



# New Tax Measures Could Downsize Auto Industry

Over the last 50 years the automotive industry became an important sector of the Bahamian economy, contributing a large portion of the country's annual tax revenue.

The Bahamas Motor Dealers Association was formed in the early 1970s to represent franchised new vehicle dealers, parts and accessory companies.

In 2007 BMDA members supplied 4,200 new cars and trucks, contributing tens of millions to the Bahamian economy. Since then, vehicle sales have dropped by half - to only 2,200 units last year. And ancillary sales have remained very slow.

For the most part, BMDA companies have held the line on layoffs and downsizing in the hope that the economy would improve. But new tax policies are expected to have a significant cumulative and negative impact on the industry's financial health.

The significant fall-off in business due to the great recession has affected the overall health of the automotive sector, and led to reduced government tax revenue.

However, a combination of new tax measures - from value added tax to business license fees - are poised to deal a heavy blow to the industry's overall prospects.

The BMDA is very concerned about the sector's total tax burden.

This increased significantly when the government changed the method of calculating business license fees in the last budget.

It is projected to increase further with the imposition of Value Added Tax this year.

The proposed 15 per cent VAT will raise the price of auto parts by more than 8 per cent. Vehicle prices will rise by more than 10 per cent. And the cost of service labour will go up by 15 per cent.

Also, the way VAT is applied will mean that dealer

mark-ups on all products will necessarily be cut by up to 10 per cent.

And since BMDA products are all price-controlled, this will have a further negative impact on the sector's bottom line.

Higher prices will have an obvious dampening effect on sales. And reduced sales will mean an additional revenue loss for the government - because fewer imports equals less tax revenue.

Already, as much as a third of the cost of a new vehicle or part is accounted for by tax. And the new measures can be expected to add at least \$2,300 to the retail cost of the cheapest new vehicles.

BMDA members are urging the government not to charge VAT to new vehicle customers at the point of sale as this would increase the retail price even more, causing a further loss of sales.

Vehicles should only be Vatable at the border. Charging VAT on retail will force more people to buy

more vehicles overseas, losing warranty protection. This will harm both consumers and businesses.

Business licence taxes are now calculated at 1.25 per cent of gross turnover (without regard to level of profit), and property tax rates are also being revalued upwards.

The combined effect of these tax changes will force some BMDA members to operate at a loss.

And this can be expected to bring about a realignment of the industry.

Such a realignment could involve staff cuts, facility downsizing and shelving of potential investments.

There is also a full range of technical issues that - depending on how they are resolved - could have additional negative impacts on the industry's financial health.

One of the most important of these is the way inventory is dealt with.

BMDA members are required by manufacturers to maintain millions of dollars

in slow-moving spare parts inventory.

This existing inventory will have been imported at higher excise tax rates. But when VAT is introduced, excise taxes will drop, meaning an adjustment of some kind will have to be made.

BMDA companies will be exposed to paying the new VAT as well as the old, higher, import tax rate.

This anomaly will require BMDA members to write off significant sums, further affecting our bottom line.

The BMDA has been seeking clarification from the government on tax treatment for the industry, but no answers have yet been received.

**The impact of VAT on industry product and service pricing will lead to sales declines.**

