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Bahamas cuts VAT by 50% on all food items

Prime Minister Philip “Brave” Davis has announced that the value-added tax rate on all food sold in food stores would be reduced from ten per cent to five per cent.

The surprising measure, he said, is designed to offer immediate relief to families burdened by rising prices.

“We know that high prices exert a terrible pressure on families,” he said during a recent address at the University of The Bahamas.

“Reducing VAT by 50 per cent will make a difference for those with the tightest disposable income.”

He said the VAT cut would apply to all food sold in food stores, including fresh produce, frozen items, baby food, and snacks, though prepared foods in deli sections will not be included. The reduction also extends to the importation of these goods.

The VAT announcement represents a shift for the Progressive Liberal Party (PLP), which has traditionally supported a low-rate, broad-based Value Added Tax (VAT) system with minimal exemptions, a model that has been praised for its efficiency and simplicity.

Davis said the initiative comes as part of a broader government effort to mitigate the effects of inflation, which has remained high despite slowing global trends.

He acknowledged that factors like the war in Ukraine and disruptions in global supply chains have worsened conditions, but emphasised his administration’s commitment to alleviating local hardships.

He stressed that the reduction would not impact the government’s fiscal

targets, saying improved revenue collection from large corporations and compliance measures have strengthened the country's fiscal position.

He added that the government is also preparing legislation prohibiting anti-competitive practices, which he said would lead to "lower prices, better products, and more choices."

Addressing the country's reliance on US imports, he discussed a new trade diversification policy to source goods directly from their countries of origin, cutting out costly middlemen.

"If we import the same products directly, we could lower prices significantly," he said.

Last year, the Central Bank of the Bahamas (CBB) said provisional data suggest that during November, the domestic economy sustained its growth momentum, albeit at a tempered pace compared to the preceding year.

"In particular, economic indicators continued to trend closer to their expected medium-term trajectory," the CBB said in the Monthly Economic and Financial Developments (MEFD) November 2024 report.

It said that the tourism sector activity continued to expand, although at a slowed pace, as strong growth in the cruise segment contrasted with accommodation capacity constraints in the high value-added stopover component.

In price developments, the CBB said average consumer price inflation, as measured by changes in the average Retail Price Index (RPI) for The Bahamas, slowed during the 12 months to September 2024, relative to the comparative 2023 period, reflective of a moderation in price pressures for imported fuel and other goods and services.