**BELIZE**

**SUPPORT FOR TRADE AND TAX POLICY REFORM (BL-T1059)**

**TERMS OF REFERENCE**

**PROPOSAL AND ANALYSIS OF Economic consequences of A REDUCTION OF TRADE AND EXCISE TAXES, MAXIMIZATION OF THE GENERAL SALES TAX BASE, AND A REPEAL OF THE HOTEL AND TOURISM ACCOMODATION TAX**

BACKGROUND AND JUSTIFICATION

Belize has had one of the most revenue-effective systems in the Central America and Caribbean Region in the last decade. Tax revenue in Belize is high compared to the average of the Latin American and Caribbean region as a whole (23.8% vs. 23.8%). However, tax revenues have remained relatively flat in the last years, in a context where public debt amounted to 75% of GDP in 2012. Although Belize’s tax system is relatively effective in generating revenue, it does so in a manner that damages incentives, is inequitable and is complex for both tax administrators and tax payers. These adverse outcomes stem from five main problems: (i) too many different taxes (for instance, three different types of import duty); (ii) continued over-reliance on sub-optimal forms of taxation – notably trade taxation – rather than more benign taxes, like the value added tax; (iii) numerous exemptions; (iv) special tax regimes, for instance for the tourism sector; and (v) fragmentation of the tax administration.

Regarding indirect taxation, Belize’s collection comes from three main taxes: trade-related taxes (import duties, Revenue Replacement Duty-RRD, and Environmental Tax-ET), General Sales Tax-GST, and excises. The RRD was created to compensate for revenue lost after the reduction of import tax rates when Belize joined the Caribbean Community Secretariat (CARICOM), while the ET applies only to imports from non-CARICOM countries. The taxes above mentioned increase the effective import duty. Besides the efficiency problem, the existence of various trade-related taxes makes their administration complex and, in the particular case of the ET, goes against World Trade Organization non-discrimination principles.

The GST is a value-added tax and was introduced in 2006. Revenue-raising potential of this tax is eroded by numerous exemptions on goods and services and a zero-rate on a wide range of products. Not only these tax benefits are challenging to administrate and generate differentiated effective rates across sectors, but also are highly regressive, since middle and high-income households benefit more from them as they consume more in absolute value than low-income households (IMF, 2013).

To address the above mentioned deficiencies, various studies (for example, Jenkins G. and C.Y. Kuo, Fiscal Adjustment for Sustainable Growth in Belize (2006) and IMF, Tax Reform for Growth, Fairness and Sustainable Revenues (2013), have recommended to the government a broadly similar reform direction that involves consolidating the indirect taxation system on a few economically-efficient taxes, namely GST and excise taxes.

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While existing studies have contributed to analyzing the existing tax system and setting forth the rationale for policy changes, mostly they have not quantified the economic impact of a comprehensive reform package.

To address the deficiencies above mentioned, the project BL-T1059 “Support for trade and tax policy reform”, will fund applied studies related to the economic consequences of indirect taxation reform. The objective of these applied studies is to provide the necessary inputs and clarity for making public policy decisions.

OBJECTIVE

The objective of this consultancy is to prepare a study that analyzes the economic consequences of a reduction (streamlining) of trade-related and excise taxes, a maximization of the General Sales Tax tax base, and a repeal of the Hotel and Tourism Accommodation Tax.

ACTIVITIES

The major activity is to analyze the economic impact (see below) of three different scenarios of policy reforms of indirect taxes. Certain elements of the reform scenarios will remain constant in all three scenarios:

1. **GST**: revenue potential of a total elimination of zero-rate (except for exports) and a list of exemptions (to be determined jointly with the Government of Belize);
2. **Tourism taxation reform**: abolition of the Hotel and Tourism Accommodation Tax and the application of GST at the standard rate to the hotel sector, with a new expenditure line to fund the Belize Tourism Board (BTB) per Ministry of Finance indications and, for the purposes of the study, treated as a “negative tax”
3. **Non-standard trade taxes**: abolition of the environmental duty and revenue replacement duty
4. **Excise taxes**: determine which excise taxes and at what levels with the Ministry of Finance, while ensuring that tax imports and domestic production are taxed at the same level.

Given the “revenue gain budget” from the above policy reforms, the policy reform element that will vary in the three scenarios is the degree of liberalization of the standard trade tariff:

1. **Standard trade tariff/import duty**: analyze three different trade liberalization scenarios:
2. Central American Tariff band
3. Flat 5% across the board, no exemptions.
4. 0, 5, 15 (primary, intermediate and final goods).

According to the assumed policy reform measures outlined in the aforementioned scenarios, analyze the following economic impacts of the reform packages:

1. **Net fiscal impact**: of revenue enhancement measures (GST, tourism measures, excise tax reforms) minus revenue loss measures (elimination of environmental tax and RRD, and four scenarios of trade tariff reform).
2. **Price level impact**: net impact on the consumer price index of price raising measures (removal of GST zero-rate and exemptions and excise tax reforms) minus price reducing measures (elimination of environmental tax and RRD and three scenarios of trade tariff reform). This analysis will be limited to the one-time impact on prices of the reform measures and will consider a basket of goods and services to be determined.
3. **Equity impact**: estimate changes in the tax burden and consumer prices changes by income decile.
4. **Producer impact**: estimate impact of reform measures in changing the effective sector-by-sector (3 digits in the economic classification) tax burden and the change in the effective rate of protection.
5. **Simplicity impact (partial)**: gains derived from the simplification of the customs forms due to the impact of the abolition of the environmental tax and RRD and the streamlining of the tariff.

CHARACTERISTICS

Type of consultancy: consultant firm, international.

Qualifications:

a) The team leader must be an expert with at least a master degree in a relevant discipline, with no less than 15 years of experience in the area of economics, trade and/or taxation, and some experience in trade tax reforms, and excise taxes in different countries around the world. S/he must be fluent in English.

b) The rest of the consultants/team (2) must enhance and/or complete the team leader background in the field (trade or taxation) where the team leader has less expertise. They must hold at least a master degree in a relevant discipline. They must be fluent in English.

Start date and duration: 45 days during a period of 3 months from the signing of the contract.

Work place: Place of residence of the consultant firm and Belize. The consultants/team must stay in Belize be for at least 40% of the total working days. A maximum of two different visits are foreseeable during the work for each consultant/the team. Travel and accommodation will be included in the total cost of the consultancy.

PRODUCTS AND PAYMENT

* 20% upon signing of the contract.
* The balance upon delivery and approval by the IDB of the final report containing the findings, analysis, and conclusions of the tasks mentioned in the “Activities” section of this document.

COORDINATION

This consultancy will be in charge of the Municipal and Fiscal Management Division (IFD/FMM), under the coordination of Mr. Fernando Velayos (E-mail: fvelayos@iadb.org, Phone: +1 (202) 623-3870)