



## BAHAMAS – April 2022

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### **GOVT'S \$40M PROPERTY TAX ARREARS IN '22 GOAL**

The Government is on track to collect \$40m in real property tax arrears in 2022, a top official has revealed, while pledging that there have been “lessons learned” from the recent New Providence-wide revaluation.

Simon Wilson, the Ministry of Finance’s financial secretary, told Tribune Business that some \$10m in delinquent, or past due, property taxes had been collected during the 2022 calendar year’s first as he revealed that revenue authorities were “working through some anomalies discovered” with the algorithm used to value all the island’s commercial and residential properties.

Suggesting that the Government could quadruple the first quarter arrears recovery for the full year if that trend holds, he explained that the discrepancies were largely connected to how the algorithm, or mathematical formula, had treated commercial properties.

Mr Wilson said the formula had been set in the belief that tight zoning restrictions, and curbs on how properties could be used, were in play when the reality is that The Bahamas is “a little more flexible” when it comes to enforcement. And landlords, or property owners, were being penalised via higher tax bills by the actions of their tenants, who may as an example have turned a staid warehouse into a nightclub and be conducting activities that raise property values.

“We think it’s gone quite well,” the financial secretary said of the recent New Providence revaluation, which has been combined with enhanced administration and enforcement. “Over the first three months we’ve collected \$10m in property tax arrears. That’s pretty significant when you look at the full year. We’d be close to \$40m in property tax arrears

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collected. We've got to keep the taxpayer education campaign going and there's more work to be done."

Some may argue that, in the context of \$600m in outstanding real property tax arrears identified by the Auditor General in 2017-2018, \$40m is a relatively small amount to collect. Yet the figure, if attained, would compare well with the \$37.5m collected during the real property tax amnesty initiated by the former Minnis administration, which saw some \$62m in outstanding taxes written-off to entice delinquents to pay-up the former sum. And the Treasury needs every cent it can get.

The Government is also pressuring the banks and other financial lenders to ensure their mortgage clients are up-to-date, and have no outstanding real property tax arrears. Institutions have responded by urging borrowers to become current, given that outstanding taxes would supplant their security as a first lien over the subject property, and warning that the situation could impact their mortgage loans and whether they remain current.

Mr Wilson, meanwhile, said the Ministry of Finance and Department of Inland Revenue (DIR) were making adjustments to the algorithm-led revaluation exercise that was spearheaded on their behalf by US-based Tyler Technologies. "I think it's been a good exercise. Obviously we're working through some anomalies discovered. It's an algorithm and sometimes has to be tweaked in some cases," he told Tribune Business.

"There's lessons learned going forward, things we have to adjust, especially with commercial properties. There's some things we can do to make it fairer and more equitable with commercial properties. In many cases we're finding the use of the property is not the landlord's doing; it's the tenant.

"The algorithm is based on the use of the property," Mr Wilson continued. "You can build a shell, and someone valuing it using the algorithm, it might not be fair. Instead of using it as a warehouse the tenant is using it as a nightclub, so that causes the value to go up. There are some tweaks we can do, and we had some very good discussions with the realtors, David Morley, and so forth. They brought some things to our attention on the commercial side.

"We are moving forward, lessons learned, so we are making adjustments based on those lessons. That was the primary one. The algorithm is based on the belief that there are very tight zoning restrictions and use of property and, in The Bahamas, that tends to be a little more flexible. That's a lesson learned, and we have to make some adjustments for that."

Mr Wilson said real property taxpayers can still submit queries and challenges to future valuations of their property in upcoming years, although the March 31 deadline for this year has now passed. As to the results of the New Providence revaluation, he reiterated: "We're not celebrating anything; there's a lot of work to be done."

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The Government contracted Tyler Technologies to conduct an island-wide mapping exercise of New Providence that ensured all properties are captured on the real property tax roll. This, and the subsequent revaluations, are a first step in what the Government views as a wide-ranging exercise that will lead to all taxable property owners paying their fair share.

The valuation process employed by Tyler and the Department of Inland Revenue was a “bulk” assessment that used algorithms to calculate the worth of properties in a particular neighborhood or subdivision based on their dimensions/size and which category - owner-occupied, residential, commercial, undeveloped land, etc. - they fell into.

This has resulted in triple-digit increases for some taxpayers, with the Bahamas Chamber of Commerce and Employers Confederation (BCCEC) saying its members had reported increases of between 100 percent to 435 percent compared to 2021 billings.

However, many of the objections will likely come from high-end residential and commercial property owners, given that real property tax and its rates are structured such that the burden is heavier for more expensive real estate.

A significant portion of complaints will also stem from owners whose properties have not been valued for years, sometimes for decades, meaning that the Tyler Technologies revaluation will have resulted in a seemingly-huge tax hike even though it may have only brought the bill to the correct level. The Act calls for a revaluation to be conducted every five years, which has not been done.

The Ministry of Finance, meanwhile, has served notice on all financial services regulators and their mortgage-lending licensees that it plans to finally use powers it has long-possessed under the Real Property Tax Act to require the latter to pay tax on behalf of their borrowers who are in arrears.

“The provisions of Section 19 deem the mortgagee to be the owner of the property and make remedies under the Real Property Tax Act available to the ministry and its agencies to recover monies owed to the Government of The Bahamas,” a Securities Commission notice said.

The section states the mortgagee shall pay or cause to be paid the amount of tax or surcharge that is due and payable.... As part of the Government’s ongoing effort to enhance revenue and improve compliance across all taxes, we expect you will take measures and implement internal processes to ensure your client’s real property tax obligations are up-to-date.

“Lastly, you can expect revenue collectors engaged by the Ministry of Finance shall exercise the full authority granted to them to recover real property tax amounts owing to the

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Government of The Bahamas pursuant to the legislation.” The enhanced enforcement and compliance efforts will apply to both current taxes and those in arrears.

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