing this Letter of Advice because they were registered at the federal level of the Dutch Antilles, but the SER assumed a gradual transition between the known values. The yellow cells contain the value of TOT corrected for the TOT increase from 3 to 5 percent in 2011.

Table A - indexed tax revenues and Gross domestic product 2005-2014

Table A: Indexed tax revenues and GDP Sint Maarten	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	% of total revenue 2014
GDP Sint Maarten Index	100.0	107.1	114.1	120.7	121.3	126.6	132.8	139.9	144.7	150.7	
Wage tax index	100.0	109.6	116.6	122.8	116.3	113.6	123.0	127.0	131.7	132.6	31.9
Profit tax index	100.0	148.3	229.1	199.0	235.0	190.8	139.4	109.4	109.2	131.9	6.3
Transfer tax (overdrachtsbelasting onroerend goed) index	100.0	122.3	134.7	131.9	128.2	125.0	121.7	91.7	77.3	59.3	1.7
Turn over Tax index	100.0	108.3	111.9	107.1	102.4	97.6	154.7	186.6	194.6	193.7	33.1
<b>Turn over Tax Index corrected for increase</b>						97.6	92.8	111.9	116.8	116.2	
Room tax index	100.0	120.0	116.7	131.9	120.1	144.0	130.4	293.6	230.1	249.0	1.8
Timeshare tax index	100.0	106.4	112.8	100.6	105.7	89.4	94.7	89.4	89.9	92.7	1.0
Car rental tax index	100.0	92.3	115.4	89.3	81.4	80.3	78.9	80.0	75.4	79.2	0.2
Motor vehicle tax index	100.0	100.0	102.7	110.0	111.4	110.6	116.9	116.6	99.0	121.6	2.1

By showing both the indexed TOT and GDP together (Graph 1), it becomes clear that raising TOT in 2011 meant that TOT avoidance and/or evasive behavior by economic actors increased and continued. In 2013 the GDP index is 144.7, and the TOT index corrected for the increase is 116.8. TOT is a tax which should closely follow the GDP, and it is a main pillar of the government budget as it concerns 33.1 percent of the total tax revenue (2014). If TOT would have developed alongside the GDP, the government of Sint Maarten would have had approximately Nafl. 27 million more revenue from TOT in 2013. In other words, raising the TOT rate by 2 percent points (from 3 to 5 percent in 2011) resulted in 19.3 percent less TOT revenue than should have been collected according to the GDP (2013). This fact forms the first concern of this advice because raising TOT further will have the same outcome; another raise in TOT will decrease the relative revenue.

The second concern is that the total tax revenues of the mentioned tax categories have only developed with the GDP because TOT was raised from 3 to 5 percent in 2011, but even with this raise government has a skeleton budget. The problem however is that government will not be able to rely on raising the rate of TOT for future budget concerns because the relative revenue decreases each time the rate is raised. This is a clear marker that other alternatives need to be developed to collect sufficient revenue, but these alternatives will take more effort and time to execute. They will also have less impact on the total government budget because of the relatively large share of TOT on the total tax revenue.

The third concern, and from an economic perspective the most serious one, is about the effect of TOT on the economy of Sint Maarten. This concern consists of two aspects.

The first aspect is that TOT does not only raise the cost of doing business when a product or service is sold to the consumer, but TOT raises the costs of doing business each time a product changes owner while a product moves through the supply chain. Especially businesses with a relatively small added value compared to their revenue are under strain because they depend on moving a large amount of products with a small profit margin. TOT taxes revenues and not the added value of businesses. Businesses

under strain tend to compensate their employees less or simply hire less employees, or move their business elsewhere.

The second aspect is that TOT drives consumers to import products privately or via a business under their own name [eigen gebruik]. The consumer therefore avoids either a supplier, or avoids that their supplier, when acting as a middleman [tussenpersoon], needs to pay TOT over the value of the product because there is no transfer of ownership. This means that there is no delivery of products [levering van goederen] over which TOT is levied. For example, TOT is calculated into the price of products, and in the absence thereof the consumer saves money, the supplier acting as a middleman is more competitive in comparison to other suppliers who do deliver the same product and pay TOT over the value of the product, and country Sint Maarten has less revenue from TOT. The SER would like to add that such adaptations in economic behavior are an expected outcome when the rate of TOT is raised substantially (from 3 to 5 percent in 2011).

The SER recognizes that the efforts of the Tax Office influenced the amount of collected taxes between 2005 and 2014, but the SER has treated these efforts as a constant although they can not be considered as such. Furthermore, the continuing discrepancy between GDP and TOT revenue since 2011 can not sufficiently be explained by a possible lack of efforts to collect TOT.

Lastly, the SER is aware that the Customs Department is in the initial phase of introducing ASYCUDA , an automated system for customs data. This system would require not only a description of the quantity and type of imported and exported goods, but would also require registering the value of the goods as defined by the invoice. The value of the imported and exported goods is currently not registered (adequately). The SER encourages the government of Sint Maarten to continue the implementation of ASYCUDA because border control could substantially improve tax compliance if the Tax Office has access to this data. Moreover, the registration of the value of imported goods will probably increase the revenue from profit tax. The expected increase in tax revenue could make the return on this investment worthwhile; without such a system numerous taxation opportunities are eliminated.

## Advice

Considering the above:

- the SER advises unanimously not to raise the rate of TOT, but to find alternatives regarding the challenges on the revenue side of the budget.

Elucidation: The above data show that increasing the TOT rate will decrease the relative revenue it collects. If the rate of TOT will be raised further, fewer businesses will pay more TOT. This will bring compliant businesses under

more strain due to the increasing unlevel playing field between compliant and non-compliant businesses or other avoidance behavior of economic agents. Furthermore, TOT already has an adverse effect on the domestic economy and the competitiveness of foreign trade of Sint Maarten because of the characteristics of the TOT combined with the increase from 3 to 5 percent in 2011.

- the SER advises unanimously to take measures which aim to broaden the overall tax base and enhance overall compliance instead of raising the rate of the above mentioned tax categories. Elucidation: The presented data show that progress in revenue in many tax categories can be made. This progress would even be greater if government would dedicate more means to the collection of taxes.
- The SER advises unanimously to continue or even accelerate the implementation of the automated system for customs data ASYCUDA. Tax compliance regarding goods will benefit substantially from a border administration which establishes the quantity, type and value of goods when entering Sint Maarten.

## Furthermore

The SER understands the social economic consequences for country Sint Maarten in case of a continuing skeleton budget in the coming years. Especially policies which promote sustainable development will be delayed or not executed. Moreover, the SER recognizes the important role taxation plays regarding the budget as well as economic development. Taxing to promote sustainable development is a delicate task to which the SER wants to contribute with a comprehensive advice on taxation this calendar year.


Respectfully,

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Oldine V. Bryson- Pantophlet  
Chairwoman

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Gerard M.C. Richardson  
Secretary-general



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