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# Impact of the Value Added Tax on Domestic Agriculture in St. Vincent and the Grenadines

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## **Abstract**

*In 2007, the government of St. Vincent and the Grenadines enacted legislation Act #25 Of 2006 to introduce the Value Added Tax (VAT). The Value Added Tax is set at a rate of 15 percent and replaced the consumption tax originally placed on imported goods at the Customs and Excise Department.*

*A minimum thresh hold level of EC\$60,000/annum was set for an establishment to be vatable, which was later raised to EC\$120,000.00. Within the framework of the Value Added Tax are exemptions and zero rated items or commodities which constitute basic and essential food and non-food items, deliberately set as policies of the government in support of the poor.*

*Since the introduction of the VAT, local meat and meat products, eggs and vegetable prices which are vatable items have increased at the supermarket. The percentages increase in price for these vatable items have been substantially higher than similar imported vatable items and the zero rated food products. Moreover, trade statistics have shown increases in the importation of similar products.*

*It is therefore hypothesized, that the application of the VAT on local produce is increasing food prices at the supermarkets causing consumers to purchase cheaper imports at the supermarkets.*

*There is no VAT charged on local produce outside of the supermarkets. Despite this scenario, most consumers have developed preferences for convenient shopping – the one stop shop at the supermarket. Research has shown that over 60 percent of consumers in St. Vincent and the Grenadines prefer to shop at the supermarket compared to the open vegetable market since it is more convenient, quality is usually better and less time consuming.*

*The paper will show that while the VAT is a revenue measure, the revenue collected is infinitesimal, compared to the value of imports. Thus the paper will also show that a burden is being placed on domestic consumers through the reduction of their purchasing power at the supermarkets, and that there are also negative impacts on production, whereby farmers are experiencing difficulties disposing of their produce, since they take a longer time to go through the marketing channels.*

*The paper will argue that the government can remove VAT from local produce sold in the supermarkets and its revenue collection will not be affected negatively. However the removal of the VAT will reduce the prices of the local produce to consumers, hence, making such products more competitive with imported goods.*

*The concerns of preferential treatment of local produce is considered a non-issue since over 80 percent of the imports are from third country where domestic support to agriculture exceeds 40 percent while farmers in St. Vincent and the Grenadines are not provided with any subsidy.*

**Keywords:** value added tax, Customs and Excise, local produce, imports, St. Vincent, the Grenadines, revenue, farmers, consumers