Technical Assistance Report March 2025

Assessment of the Tax System of the BES Islands

In March 2025, the IMF published a report concerning the BES Islands. The IMF advises the Netherlands to implement several significant changes to the tax system of the BES Islands. It is a fairly lengthy (34 pages) and technical report. Below is a summary of the main points. If you are interested in the full report, we can send it to you.

ABB (General Expenditure Tax)

The IMF identifies several issues with the current ABB. For example, it is unclear what exactly is meant by 'production'. The IMF cites packaging or assembling of goods as examples. It is not clear whether these activities qualify as the production of goods. Such ambiguities negatively impact the enforceability of the ABB.

Another issue is that in retail, only the import prices are taxed. The profit margins on goods are not subject to ABB. On the other hand, services are always taxed under the ABB. This results in a more favorable tax treatment of goods sales compared to the provision of services. This discrepancy may lead to ABB avoidance. For instance, renting or leasing a product is taxed under ABB, while purchasing the product is not.

The IMF recommends eliminating the distinction between goods and services and subjecting both to ABB. At the same time, the IMF proposes allowing full deductibility of ABB charged, giving ABB the characteristics of a VAT.

Small businesses would be exempt from ABB through a higher threshold (small business scheme). The IMF suggests a threshold of, for example, USD 100,000.

Furthermore, the IMF advises switching to a single uniform rate. Cars with CO2 emissions would also fall under this general ABB rate instead of the current higher rate of 25% in Bonaire and 18%/22% or 30% in Saba and St. Eustatius. The IMF suggests compensating the difference with the former rate by levying excise duties.

[1] Technical Assistance Report March 2025 – Assessment of the Tax System of the BES Islands.

Excise Duties

Excise duties are levied on fuel on all BES Islands. Only Bonaire also levies excise duties on tobacco and alcohol.

The IMF recommends taxing sulfur-free fuels at lower excise rates to encourage the use of cleaner fuels. Currently, diesel and kerosene are not subject to excise duty. The IMF advises taxing these fuels due to their harmful environmental effects. Fuel oil is also currently not taxed, and the IMF recommends imposing excise duties on this as well.

The World Health Organization (WHO) prescribes a tax burden of 75% of the retail price of a pack of 20 cigarettes. This tax is intended to offset the health care costs caused by smoking. In Bonaire, the tax burden on a pack of cigarettes is 52.67%. This would need to be increased to meet WHO guidelines. In Saba and St. Eustatius, excise duties on cigarettes and other tobacco products should be introduced.

The excise duty on beer per bottle in Bonaire is (converted) USD 0.22. In the Netherlands, it is USD 0.13 per bottle, and in other European countries, even lower. Thus, beer excise duty is relatively high in Bonaire compared to the Netherlands, and the IMF sees no reason to increase it further. The excise duty on wine in Bonaire (USD 0.96 per bottle) is slightly higher than in the Netherlands (USD 0.76 per bottle). The excise duty on spirits is slightly lower than in the Netherlands. The IMF recommends levying excise based on alcohol content using three categories: low-alcohol, medium-alcohol, and high-alcohol beverages. The IMF also recommends that Saba and St. Eustatius begin levying excise duties on alcohol.

Additionally, the IMF advises introducing so-called "sin taxes" in the BES. These include levies on sugar-sweetened beverages (SSBs), plastic bags, plastic bottles, non-energy-efficient lamps, and aluminum cups.

Income Tax

According to the IMF, income tax rates in the BES are lower than in the Netherlands. The IMF recommends applying the same income tax system in the BES as in the Netherlands. It is unclear whether this includes the Dutch "box system". The IMF only compares the rate structure of the BES with that of the Netherlands and does not discuss the different boxes.

Since the IMF mentions that the newly proposed real estate tax (discussed below) may function as a wealth tax, it appears the IMF does not recommend introducing the Dutch Box 3 in the BES.

Real Estate Tax

The real estate tax is levied on 4% of the value of the property. Several exemptions exist. One applies to the taxpayer's primary residence. Another applies to property that is part of a business for income tax purposes. The rate is 17.5%, with a reduced rate of 10% for hotels. This tax serves as a replacement for corporate tax in the BES.

The IMF recommends shifting to a property tax on residential homes, second homes, and commercially used properties. It also advises abolishing the tax-free amount of USD 70,000. Additionally, it recommends removing the current exemption for renovation and improvement of properties and the favorable 10% rate for hotels.

Furthermore, the IMF advises taxing capital gains from the sale of real estate under both income and corporate taxes and abolishing the 5% transfer tax.

Corporate Tax

Businesses are subject to income tax, but entities based in the BES are not subject to corporate tax. Instead, these entities pay real estate tax if they own property and are subject to a 7.5% gross revenue tax. A deemed salary rule applies to employees with a substantial interest in the company. The deemed salary is set at twice the tax-free allowance unless the highest-paid employee earns more or 90% of the salary for a comparable position is higher, in which case the deemed salary is adjusted accordingly to this higher salary.

The IMF advises introducing a simplified corporate income tax for entities, as relying solely on real estate tax may lead to an effective tax rate which is too low. A corporate income tax would also ensure that business owners are treated consistently under the income and corporate tax regimes. The real estate tax would be abolished for entities and replaced with a property tax. This property tax would not include an exemption for main residences and could also serve as a wealth tax. The corporate income tax would resemble the Dutch corporate income tax, but in a simplified form.

In Conclusion

The IMF recommends implementing the proposed changes in phases over the next five years. In years 1–3, it suggests reforming the income tax system to resemble the Dutch model more closely and reforming the ABB. In years 3–5, the corporate income tax and the property tax would be introduced, and the current real estate tax would be abolished.

The IMF's recommendations are quite far-reaching. What stands out is the IMF's heavy reliance on the Dutch tax system in its proposals. This is understandable, given that the BES are special municipalities of the Netherlands. However, differences between the BES and the European Netherlands must be taken into account. The Dutch Council of State already pointed out during the introduction of the tax system in the BES that the Dutch system cannot be adopted completely in the BES, as this could be disruptive. The IMF report pays insufficient attention to the historical background of the BES as part of the Netherlands Antilles and the strong ties that still exist with other jurisdictions in the former Netherlands Antilles. It is crucial that the tax system remains aligned with these jurisdictions as well.

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