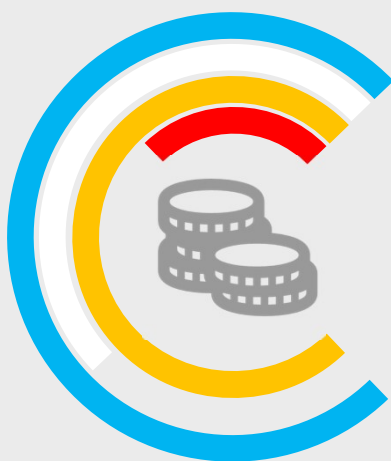




CENTRALE BANK VAN ARUBA

Cost of Doing Business in Aruba



October 2019



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Contents

Executive summary.....	4
1. Introduction	5
2. Definitions and indicators	6
2.1 Introduction.....	6
2.2 Taxes.....	12
2.3 State-sponsored incentives that can lower the cost of doing business	19
2.4 Utility cost	22
2.5 Wages	23
2.6 Rental costs for office and industrial space	24
3. Stakeholders' perceptions.....	29
3.1 Introduction.....	29
3.2 Labor.....	30
3.3 Taxes.....	33
3.4 Operating costs.....	35
3.5 Finance	36
3.6 Other factors.....	36
3.7 Concluding remarks	38
4. Development.....	41
4.1 Introduction.....	41
4.2 Utilities	41
4.3 Taxes, import duties, and excises	43
4.4 Rental cost	44
4.5 Wages.....	45
4.6 Summary and concluding remarks	46
5. Recommendations	51

Executive summary

The cost of doing business is a multi-interpretable concept. The focus in this report is on the cost of doing business and not on the *ease* of doing business. Ease of doing business has mostly to do with the *time* and *trouble* involved in doing business transactions, which is determined by the degree and efficiency of regulation. The main cost of doing business categories are: taxes (and subsidies), utility costs, wages, and rental costs.

The cost of doing business in Aruba, as perceived by representatives of several business sectors, can be divided into five broad categories: labor costs, taxes, operating costs, financing costs, and other costs. Labor costs, which include employers' social security premiums, can be considered the most important factor, based on the number of times aspects related to this category were mentioned by interviewees. Tax-related matters proved a key area of concern, especially amongst stakeholders from the tourism industry. Furthermore, stakeholders mentioned that they are often confronted with immaterial costs in the form of time and effort exerted. These type of costs are related mostly to the ease of doing business.

Looking at the development of the main cost items of doing business from 2005 to 2018, the cost developments were relatively strong for electricity and wages, and most recently, for excises. The increase in electricity costs for commercial properties was particularly strong compared with both the general consumer price index and the electricity cost for households. Excises were raised considerably in 2019, and a sugar tax will be levied in 2019 as well. From 1990 to 2018, the annual increase in minimum wages has on average exceeded that of the CPI by 1.4 percentage points.

Cost of Doing Business in Aruba¹

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Centrale Bank van Aruba

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1 Introduction

The Ministry of Finance requested that the CBA conduct research on the cost of doing business in Aruba. The cost of doing business is a concept subject to multiple interpretations. The concept of the cost of doing business is discussed in Chapter 2. An inventory is made of the available cost indicators, thereby describing the current situation. In Chapter 3, stakeholders' perceptions on the cost of doing business in Aruba are discussed. In Chapter 4, the development of several main cost of doing business items are presented. Chapter 5 offers and discusses some preliminary policy recommendations based on available information and findings.

¹ The views expressed in this paper are those of the authors and do not necessarily reflect official positions of the Centrale Bank van Aruba. The authors would like to thank Ryan Peterson and Jane Semeleer for their comments.

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2. Definitions and indicators

2.1 Introduction

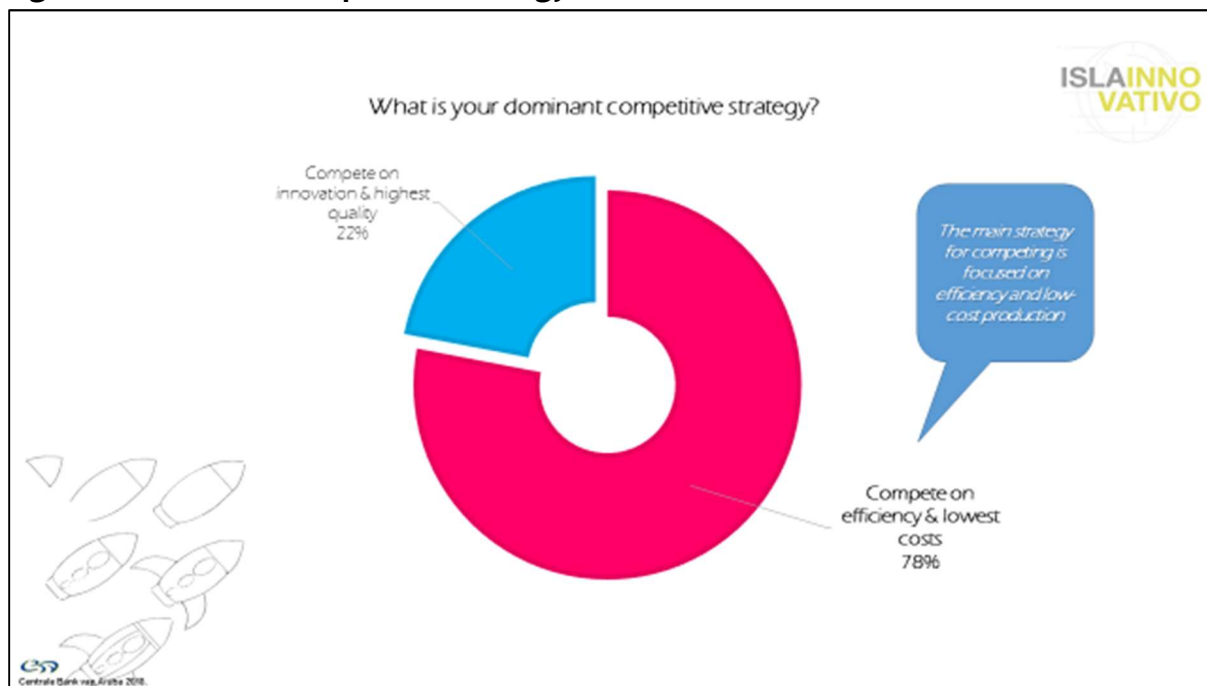
The cost of doing business is a concept subject to multiple interpretations. If one asks different people, “How is the cost of doing business in Aruba?” one can expect to get different answers.

For example, a local commercial banker answered that Aruba ranks highest on RevPar (revenue per available room) but lowest on what is left “at the bottom line” (i.e., net income per available room). But what causes this difference was not explicitly clarified. Following accounting rules, the difference between gross revenue and net income consists of personnel cost, operational cost, interest expense, and taxes (on profits). A local insurer answered that the new BBO levy on fees increased his cost of doing business. Another local banker noted that in Aruba everything is more expensive than in Curaçao, with the exception of the cost of utilities.

Similarly, during the recently organized information session for the introduction of the tax reform (November, 2018), several institutions voiced their concerns about the potential increase in (the already significant) cost of doing business due to an increase in import duties and excises. Additionally, increases in prices and other inflation-induced developments (either exogenously or endogenously) seem significant “pain points” for doing business in Aruba.

Previous research by the CBA (*Isla Innovativo*, 2018) indicated that the majority of local businesses (78 percent) compete on efficiency and (lowest) cost basis (see Figure 2.1), which may explain the persistent perception of (business) stakeholders of the increasing cost of doing business in Aruba. Small and medium-size enterprises may be more financially “sensitized” to inflationary developments and increasing costs (particularly within the context of a small economy with limited economies of scale).

Figure 2.1 Dominant competitive strategy of Aruban businesses



Source: Isla Innovativo, 2018

Sometimes, cost of doing business is interpreted more broadly. For example, the World Bank Group (for sources, see the references at the end of this report) looks at the *ease of doing business* instead of the cost of doing business. Ease of doing business has mostly to do with the *time* and *trouble* involved in doing business transactions, which is determined by the degree and efficiency of regulation (or “red tape”³).

The World Bank Group annually compares the ease of doing business for a particular year among 190 economies. The *less time consuming and burdensome the regulatory practice*, the higher a country scores on ease of doing business and the higher its ranking among the 190 countries rated (the highest 2019 ranking is for New Zealand, ranking 1st with a score of 86.59). Regulations affecting 11 areas of the life of a business are covered: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency, and labor market regulation.

³ The term “red tape” dates back to 1736 when red tape was used in Great Britain (and the American colonies) for binding up legal and other official documents. This was seen as “excessive bureaucratic rigamarole”. Since then, red tape has stood for excessive regulation or rigid conformity to formal rules that are considered redundant or bureaucratic (Dictionary.com, Wikipedia.org).

Twelve Caribbean island states rank among the 190 economies the World Bank Group considered for 2019. Table 2.1 gives their scores and rankings among the 190 economies.⁴ Puerto Rico ranks 64th and St. Lucia 93rd. The other 10 Caribbean island states rank lower than the median, with Haiti hitting near bottom.

Table 2.1. World Bank Group – Ease of doing business, 190 economies, 2019

Caribbean island state	Score	Rank
1. Puerto Rico	69.46	64
2. St. Lucia	63.02	93
3. Dominican Republic	61.12	102
4. Dominica	61.07	103
5. Trinidad and Tobago	60.81	105
6. Antigua and Barbuda	59.48	112
7. Bahamas	58.90	118
8. Barbados	56.78	129
9. St. Vincent and the Grenadines	56.35	130
10. St. Kitts and Nevis	54.36	140
11. Grenada	52.71	147
12. Haiti	38.52	182

Unfortunately, Aruba notably is (still) absent from this comparison,⁵ as is Curaçao. More than 13,800 specialists in 190 economies participated in the data collection on the ease of doing business, which is an average of 72 specialists per economy. Recently, the Government of Aruba submitted an official petition to The World Bank Group to participate in the ‘Ease of Doing Business’ survey.⁶

Initial explorations⁷ into the cost of doing business in Aruba (*Isla Innovativo*, 2018) indicate that small and medium-size enterprises across a range of sectors experience several key challenges. These challenges include starting a business, limited access to credit, a complex and burdensome tax system, inefficient custom procedures, and (rigid) labor market regulation (see Figure 2.2). In addition, government administration is perceived as relatively costly along with informal economic activities, often referred to as ‘unfair competition’ by

⁴ The labor market regulation data are not included in the 2019 ranking on the ease of doing business.

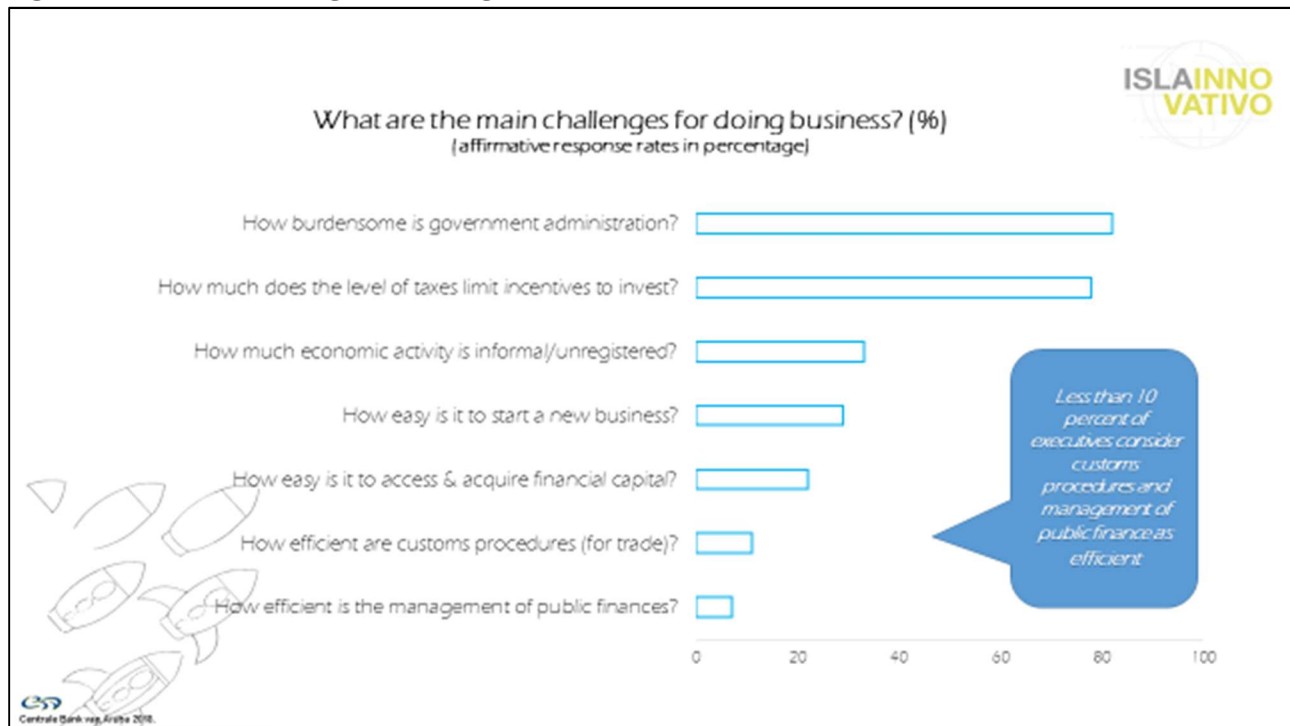
⁵ Aruba is often missing in international comparisons like this. An exception is the cost of *living* comparison by numbeo.com, see Annex 2.A. According to this source, basic utilities are most expensive in Aruba (rank 1st) and more expensive than in Curaçao (rank 2nd).

⁶ The latest IMF report noted: “Staff encourages the authorities to participate in the World Bank’s Ease of Doing Business index, so that progress could be quantified over time.”

⁷ The World Bank’s Ease of Doing Business Indicators and the World Economic Forum’s Competitiveness Index were used in the national State of Innovation survey (CBA, 2017).

local institutions. The initial evidence from the national State of Innovation Survey in Aruba corroborates the main factors and findings reported by the World Bank's Ease of Doing Business Index.

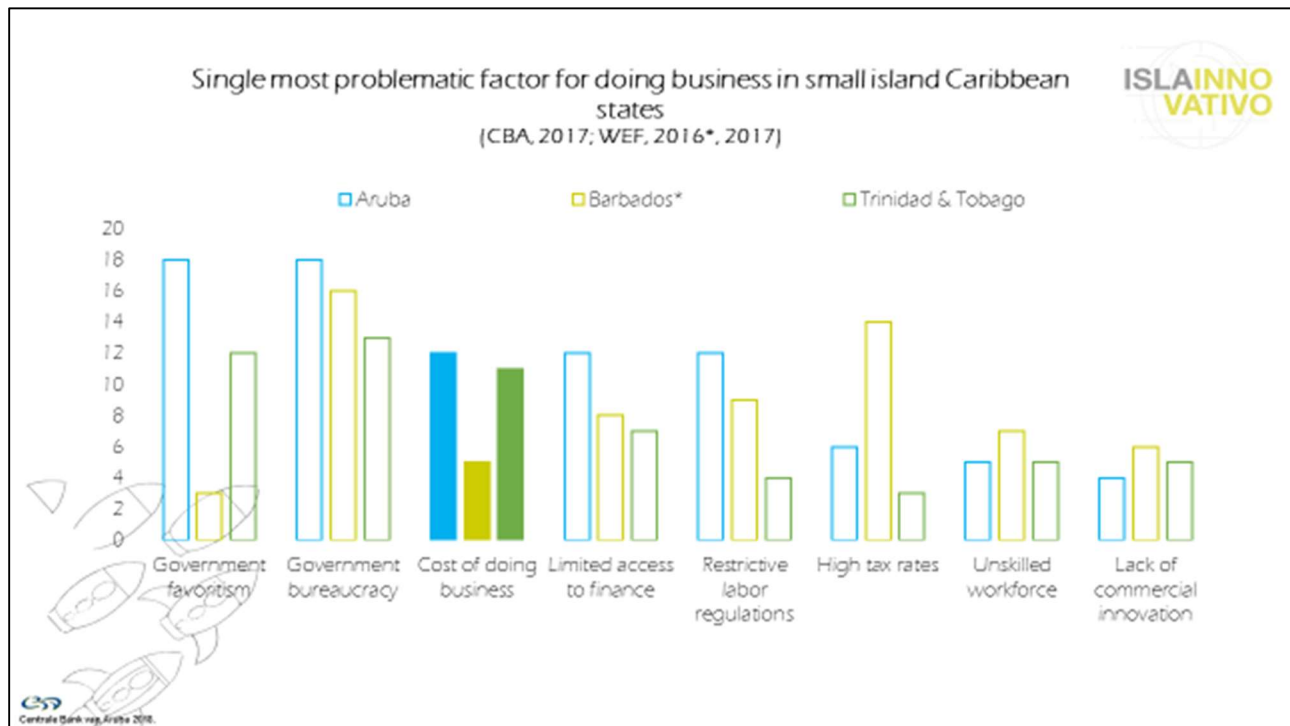
Figure 2.2. Main challenges of doing business in Aruba



Source: Isla Innovativo, 2018.

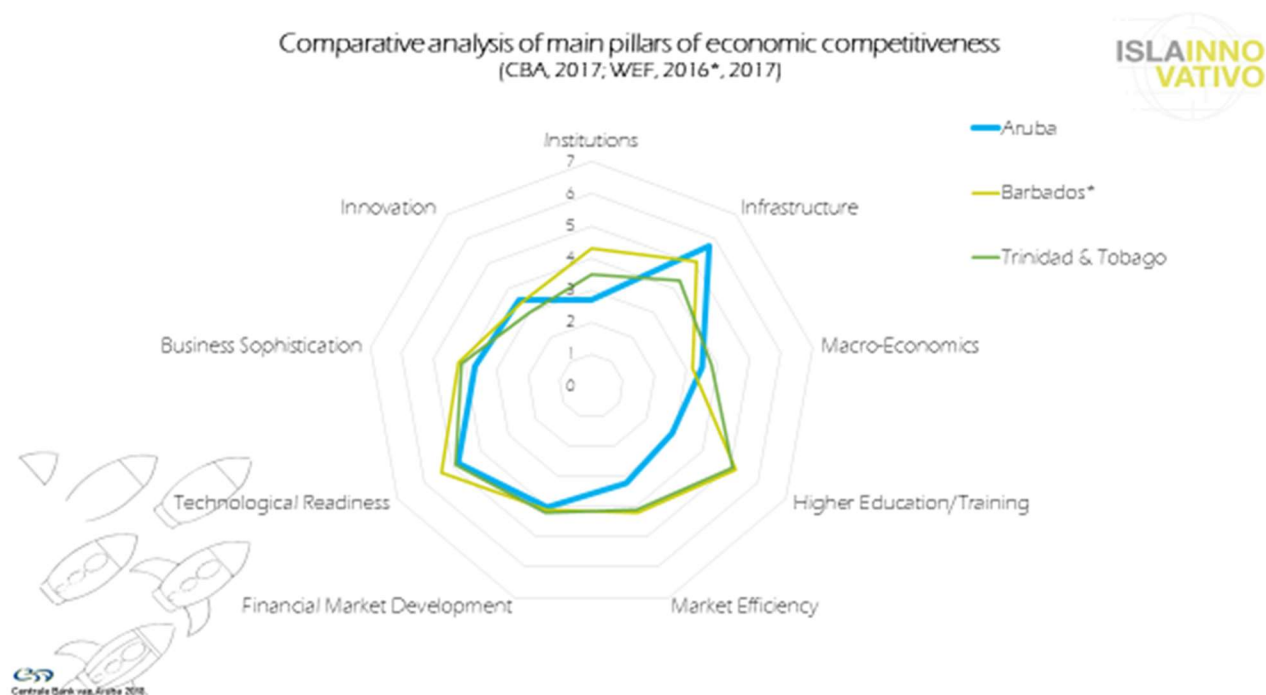
Research (Isla Innovativo, 2018) suggests that Aruba faces several key challenges in terms of doing business (see Figure 2.3), including the cost of doing business and dealing with the government (e.g., corruption and bureaucracy).

Figure 2.3. Single most problematic factor for doing business in small island Caribbean states



In terms of relative competitiveness (vis-a-vis Barbados and Trinidad & Tobago), Aruba underperforms in terms of higher education, market efficiency, and institutions (see Figure 2.4), underscoring the previous findings of high search costs for skilled workforce, high tax rates, and burdensome (and biased) government administration and regulation.

Figure 2.4. Single most problematic factor for doing business in small island Caribbean states



Source: Isla Innovativo, 2018.

Another interpretation of the cost of doing business is business competitiveness. Which countries are more attractive for businesses to settle in? CNBC ranks the 50 American states according to their business competitiveness, by looking at 10 categories (see Table 2.2).

Table 2.2. CNBC - Business competitiveness of American states

Category	Weight
1. Workforce	425
2. Infrastructure	400
3. Cost of doing business	350
4. Economy	300
5. Quality of life	300
6. Technology & innovation	225
7. Education	200
8. Business friendliness	150
9. Access to capital	100
10. Cost of living	50
	2500

Clearly, CNBC's conception of business competitiveness employs a broader concept than simply ease of doing business.⁸ As a matter of fact, the 8th category of "business friendliness" addresses regulation and litigation, which is the focus of ease of doing business. Interestingly, the 3rd category is "cost of doing business". For our study, it is important to know how cost of doing business is measured. CNBC looks at 5 sub-categories for cost of doing business (Table 2.3).

Table 2.3. CNBC - Cost of doing business

1. Taxes
2. State-sponsored incentives that can lower the cost of doing business
3. Utility costs
4. Wages
5. Rental costs for office and industrial space

The advantage of measuring cost of doing business is that it is *directly* quantifiable in money terms, which is not the case for ease of doing business or for business competitiveness at large. Therefore, in the rest of this chapter, we reproduce information (costs, tariffs, rules, regulation, laws) retrieved (in December 2018) from the websites of the Aruban government and government agencies (see references at the end of this chapter) on the current situation in Aruba⁹ regarding the 5 cost items listed in Table 2.3. Taxes are discussed in Section 2.2, incentives in Section 2.3, utility costs in Section 2.4, wages in Section 2.5, and rental costs in Section 2.6.

2.2 Taxes

Besides profit tax, other taxes (e.g., income tax, indirect tax) also affect the cost of doing business indirectly by increasing the cost of materials and labor costs.

2.2.1 Profit tax

Profit tax is due on the profit of an enterprise that carries out its business in Aruba through a local entity (e.g., a Limited Liability Company) or a permanent establishment, permanent representative, or fixed property of a foreign entity. The regular profit tax rate is 25%.

⁸ The World Economic Forum publishes a Global Competitiveness Index for 140 countries (but again, not for Aruba). This index represents 12 categories (called "pillars") that do not cover the concept of cost of doing business. The categories are listed in Annex 2.B.

⁹ The information on the websites that have been consulted was not always up to date. To the best of our knowledge, we have updated the information when feasible, and we also used public information on the 2019 tax reform and the indirect tax measure of July 2018. CBA does not accept responsibility for any remaining errors and omissions.

The following entities are subject to profit tax:

1. An entity established and incorporated in Aruba:
 - Limited Liability Company;
 - Private Limited Liability Company;
 - Limited Partnership with shares;
 - Aruban exempt company;
2. A permanent establishment or permanent representative of a foreign entity.

Payments can be deducted from taxable profits under specific conditions. Often deduction is limited. If payments are made to entities situated in Aruba or abroad, the transactions resulting from the payment should be made at arm's length. Payments include all remunerations for the use of material and/or immaterial goods or rendered services such as interest, royalties, and management fees. If the transaction is deemed at arm's length, the payments still are not tax deductible unless the Aruban company can make it credible that:

- The receiving party is not (in)directly related to the Aruban company; or
- The receiving party pays an effective tax rate of at least 15%; or
- All the shares in the receiving company are held by an entity that is (in)directly listed at a qualified Stock Exchange for at least 50% of the shares and voting rights.

If the payment is made at arm's length, but one of the above exceptions does not apply and the receiving party is subject to taxes, then 75% of the payment still could be deducted.

A relation with the taxpayer is deemed to exist if:

1. The taxpayer has an interest of at least 1/3 in another entity; or
2. An individual or entity has an interest of at least 1/3 in the taxpayer; or
3. A third party has an interest of at least 1/3 in another entity, while this party also has an interest of at least 1/3 in the taxpayer.

Participation exemption

If a company situated in Aruba holds shares or similar rights in another Aruban entity, the dividends received and the capital gains realized with the sale of these shares are exempt from corporate income tax. If a company situated in Aruba holds shares or similar rights in a foreign entity, the participation exemption applies only if these shares in the foreign entity are not held as an investment and the foreign entity is subject to a tax on profits.

Costs related to the participation are in principle not tax deductible. However, as of fiscal book year 2013, interest paid for the purchase of shares in an Aruban entity are tax deductible, provided that the interest is not deductible in the first two years after the purchase of the participation. In the third year and the following two years (years 4 and 5), the interest of the

first two years can be deducted in three equal installments. The interest due as of the third and following years is fully deductible.

Offset of losses

Losses generated in a year can be offset against profits generated in the following five years. Losses that remain after the five-year period will evaporate. In the case of an oil and gas exploration company, the losses can be carried forward for a period of 20 years. In the case of an Imputation Payment Company or an oil refinery, the carry forward of losses has no limit.

Fiscal unity

It is possible to apply for a fiscal unity between two or more Aruban entities if the parent company owns at least 99% of the shares in the subsidiaries at the beginning of the year. A fiscal unity implies that for corporate income tax purposes, the subsidiaries are disregarded and all profits are allocated to the parent company.

Fiscal incentives companies

Gift deduction

Gifts (donations) made by companies are tax deductible only if they are made to charitable, welfare, cultural, ideological, and scientific institutions with a maximum of Afl. 50,000 (USD 27,932) per fiscal book year.

Temporary investment deduction

A temporary investment deduction of 6% annually of the purchase value of a fixed asset is available to entrepreneurs and is applicable only to investments of minimum Afl. 5,000 (USD 2,793) in the year the investment is made.

2.2.2 Payroll tax liability

Companies are obliged to withhold taxes and social premiums on the payroll.

Wage tax

The wage tax is a pre-levy to the personal income tax. Wage tax has to be withheld as soon as employment exists. The employer is in principle the withholding agent. If a foreign employer is involved, this employer has only to withhold wage tax if the employer has a permanent establishment in Aruba. However, the Tax Department may appoint a foreign employer as a withholding agent (even if no permanent establishment exists).

Wage is described as all remunerations received from a (former) employment, no matter what the remuneration is called. Excluded from the wage tax are, for example, the employers' part of the social premiums and qualifying pension premiums.

The wage tax rate is equal to the personal income tax rate and is a progressive system. Personal income tax is due starting at an income of Afl. 27,751 (USD 15,503). The maximum rate is 52.00%.

Some benefits (“fringe benefits”) provided by the employer are tax exempt or taxable against a fixed amount/rate. Specific rules also exist for expatriates.

Expatriate regulation

An employee from abroad can apply for the expatriate regulation provided that certain conditions are met:

- To be considered as an expatriate the employee needs to have specific skills that are scarce on the Aruban labor market. It is assumed that the employee has these skills if his/her salary is at least Afl. 150,000 (USD 83,799);
- The expatriate needs to possess a resident and work permit;
- The expatriate can apply for the expatriate regulation only if he/she lived 5 years in another country prior to working in Aruba; and
- During his/her time in Aruba, the expatriate must train a local employee to take over the specialized work when the expatriate has returned to his/her home country.

Once the aforementioned conditions are met, the expatriate will enjoy the following benefits for a period of four years:

- The employer can give a tax-free financial compensation to an expatriate with a maximum of Afl. 15,000 (USD 8,380) per calendar year;
- The expatriate can receive a tax-free compensation of Afl. 25,000 (USD 13,966) per child, per calendar year for school tuition in Aruba and/or abroad;
- The employer can give a tax-free compensation with a maximum of Afl. 2,500 (USD 1,396) monthly, for the expatriate to rent a house in Aruba; and
- Contrary to the principal rule in the wage tax legislation, the wage of the expatriate will be grossed up only once, if the employer and employee concluded a written net salary employment agreement.

The employer has to file a written request with the tax authorities for the expatriate regulation to be applicable. The expatriate has to co-sign the request.

[2.2.3 Dividend withholding tax](#)

Dividend withholding tax is due on dividend distributions from companies situated in Aruba. The tax rate is:

- 10% of the dividend distribution;
- 5% of the dividend distribution if the shares of the distributing company or the receiving company are directly or indirectly listed at a qualified Stock Exchange for at least 50% of the shares and the voting rights;

- 0% if the participation exemption (see profit tax) is applicable.

Dividends between countries of the Dutch Kingdom are subject to the Regulation for the Dutch Kingdom (hereinafter: the Regulation). In certain situations, the Regulation reduces the rate of the dividend withholding tax from 10% to 7.5% or even 5%.

As of fiscal book year 2013, dividend distributions from special purpose companies, companies situated in the Special Zone in San Nicolas, and free-zone companies are exempt from dividend withholding tax.

Dividend distributions include, among other things:

- Formal dividend distributions;
- Liquidation payment;
- Bonus shares;
- Paying back of share capital, unless strict conditions are met; and
- Imputation payment.

[2.2.4 Turnover tax \(BBO\)](#)

Turnover tax (hereinafter: BBO) is due on the turnover of an entrepreneur which is realized with the delivery of goods or the rendering of services in Aruba. An entrepreneur is every person who carries out a business or a profession independently through, for example, an LLC, a natural person, or a form of association (joint venture and partnership). Therefore, even a foreign company is an entrepreneur for BBO purposes. Goods are defined as all tangible objects and some intangibles like gas and electricity. Services are defined as all activities that do not qualify as the delivery of goods, provided that the activities are performed for a consideration.

The BBO rate is set at 1.5%. The taxable base consists of all remunerations in kind or in cash received by the entrepreneur. If the payment is not at arm's length or in kind, the taxable base is the fair market value of the goods delivered or the service rendered. An exception is made for own produced/manufactured products. In that case, the taxable base is the cost price of the goods.

The turnover realized by the delivery of certain goods and the rendering of certain services are exempt from BBO. For instance, the delivery of fuel to companies whose goal is the production and delivery of water and electricity is exempt from BBO.

It also is possible to apply for a fiscal unity between two or more Aruban entities if the parent company owns at least 99% of the shares in the subsidiaries. All revenues of the subsidiaries are allocated to the parent company.

2.2.5 Import duties

Import duties are due on the import of goods. In general, primary goods are subject to a zero tax rate, while higher tariffs are applicable for goods depending on their degree of luxury. Reduced import duties apply for certain green products such as:

- 2% import duties on wind turbines, solar panels, and electric cars and parts;
- 12% on hybrid cars; and
- 2% import duties on inverter air-conditioning with an energy efficiency ratio of \geq SEER 14,5/ EER 12/ EER 3,5; on air-conditioning with a VRF/ VSC system; on refrigerators, washing machines, and industrial dishwashers with an Energy Star label; on CFL and LED lights with a Cos phi value of \geq 0,85; and on geysers and water heaters on solar energy.

2.2.6 Foreign Exchange Commission

The Foreign Exchange Commission (FEC) is due when residents make a payment abroad. The FEC amounts to 1.3% over the payment abroad. In the text of the law, a payment abroad is defined as:

- A payment with local currency or a payment against a florin account, whether or not by electronic transfer;
- A payment with foreign currency or a payment against a foreign currency account, whether or not by electronic transfer;
- A payment against a foreign currency account abroad or against an intercompany account with a person or entity abroad, whether or not by electronic transfer.

This definition applies insofar as the payment is a result of one of the following legal transactions:

- The purchase of foreign currency or foreign exchangeable; or
- Obtaining control over receivables in one or more foreign currencies; or
- An addition to an account of a nonresident of Aruba at a bank or an institution abroad.

2.2.7 Tourist levy

The tourist levy is a levy payable by a nonresident guest of a hotel or other accommodation. The tourist levy amounts to 9.5% on the remuneration received for the use of a room. If an all-inclusive package is provided, 45% of the package price must be allocated to the room. If 45% of the package price exceeds USD 90.50, the tourist levy is 9.5% over 45% of the package price. If 45% of the package price is less than USD 90.50, the tourist levy is 9.5% over USD 90.50.

Timeshare guests have to pay the 9.5% tourist levy on a fixed amount per day, which varies per type of accommodation:

- Afl. 179 (USD 100) for a studio;
- Afl. 193.95 (USD 108.35) for a one bedroom apartment;

- Afl. 223.75 (USD 125) for all other accommodations.

2.2.8 Other taxes

Gaming tax

The gaming tax is levied on the gross revenue of the casino and amounts to 4%.

Environmental levy

As of August 1st, 2013, a tourist staying in a timeshare resort, a hotel, or accommodation pays an environmental levy amounting to:

- USD 3 per night per occupied room for a stay in transient hotels or accommodations;
- USD 10 per stay for a studio in a timeshare resort;
- USD 15 per stay for a one-bedroom apartment in a timeshare resort;
- USD 25 per stay for any other type of room in a timeshare resort.

Travel promotion levy

A travel promotion levy of USD 10 is levied on each travelling ticket to Aruba.

Inheritance and gift tax

The inheritance and gift tax rate is progressive and ranges from 2% to 24%, depending on the degree of kinship and the value obtained. Local real property obtained as an heir or legatee or as a gift from a nonresident is taxed at 8%.

Transfer tax

Upon the transfer of real estate, a transfer tax is levied on the fair market value of the real estate transferred. The transfer tax rate amounts to 3% for the first Afl. 250,000 (USD 139,665) and 6% on every amount exceeding Afl. 250,000.

Land (property) tax

As of January 1, 2019, changes occurred in the land tax. Whereas the land tax rate previously amounted to 0.4% of the registered value of the real estate taking a general exemption of Afl. 60,000 (USD 33,520) into account, several rates are now in effect and the general exemption

has been removed. In addition, real estate owners now are obliged to declare their properties at the Tax Department. The current land tax rates are as follows:

Registered value of the real estate	Tax rate:
Afl. 0 - 120.000	0.0%
Afl. 120.000 - 250.000	0.2%
Afl. 250.000 - 500.000	0.3%
Afl. 500.000 - 750.000	0.4%
> Afl. 750.000	0.6%
Non-residents	0.6%
Commercial properties	0.6%

2.3 State-sponsored incentives that can lower the cost of doing business

2.3.1 Special tax regimes

Aruba exempt company

The Aruba exempt company could be exempt from corporate income tax, provided it includes one of the following activities:

- Holding activities;
- Licensing activities;
- Financing activities, but not acting as a financial institution;
- Investment activities, except for real estate.

Transparent company

Entities may opt for treatment as a partnership, i.e., become a transparent company for tax purposes. This option will result only in taxation of corporate income tax in Aruba if the shareholder abroad has a taxable presence (a permanent establishment or permanent representative) in Aruba. In that situation, the profit, insofar as it can be allocated to Aruba, is taxable on Aruba against the 25% corporate income tax rate. The transparent company, however, is not subject to the dividend withholding tax due to its transparency.

Imputation Payment Company / Special Purpose Company

The Imputation Payment Company regime entailed that part of the corporate income tax paid would be remitted to its shareholders in the form of an imputation payment. The Imputation Payment Company regime was open to all enterprises conducting specified activities such as hotel, financing, licensing, or investment activities. As of fiscal book year 2013, the Imputation Payment Company regime was modified and eventually ceased to exist.

The Imputation Payment Company regime was replaced by a Special Purpose Company. If a company has activities as published per decree AB 2005 nr. 90, or any of the activities listed

below, then it is eligible for a profit tax rate of 10% and an exemption of dividend withholding tax. A request should be filed with the tax authorities:

- Sustainable activities such as green energy projects, sustainable tourism, and other projects on sustainability with the exemption of hotels (for hotels another regime is applicable);
- Activities stimulating the knowledge economy;
- Scientific activities.

If a hotel can be categorized in one of the following categories and certain requirements are met, it can claim an exemption from dividend withholding tax and the following profit tax rates will be applicable:

Category	Revenue per available room (RevPar)	Profit tax rate	Annual investment obligation	
			>100 rooms	<100 rooms
I	USD 185	10%	Afl. 240,000	Afl. 120,000
II	USD 175	12%	Afl. 165,000	Afl. 75,000
III	USD 160	15%	Afl. 90,000	Afl. 40,000
IV	4 Diamond status	12%	Afl. 165,000	Afl. 70,000

For hotels to qualify for this regime, the following requirements must be met:

1. The hotel should possess an earth check certificate or a similar certificate on or before January 1, 2015. If the hotel can prove that it has started the process of obtaining such a certificate, this requirement is considered met. The certificate at the lowest possible level will suffice.
2. The hotel should invest a certain amount each year in the Aruban community to make Aruba more sustainable. One-third of the investment should be allocated for green energy projects, another third for education, and the final third in the purchase of local products. The investment can be deducted from the profit of the company.

[2.3.2 Tax agreements](#)

For the prevention of double taxation within the Dutch Kingdom, Aruba concluded a Tax Regulation for the Kingdom of the Netherlands. Furthermore, Aruba has several (approximately 25) Tax Information Exchange Agreements.

[2.3.3 Oil refinery or oil terminal regime](#)

Oil refineries and oil terminals are subject to a tax rate of 12%. However, under certain conditions, oil refineries or terminals whose shares are all held directly or indirectly by a company listed on a stock exchange recognized by the Minister, are subject to a 7% CIT rate. Under this regime, losses may be carried forward without limit. Moreover, a 0% dividend tax rate applies to distributions of profits from the operation of an oil refinery or terminal.

[2.3.4 Aircraft registration](#)

Aruba has a favorable tax regime in place for aircraft companies. The Aruba Exempt Corporation (A.V.V.) and/or the transparent company commonly are used as special purpose vehicles for the ownership or lease of an aircraft and subsequently the registration in the Aruban Nationality Register.

[2.3.5 Trade policy](#)

In general, Aruba supports a noninterventionist trade policy. Therefore, trade can be performed with countries globally. In this sense Aruba has some trade agreements that aim to make it easier to export products or services. These agreements may ensure a competitive advantage.

[2.3.6 Caribbean Basin Initiative](#)

Aruba is a beneficiary of the Caribbean Basin Initiative (CBI). The CBI is a trade program initially launched in 1983 to facilitate the economic development and export diversification of the Caribbean Basin countries. Through the Caribbean Basin Economic Recovery Act (CBERA) of 1983 (amended in 1990) and the Caribbean Basin Trade Partnership Act of 2000 (CBTPA), Aruba and beneficiary countries derive duty free entry to the United States for a broad range of products. Moreover, effective October 2000, apparel made in the CBI-designated countries from U.S. yarns and fabrics receive NAFTA equivalent treatment and enter the United States free of quota and duty.

Previously excluded products such as certain footwear, prepared or preserved tuna, petroleum or petroleum products, certain watches and watch parts, and certain handbags, luggage, flat goods, work gloves, and leather apparel receive NAFTA equivalent treatment.

[2.3.7 Trade paragraph of the OCT](#)

As an Overseas Country Territory (OCT), Aruba is eligible for the benefits of the trade paragraph of the Overseas Association Decision (OAD). The OAD offers Aruba preferential access of products to the market of the European Union (EU) once those products comply with the rules of origin.

[2.3.8 Government Procurement Agreement](#)

Since adaptations to the schedules for goods and services need to be refined, Aruba currently is not an independent member of the World Trade Organization. The membership of the Kingdom of the Netherlands enables Aruba to participate in WTO deliberations but does not grant the island independent voting rights. Nonetheless, Aruba is signatory to the multilateral agreement in the WTO that may benefit companies offering goods, services, and construction services to government buyers---the Government Procurement Agreement (GPA). The GPA makes markets of thousands of worldwide government entities accessible to Aruban suppliers of goods, services, and construction services. Both the United States and Canada

are signatories of the WTO's Government Procurement Agreement as well, which gives Aruban suppliers the opportunity to participate in American and Canadian procurement markets.

[2.3.9 Association of Caribbean States](#)

Aruba is an associate member of the Association of Caribbean States (ACS). The primary purpose of the ACS is to be an organization for “consultation, cooperation and concerted action” for its member countries. Its framework provides a forum for political dialogue that allows members the opportunity to identify areas of common interest and concern that may be addressed at the regional level, and the solutions for which can be found through cooperation. One of the areas identified by the ACS member states is Trade and Economic External Relations. The ACS provides a framework for the dialogue and activity necessary to further advance economic integration and intra-regional trade and investment, thereby improving the economic competitiveness of the Greater Caribbean region.¹⁰

[2.4 Utility cost](#)

Utility cost is the cost for electricity, water, and gas.

[2.4.1 Electricity](#)

Elmar's rate structure differs between small and large companies:

	Small	Large
Fixed rate	Afl. 75	Afl. 9,50
kWh	Afl. 0,5304	Afl. 0,5101

[2.4.2 Water](#)

The water tariff for commercial use is Afl. 9,50 per m³.

[2.4.3 Gas](#)

Gas for commercial use excluding installation costs are Afl. 125,- per gas cylinder and Afl. 146,70 per refill.

¹⁰ Aruba is an observer in the Caribbean Community (CARICOM), an organization of fifteen Caribbean nations and dependencies whose main objective is to promote economic integration and cooperation among its members, to ensure that the benefits of integration are equitably shared, and to coordinate foreign policy. Aruba wishes to become an associate member of CARICOM.

2.5 Wages

Wage cost comprises wages, as well as social and pension premiums paid by the employer.

2.5.1 Minimum wage

Statutory minimum wages exist for workers aged 18 years and older. The monthly entry level for minimum wages, by category (not including benefits) in 2013, based on a 40-hour workweek was Afl. 1,636.70 (USD 914.35) for business and Afl. 763.55 (USD 428.96) for domestic personnel.

2.5.2 Social Security Regulations

AOV/AWW (General insurance for Old Age / Widow and Orphans)

The AOV/AWW premium is paid by employee and employer. The AOV/AWW premium amounts to 15.5%: 10.5% is paid by the employer and 5.0% by the employee. The aforementioned percentages are calculated over the premium income, which is maximized at Afl. 85,000 (USD 47,486) and is due only until the employee reaches the retirement age. The maximum annual employer contribution amounts to Afl. 8,925, which is related to a maximum annual income of Afl. 85,000.

General Health Insurance (AZV)

The AZV premium is paid by the employee and the employer. The AZV premium is 11.5%. The premium is paid by the employer (8.9%) and by the employee (2.6%). The aforementioned percentages are calculated over the premium income, which is maximized at Afl. 85,000 (USD 47,486).

Sickness and Accident Insurance Premium

The employer must insure each employee earning up to an annual maximum of Afl. 54,600,- for wage compensation resulting from an illness or accident. The contribution for illness insurance is 2.65% of the employee's salary and is paid fully by the employer. Employees earning more than Afl. 54,600,- are not insured by the Sociale Verzekerings Bank (SVB).

An employer must insure each employee for on-the-job accidents regardless of the employee's income. The contribution rate is not standard, but differs from industry to industry. Employers pay between 0.25% and 2.5% of the employee's salary up to a maximum annual income of Afl. 54,600,-. The monthly contribution must be transferred by the employer before the 15th of the following month to the Sociale Verzekeringsbank (SVB).

Compulsory Pension

All private sector employees are required by law to be insured for a private pension, at local insurance companies and company pension funds. Shareholders who also manage their own companies can build up their pension within the company. Employers are required to contribute to the pension plan as well. The minimum pension premium at the moment is 4% divided equally between the employer and the employee. In 2014, the minimum premiums became 6%.

2.6 Rental costs for office and industrial space

Real estate costs to be considered include:

- Private property ownership (Eigendom = Grondbelasting)
- Commercial long term land lease (Erfpacht = Erfpachtscanon)
- Short term land lease (Huurgrond = Huur)

The average commercial rent in Aruba is Afl. 25,- per m².¹¹

¹¹ This calculation is based on samples collected by The Department of Economic Affairs, Trade & Industry and is not an exact indication.

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ANNEX 2.A

Cost of living Aruba

Item	Price	Year	Ranking, out of number of countries
Average monthly disposable salary > After tax	\$2,833.33	2014	22nd out of 145
Basic utilities > Garbage, water, heating, electricity for 85 sqm apartment	\$450.00	2014	1st out of 146
Cinema ticket price > International release	\$10.50	2014	36th out of 144
Clothing and shoe prices > Jeans > 1 pair of Levi 501s or equivalent	\$83.33	2014	51st out of 143
Clothing and shoe prices > Shoes > Pair of Nikes	\$105.00	2014	43th out of 143
Internet > Broadband 6Mbps, uncapped data	\$40.00	2014	76th out of 146
Prices at markets > Cigarettes > Pack of Marlboro	\$12.00	2014	6th out of 146
Prices at markets > Egg > Dozen	\$3.17	2014	29th out of 146
Prices at markets > Loaf of bread > Fresh, white	\$2.67	2014	13th out of 146
Prices at markets > Milk > 1 liter	\$1.81	2014	26th out of 146
Prices at markets > Water > 1.5 liter bottle	\$2.00	2014	17th out of 146
Real estate prices > Apartment purchase price per sqm > City center	\$1,300.00	2014	98th out of 136
Real estate prices > Rent index	36.79	2014	31st out of 144
Real estate prices > Rent per month > 3 bedroom apartment > City center	\$2,000.00	2014	24th out of 146
Restaurant prices > McDonalds meal	\$6.00	2014	81st out of 146

Source: <https://www.nationmaster.com/country-info/profiles/Aruba/Cost-of-living>. Based on cost of living comparisons by numbeo.com.

Annex 2.B. Categories covered by World Economic Forum's Global Competitiveness Index

1: Institutions

Security, property rights, social capital, checks and balances, transparency and ethics, public-sector performance, and corporate governance.

2: Infrastructure

The quality and extension of transport infrastructure (road, rail, water and air) and utility infrastructure.

3: ICT adoption

The degree of diffusion of specific information and communication technologies (ICTs).

4: Macroeconomic stability

The level of inflation and the sustainability of fiscal policy.

5: Health

Health-adjusted life expectancy (HALE)—the average number of years a newborn can expect to live in good health.

6: Skills

The general level of skills of the workforce and the quantity and quality of education. While the concept of educational quality is constantly evolving, important quality factors today include developing digital literacy, interpersonal skills, and the ability to think critically and creatively.

7: Product market

The extent to which a country provides an even playing field for companies to participate in its markets. It is measured in terms of extent of market power, openness to foreign firms, and the degree of market distortions.

8: Labor market

It encompasses “flexibility”, namely, the extent to which human resources can be re-organized and “talent management”, namely, the extent to which human resources are leveraged.

9: Financial system

The depth, namely, the availability of credit, equity, debt, insurance, and other financial products, and the stability, namely, the mitigation of excessive risk-taking and opportunistic behavior of the financial system.

10: Market size

The size of the domestic and foreign markets to which a country's firms have access. It is proxied by the sum of the value of consumption, investment, and exports.

11: Business dynamism

The private sector's capacity to generate and adopt new technologies and new ways to organize work, through a culture that embraces change, risk, new business models, and administrative rules that allow firms to enter and exit the market easily.

12: Innovation capability

The quantity and quality of formal research and development; the extent to which a country's environment encourages collaboration, connectivity, creativity, diversity, and confrontation across different visions and angles; and the capacity to turn ideas into new goods and services.

3. Stakeholders' perceptions

3.1 Introduction

The Research department of the CBA took advantage of its regular, semi-annual meetings with stakeholders to discuss the cost of doing business in Aruba. During the meetings, which took place from January 29 – February 14, 2019, the Research Department managed to get a better understanding of the main “pain points” perceived by businesses in Aruba. The gathered stakeholder opinions are presented in this chapter.

The cost of doing business on the island, as perceived by the stakeholders, can be divided into five broad categories: labor costs, taxes, operating costs, financing costs, and other costs (Table 3.1). The costs of labor can be considered the most important factor if one looks at the number of times aspects of labor-related costs were mentioned during the meetings (14 times, see Table 3.1). Another category that was at the center of the discussions with the stakeholders were the operating costs. This category is broader than the others, as certain cost items are industry specific. Tax-related matters proved a key area of concern, especially amongst stakeholders from the tourism industry. The topics of regulation and finance also were brought up a couple of times, while information dissemination seemed a hurdle for only one stakeholder. In general, stakeholders indicated not only that the cost of doing business in Aruba is currently high, but that they also expect this cost to be higher in the future. Furthermore, stakeholders mentioned that they are often confronted with immaterial costs in the form of time and effort exerted. These type of costs are related mostly to the ease of doing business and, therefore are not the main focus of this chapter.

Table 3.1. Factors affecting the cost of doing business in Aruba, mentioned by number of stakeholders

Factors	Stakeholders
Labor	
Labor Costs	5
Labor Laws	5
Labor Market	3
Labor Permits	1
Taxes	
Tax Level	4
Tax Administration	1
Excises	2
Operating Costs	
Startup Costs	1
Fuel Prices	1
Inflation	2
Maintenance Costs	2
Immaterial Costs	1
Utilities Costs	2
Waste Management Costs	1
Finance	
Cost of Finance	1
Banking	2
Other Factors	
Enforcement of Laws	3
Bureaucracy / Red Tape	2
Decision-making Power	1
Information Dissemination	1

Source: CBA stakeholder meetings (January 29 – February 14, 2019).

3.2 Labor

3.2.1 Labor Costs

Labor costs was one of the most frequently mentioned factors affecting the cost of doing business on the island. In particular, employer contributions pertaining to their social insurance obligations form a major cost item for businesses.

This stakeholders' claim seems to be justified when consulting other sources. For example, looking at the 'Employer' column of Table 3.2 it is evident that businesses on the island face a relatively high rate of social security contribution compared to other islands in the region, as well as developed countries such as the Netherlands and the United States. With an employer contribution rate of 13.5% of gross salary, Aruba ranks second only to Cuba, with its 14.5% rate.¹² Compared to Aruba and Cuba, most other countries have a relatively lower employer contribution rate, and a relatively smaller discrepancy between employee and employer rates. The Netherlands has by far the highest social contribution rate for employees (18.0%).

Table 3.2: Contribution rates for social security*, 2017/2018

Country	Employee	Employer	Total
Antigua and Barbuda	5.0%	7.0%	12.0%
Aruba	5.0%	13.5%	18.5%
Bahamas	3.9%	5.9%	9.8%
Barbados	8.9%	8.8%	17.7%
British Virgin Islands	3.3%	3.3%	6.6%
Costa Rica	4.5%	8.3%	12.8%
Cuba	5.0%	14.5%	19.5%
Dominica	5.5%	6.8%	12.3%
Dominican Republic	2.9%	7.1%	10.0%
Grenada	4.0%	4.0%	8.0%
Haiti	6.0%	6.0%	12.0%
Jamaica	2.5%	2.5%	5.0%
Saint Kitts and Nevis	5.0%	5.0%	10.0%
Saint Lucia	5.0%	5.0%	10.0%
St. Vincent and the Grenadines	4.5%	5.5%	10.0%
Trinidad and Tobago	4.4%	8.8%	13.2%
Netherlands	18.0%	6.3%	24.3%
United States	6.2%	6.2%	12.4%

Source: Social Security Administration (2017, 2018), SVB Aruba.

*Old-age pension, disability, and survivors' insurance.

¹² An identical comparison for the years 2015/2016 is presented in CBA, Sustainable government policies: Recommendations to the government of Aruba for the period 2017-2021, December 2017. In this earlier comparison, Aruba also places in the top three countries with the highest social contribution rates faced by employers.

3.2.2 Labor Laws

The stakeholders made several claims related to the impact of local labor laws on the cost of doing business on Aruba. First, labor laws are not considered flexible enough. Once employees are past their probation period and enter permanent employment, it is very difficult for an employer to terminate their contract, even when an employee is not performing well or is not able to perform his or her tasks due to sickness. Due to the financial consequences of the termination of labor contracts, businesses often are stuck with an unproductive employee for a longer period of time than they would like. In the case of serious illnesses, when an employee that is not covered by the Social Security Bank's (SVB) sickness insurance goes into an extended period of sick leave, the financial obligations toward that employee may hinder businesses from hiring an additional employee to take over the responsibilities of the sick employee. Second, a stakeholder indicated that labor laws are making it increasingly difficult to get the most productivity out of their workers. References were made to several law changes including:

- a) The reduction in the amount of hours that workers are able to work, e.g., from 48 hours per week to 45 hours per week.
- b) The increase in the AOV/AWW threshold, which make employees more expensive for the employer, as the minimum wage as well as the AOV/AWW threshold have gone up.

Finally, for some stakeholders, the administrative burden related to the reconciliation process between their business' administration and that of the SVB, based on the sick leave procedures stated by law, are a major pain point.

3.2.3 Labor Market

Several stakeholders were of the opinion that the cost of labor also is driven up by a mismatch between demand and supply existing on the Aruban labor market. According to these stakeholders, two main reasons explain the mismatch between supply and demand in the Aruban labor market. First, while unemployment exists on the island, the skillsets necessary for specialized jobs often are not readily available. Second, certain industries find themselves with a population that is not willing to meet the industries' job requirements. The hotel industry, for example, faces a persistent challenge of labor shortage. According to a representative of the tourism industry, a large share of the Aruban population is not willing to work the shifts required in the industry (e.g., night shifts and weekends). Furthermore, they cited a so-called misplaced "low-wage mentality" which relates to the idea that hotel jobs, in particular waiters and housekeepers, do not earn a sufficient wage. This notion is considered misplaced, as these wages are complemented by tips received from visitors, which according to the stakeholder from the tourism sector tend to be relatively high. The construction industry shared a similar experience as the tourism industry. Several representatives

indicated that the effects of aging are being felt heavily, as the current generation is not interested in working certain needed jobs, e.g., as plumbers, and so forth.

As a consequence of the above-mentioned developments, labor needs to be imported, which brings us to the following factor driving the cost of doing business in Aruba.

3.2.4 Labor Permits

Most employees from abroad need a work- and residence permit to live and work in Aruba. However, the process of obtaining such a permit is time-consuming, requires multiple documents (± 10), and entails reviews, e.g., the labor market review at DPL. Furthermore, the employer or an authorized representative must always be present at a DIMAS appointment for their employees.¹³ Being present involves costs in either time or money (if this responsibility is delegated to a lawyer).¹⁴

3.3 Taxes

3.3.1 Tax level

Taxes in Aruba are considered very high by the stakeholders, and this affects businesses in Aruba in several ways. First is the financial burden itself. While the stakeholders understand the necessity of taxes, the perception is that in most cases, businesses bear the highest burden and *de facto* subsidize consumers. Furthermore, some businesses find that their services are skipped to save the 6% in indirect taxes that clients would otherwise have to pay on those services. In the construction sector, for example, general contractor services are skipped. Instead, clients deal directly with subcontractors. Last, and related to the required import of specialized labor, the relatively high tax level on the island makes it hard to attract foreign expats as the tax conditions are relatively unfavorable compared to other work destinations.

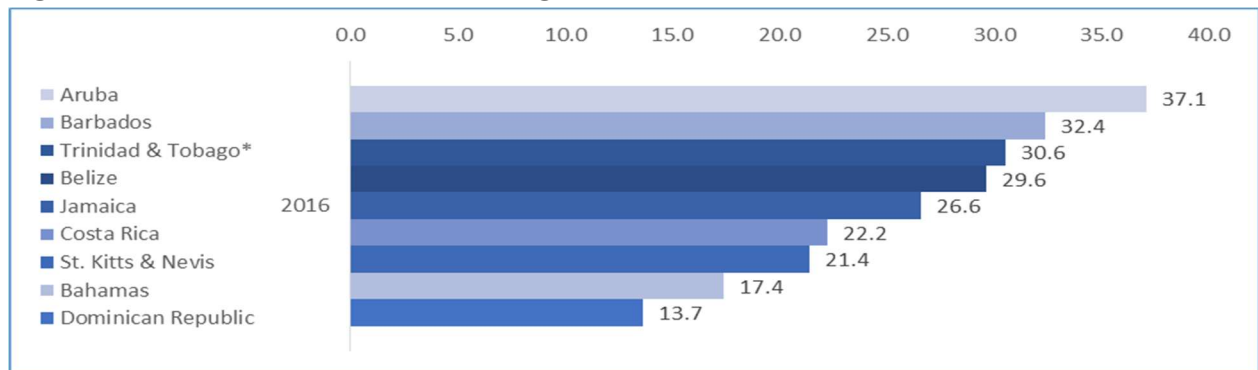
An analysis¹⁵ conducted by the Research Department comparing the tax burden of 9 island economies in the region, reveals that Aruba has the highest tax-to-GDP ratio when social security contributions are taken into account (See Figure 3.1). When these contributions are excluded, Aruba holds fourth place with 22.7%. Excluding social security contributions, Barbados has the highest tax revenue-to-GDP ratio (29.2%), and the Bahamas (13.6%) the lowest.

¹³ <https://www.dimasaruba.aw/en/faq/>

¹⁴ According to AHATA's 2019 Hotel Manpower Study, 84% of 7,562 employees of 22 hotels do not need a working permit. However, to know whether this is not imported labor from abroad, it is necessary to know how many do not need a working permit anymore because they have already received a sufficient number of permits over the past years ("Firma Liber").

¹⁵ E. Croes & C. Ashby, Tax Burden of Aruba: A regional comparison, CBA memorandum, November 20, 2018.

Figure 3.1. Tax revenue to GDP including social security contributions



Source: CBA

3.3.2 Tax administration

The level of taxes is not the only tax-related concern of stakeholders on the island. In general, stakeholders are of the opinion that the tax structure in Aruba is quite complicated and that in the recent past they have faced the introduction of various new taxes as well as changes in tax rates, which often seem to come into effect on relatively short notice.

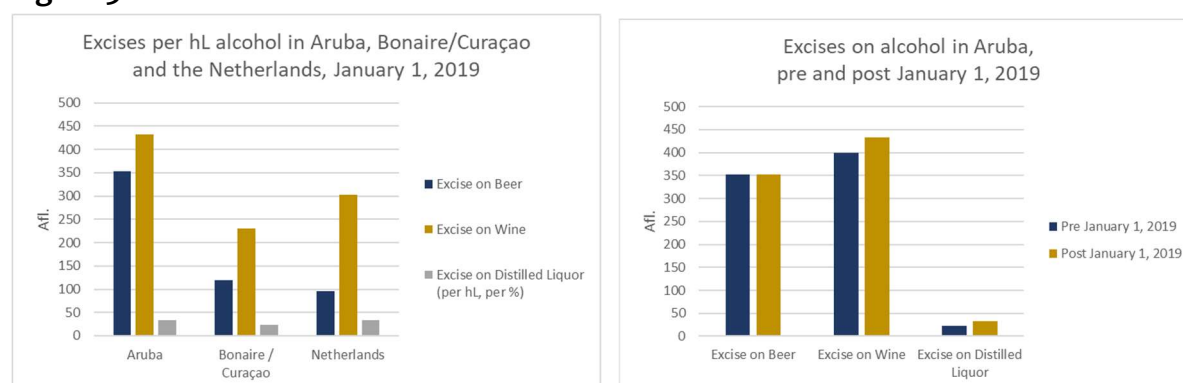
During the last five years, the following introductions and changes in taxes have taken place:

- December 2014: Introduction of BAZV (1%)
- July 2015: Increase in BAZV (2%)
- July 2018: Increase in BAZV (3%); Introduction of BAVP (1.5%)

3.3.3. Excises

Tourism sector stakeholders reported that the recent increase in excises and import duties on alcohol have had a large impact on the operations of hotels and restaurants. As of January 1, 2019, these stakeholders are faced with an effective price rise of 8% for wines and 44% for distilled liquor. These developments are in addition to the already quite high beer excises on the island in comparison to other countries (see Figure 3.2). For an industry that sells a large quantity of alcohol, the aforementioned measures are having a substantial impact.

Figure 3.2. Excises on alcohol



3.4 Operating Costs

The following section contains an array of industry-specific costs experienced by the different stakeholders in conducting their businesses.

According to some stakeholders, the costs of starting a business have risen throughout the years. Start-up costs include, among other things, the costs for a business plan, finding office space, expenses for legal work, logo design, brochures, but also rent and labor costs before the actual launch of the company. Although the perception of increased costs was readily acknowledged, no factual numbers or amounts were provided or obtained during this study.

Certain stakeholders reported that inflation is quite a cost driver in their business. These stakeholders engage in the practice of index linking, where contracts include periodic adjustments to payments for contract stipulations, based on the price index level.

Stakeholders from the tourism industry reported finding that electricity and water prices are quite high on the island. This point was elaborated from the so-called ‘value-for-money’ perspective. As Aruba is a high-price destination, the delivered services to the tourists should be up to par. When a large share of expenditure goes into basic necessities, not much money is left to offer the extra experience which makes the costs of the destination worth it to the tourists. The representatives explicitly mentioned the costs of utilities, as according to them, the tourism industry uses these resources heavily in their daily operations.

Table 3.3 presents information on the sale of water and electricity on Aruba over the years 2014 - 2018. Data on the consumption of water shows that on a steady basis, hotels account for about a quarter of the sales (see Table 3.3). With regard to electricity consumption data, hotels fall in the category ‘Large Commercial’, which is the second largest category. It should be noted however, that this category contains all users with a 500 kVA or more capacity installed, including a large local brewery and several condominiums.

Table 3.3. Sale of water (m³) and electricity (KWh) in Aruba by user types (2014 – 2018)

Sale of water (M^3) and electricity (KWh) in Aruba by user types (2014 - 2018)					
% of Total Water sale WEB (M^3)	2014	2015	2016	2017	2018
Household	58.6%	58.3%	58.0%	57.6%	58.1%
Business	13.6%	13.9%	13.7%	13.6%	13.5%
Hotels	25.7%	25.4%	25.6%	25.9%	25.4%
Government	2.1%	2.3%	2.7%	2.9%	3.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
% of Total Electricity sale ELMAR (KWh)	2014	2015	2016	2017	2018
Household	37.0%	37.4%	38.5%	39.6%	40.2%
Commercial	28.0%	27.6%	27.4%	27.1%	26.9%
Large Commercial	32.6%	32.6%	31.8%	30.9%	30.8%
Street Lighting	0.6%	0.5%	0.5%	0.5%	0.2%
Advertisement Lighting	0.2%	0.2%	0.2%	0.2%	0.2%
Various: Churches, Schools, etc.	1.7%	1.8%	1.7%	1.7%	1.8%
Total	100%	100%	100%	100%	100%

Source: WEB, ELMAR

A stakeholder from the tourism sector shared that the sector has recently seen its waste management tipping fee triple, from Afl. 60 to Afl. 180 due to the closing of the Parkietenbos landfill. Stakeholders also worry about further increases in waste management fees, emphasizing the need for innovation aimed at a more sustainable waste-to-energy solution, to deal with the waste problem on Aruba.

3.5 Finance

The perception amongst certain stakeholders is that foreign investors are charged a lower interest rate than local investors when obtaining finance. The increased costs of finance make it relatively difficult for domestic companies to invest and expand their operations. With regard to banking, stakeholders are of the opinion that international bank transfer fees are very high.

3.6 Other factors

The following section briefly discusses matters that affect the stakeholders and are related to the ease of doing business on the island.

3.6.1 Unfair competition

Stakeholders are concerned that authorities are slacking when it comes to the enforcement of laws. As a consequence, unfair competition arises, due to an unlevel playing field between businesses that properly adhere to the rules and regulations in place versus businesses that do not. In the tourism sector, for instance, the hotel license is an issue. According to article 10

of the licensing regulation, a hotel license is needed to operate a hotel on the island.¹⁶ According to a tourism sector stakeholder, the law states that all properties that rent rooms to visitors who stay on Aruba for 90 days or less need to obtain such a license. Therefore, properties rented via Airbnb, for example, that do not have such a license are operating illegally on the island. The current law is thus subject to ambiguity and needs to be dealt with to promote fair competition on the island, or, at least remove perceptions of having an unlevel playing field.

A construction sector stakeholder voiced concerns regarding the payment of social security contributions by foreign companies who are only temporarily on the island working on projects. It is relatively easy to monitor locally established companies versus the companies that fly in from abroad and are on the island for a relatively short period of time. Companies that do not contribute to social security for their employees are able to offer lower prices but are not in compliance with local regulation. Locally established companies take into account social security contributions and collective labor agreement requirements when they set their prices, and therefore may be wrongfully considered overpriced.

¹⁶ https://www.overheid.aw/producten-diensten/zoeken-op-trefwoord-productnaam_241/product/hotelvergunning_145.html (7-3-2019).

3.6.2 Bureaucracy / Red Tape

One stakeholder emphasized the high level of red tape within the government. Due to the bureaucracy, many businesses incur unnecessarily high expenses to obtain permits. This situation is particularly burdensome for small enterprises as they do not have the scale to bear these high costs.

Certain stakeholders indicated a need to have more streamlined information for investors. Currently, to provide investors with the information they require, they are referred to multiple organizations, e.g., DEZHI, ARINA, etc. Having one institution serving as the sole source of reliable and up-to-date information for all investor information needs would be beneficial.

With regard to the exertion of time and effort, stakeholders consider the process of opening a bank account to be highly time-consuming and complex. This challenge is of particular concern when it regards accounts for nonresidents to collect their salary. In addition, the setting up of contracts also requires a lot of time and effort, which affects the operation of the businesses.

3.7 Concluding Remarks

For businesses on the island, the drivers of the cost of doing business can be divided broadly into five categories: labor costs, taxes, operating costs, financing costs, and other costs, of which the top three concerns are labor costs, taxes, and operating costs.

With regard to labor costs, the main concerns voiced by the stakeholders related to the social contribution rates they need to pay for their employees, the lack of flexibility provided by local labor laws, as well as the mismatch between supply and demand of labor on the Aruban market. A regional comparison of social security contribution rates shows that businesses in Aruba indeed do face a relatively higher employer social contribution rate than businesses in the region.

When it comes to taxes, stakeholders are not only burdened by the level of taxes, but also by the complexity of the tax structure. Stakeholders also mentioned the frequent tax changes and tax introductions faced in the recent past. A regional comparison of tax revenue to GDP data shows that when social security contributions are included, Aruba has the highest tax-to-GDP ratio in comparison to the other islands in the study.

The category operating costs consists of a broad range of costs faced by businesses on the island. The stakeholders shared their concerns on start-up costs, fuel costs, inflation, machinery maintenance, utilities costs, and waste management costs. Data on the sale of water provided insight into the magnitude of water usage by the hotel sector.

It should be noted that businesses on the island are not only hindered by material costs, but also by immaterial costs such as time and effort. Furthermore, demands were voiced to address the enforcement of laws on the island, in light of perceptions of an unfair competition environment in some sectors. For some of the cost items presented, the available data (tax burden data, excises, utility sales data) provide evidence that support the claims of some of the stakeholders.

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4. Development

4.1 Introduction

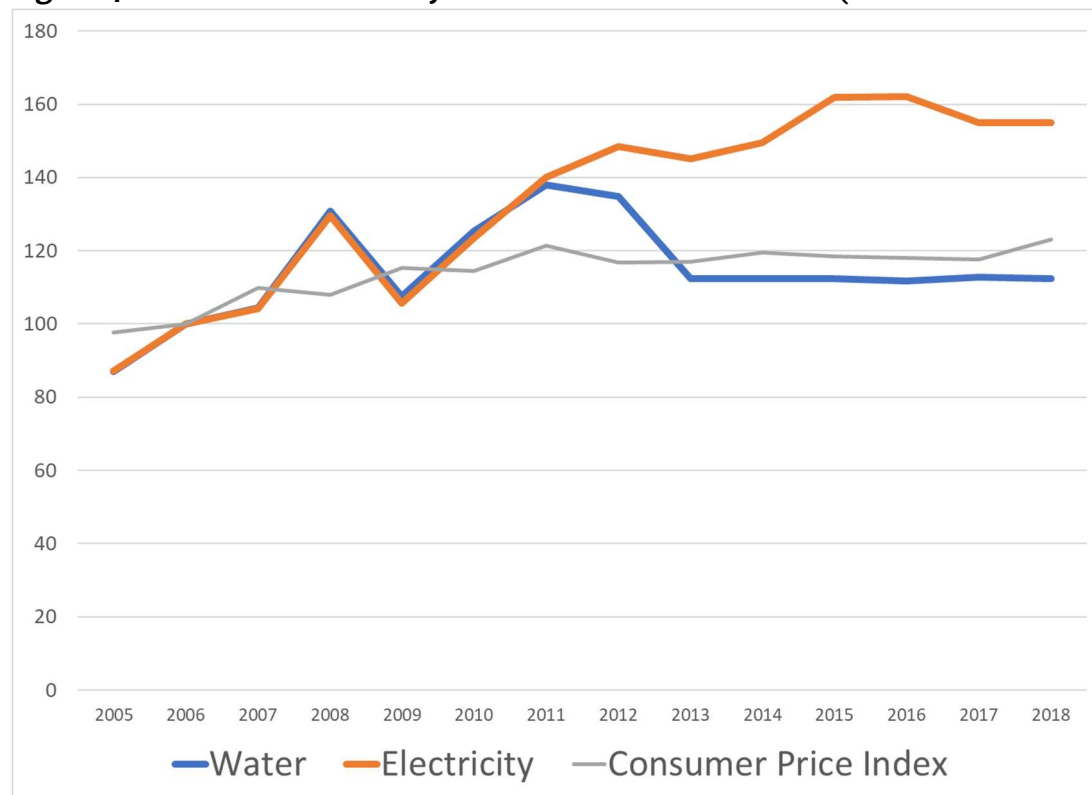
This chapter quantifies the development of the cost of doing business, i.e., utilities, taxes, import duties, excises, rental cost, and wages.

4.2 Utilities

Figure 4.1 shows the annual development of the electricity and water tariffs for commercial users. Between 2005 and 2011, the developments of water and electricity tariffs were identical, with a total increase of 65%, that is, 8.7% per year. Since 2011, the water tariff has been cut, while the electricity tariff increased further albeit at a slower pace. The electricity tariff reached its peak in 2015, before being reduced in 2017. Since 2017, both tariffs have remained constant.

The consumer price index (CPI) has been added to the figure to be able to analyze whether the utilities tariffs developed differently from the general price index. Reviewing the development between 2006 and 2018, the rise of the water tariff remained 9 percentage points below CPI inflation, while electricity increased by 33 percentage points more than CPI inflation.

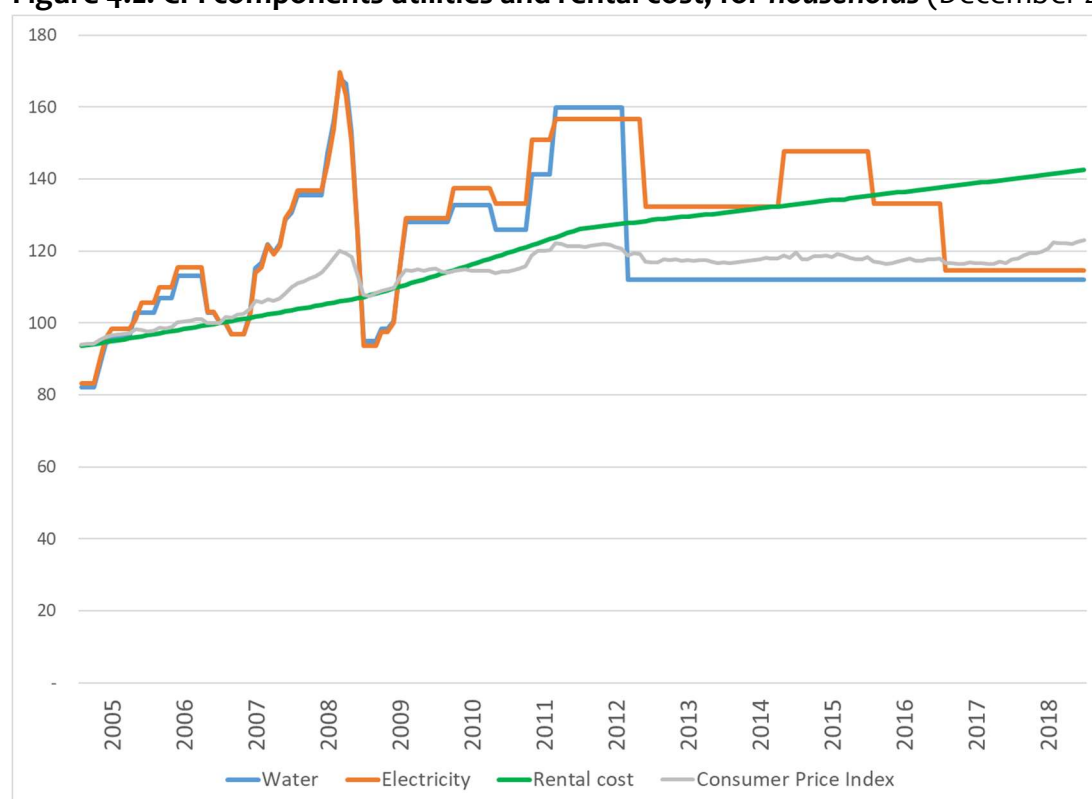
Figure 4.1. Water and electricity tariffs for commercial users (December 2006 = 100)



Source: WEB and CBS.

For comparison, Figure 4.2 shows the monthly development of utility costs for households during the same period. Until 2011, electricity and water tariffs for households moved in tandem; after 2011 they diverged. A notable difference between commercial and household tariffs is that while electricity tariffs for commercials increased further since 2011 (Figure 4.1), for households the electricity tariff was reduced on two occasions, in November 2012 and January 2017 (Figure 4.2). Electricity tariffs for households in 2011 were already low in Aruba compared to other countries in the region (IMF, 2013).

Figure 4.2. CPI components utilities and rental cost, for households (December 2006 = 100)



Source: CBS.

4.3 Taxes, import duties, and excises

Annex 4.A presents data on taxes, import duties, and excises for the period 2013-2019. During this six-year period, the following occurred:

- Indirect taxes were raised in 2014 (by 1 percentage point with the introduction of the BAZV tax), in 2015 (with the increase of the BAZV tax by 1 percentage point), and in 2018 with the increase of the BAZV tax and the introduction of the BAVP tax (together by 2.5 percentage points).
- The profit tax rate was lowered from 28% to 25% in 2016.
- The AOV/AWW rate for the employer was increased by two steps of 0.5 percentage point each in 2014 and 2015, to a level of 10.5%. Besides this, the taxable wage amount for the AOV/AWW premium was raised from Afl. 65,052 to Afl. 85,000 in 2014 (not reported in Annex 4.A). This is currently still the taxable wage amount.
- The AZV rate for the employer remained constant at 8.9%.
- The sickness and accident insurance premiums for the employer remained constant at 2.65% and between 0.25% and 2.5%, respectively.
- The (maximum) dividend tax remained constant at 10%.

- *Import duties* remained constant.
- *Excises* on distilled beverages were raised in 2019 by 44% to Afl. 2,653 per hectoliter of distilled alcohol containing 50 liter pure alcohol.¹⁷
- The *foreign exchange commission* remained constant at 1.3% during the period under review.
- *Tourist levy* and *gaming tax* remained constant at 9.5% and 4%, respectively.
- *Environment levies* remained constant.
- *Transfer tax* remained constant between 3% and 6%.
- *Property tax* was raised from 0.4% to 0.6% in 2019. The property tax, which in the past was 0.4% on all properties, was changed in 2019 into 5 brackets (0.0% - 0.6%), with properties with a value up to Afl. 120,000.00 paying no property taxes, and properties valued at or above Afl. 750,000.00 paying 0.6%. Additionally, nonresident and commercial properties are taxed at 0.6%. Finally, the tax free amount, which previously was Afl. 60,000, was abolished.
- *Cesantia* remained constant at Afl. 40 per employee.
- *Partner and orphan pension premium* for the employer remained at 0.5%.

As of January 1, 2019, several tax reforms took place, which are not included in Annex 4.A:

- In the wage tax and the income tax, the tax free amount was raised as per the beginning of 2019. Furthermore, the wage tax brackets were simplified and reduced.
- Excises were raised on distilled liquor as mentioned above. Furthermore, excises were raised on grape wine from Afl. 400.00 to Afl. 433.00 per hL, on fermented beverages (amongst others, apple and pear wine) from Afl. 100.00 to Afl. 433.00 per hL, and on other fermented beverages from Afl. 150.00 to Afl. 433.00 per hL. Additionally, excises were increased on tobacco from Afl. 57 to Afl. 211.50 per kg.
- A sin tax (sugar tax) is planned for introduction as of July 1st, 2019. This tax is intended to put excises on products that contain water with added sugar. More information is currently not available.

4.4 Rental costs

For commercial properties, data on the development of rental costs are not available. It is not clear to what extent rental costs for households are indicative for those of commercial

¹⁷ The excises on distilled beverages are applied to a basis of one hectoliter of distilled alcohol which contains 50 liter pure alcohol. The excise previously applied was Afl. 1,844 per hectoliter of the aforementioned. The latter was changed to Afl. 2,653 (+43.9 percent) with the introduction of the tax reform as of January 1, 2019.

properties. The price of rentals for households recorded a steady increase during the 2005-2018 period, increasing in total by 53 percent, that is, 3.3% on average per year (Figure 4.2).

4.5 Wages

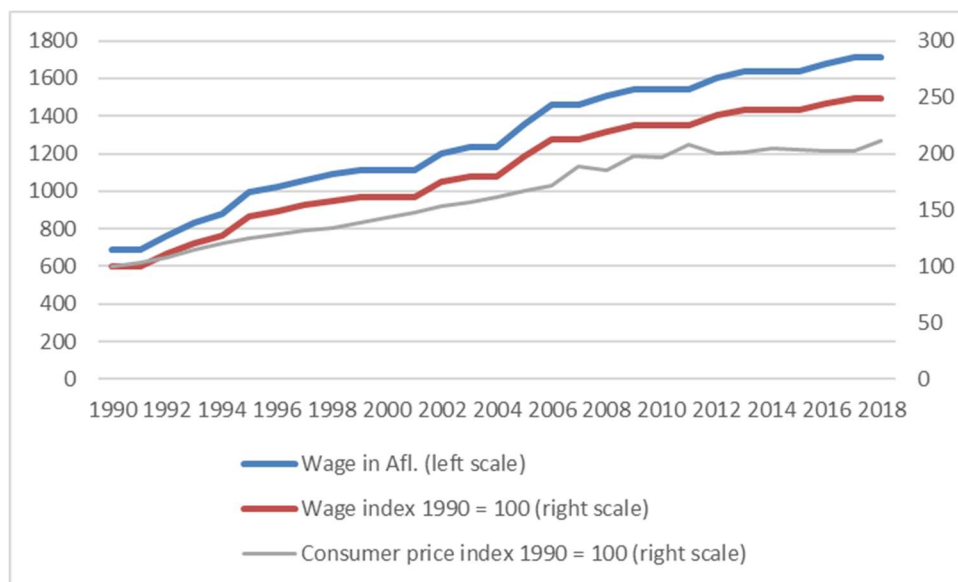
As depicted in Figure 4.3, the monthly minimum wage shows an increase from Afl. 686.90 in 1990 to Afl. 1,711.50 in 2018. This is a total increase of 149%, or on average 3.3% per year.

The rate of increase slowed down during this period. From 1990-2005, the index increased on average by 4.6% per year. From 2005-2018, the average increase was 1.8% per year.

A representative from the tourism sector mentioned that, apart from the increase in the minimum wage, the maximum working hours allowed for hotels, restaurant and casinos decreased. As a matter of fact, the maximum working hours allowed for this sector was decreased on the 1st of January 2014 from 48 to 45 hours per week.¹⁸

Since 1990, the minimum wage increased by about 40 percentage points more than the CPI, that is, the average increase was 1.4 percentage points per year.

Figure 4.3. Monthly minimum wage



Source: CBS.

¹⁸ Directie Arbeid en Onderzoek; Arbeidstijdenbesluit Horeca & Casino's 2014.

4.6 Summary and concluding remarks

Among the costs of doing business, since 2005, the increase in electricity costs for commercial businesses was particularly strong compared with both the general consumer price index and the electricity costs for households. However, the increase in the cost of water was moderate and in line with the CPI.

As for taxes, since 2013, indirect taxes have seen moderate increases on three occasions (2014, 2015, and 2018). However, the tax reform of 2019 may entail a further increase and/or a change in the methodology of indirect taxation (VAT instead of sales tax). On the other hand, profit tax was lowered in 2016. Social premiums (AOV/AWW) for employers were raised moderately, by 0.5 percent, in both 2014 and 2015.

Excises were raised considerably in 2019, and a sugar tax will be levied in 2019 as well.

Since 1990, the annual increase in minimum wages has on average exceeded that of the CPI by 1.4 percentage points.

In summary, the cost developments since 2005 have been relatively strong for electricity and wages, and recently for excises.

How important are these cost items for the Aruban business sector? According to estimates of Ecorys (2017), energy costs comprise 4% of the total price of 17 selected retail products sold in Aruba, while personnel costs comprise 20% (see Annex 4.B). It should be noted however, that 40% of the price of retail products is due to the purchase cost (import price) for these retail goods. Internal calculations using CBS data suggest that energy costs comprise around 5% of total sales for the Aruban business sector. For the hotel industry, the energy intensity is likely greater.

For the tourism industry, the IMF's Week at the Beach index gives a notion of competitiveness. Assuming that profit margins in Aruba are comparable to its competitors', this W@B-index also may be indicative of relative costs. According to the W@B-index, the cost of a 7-day trip to Aruba is representative for the Caribbean: Aruba is less expensive than 11 and more expensive than 7 other Caribbean beach destinations (Annex 4.C). However, Aruba is more expensive than almost all South American (11), Asian (16), European (2), and African (3) beach destinations.

References Chapter 4

Ecorys (2017), Aruba, Curacao and Sint Maarten – study on price developments and logistics in the region, Rotterdam.

IMF (2013), Article IV consultation Aruba: selected issues and statistical appendix, IMF country report No. 13/259.

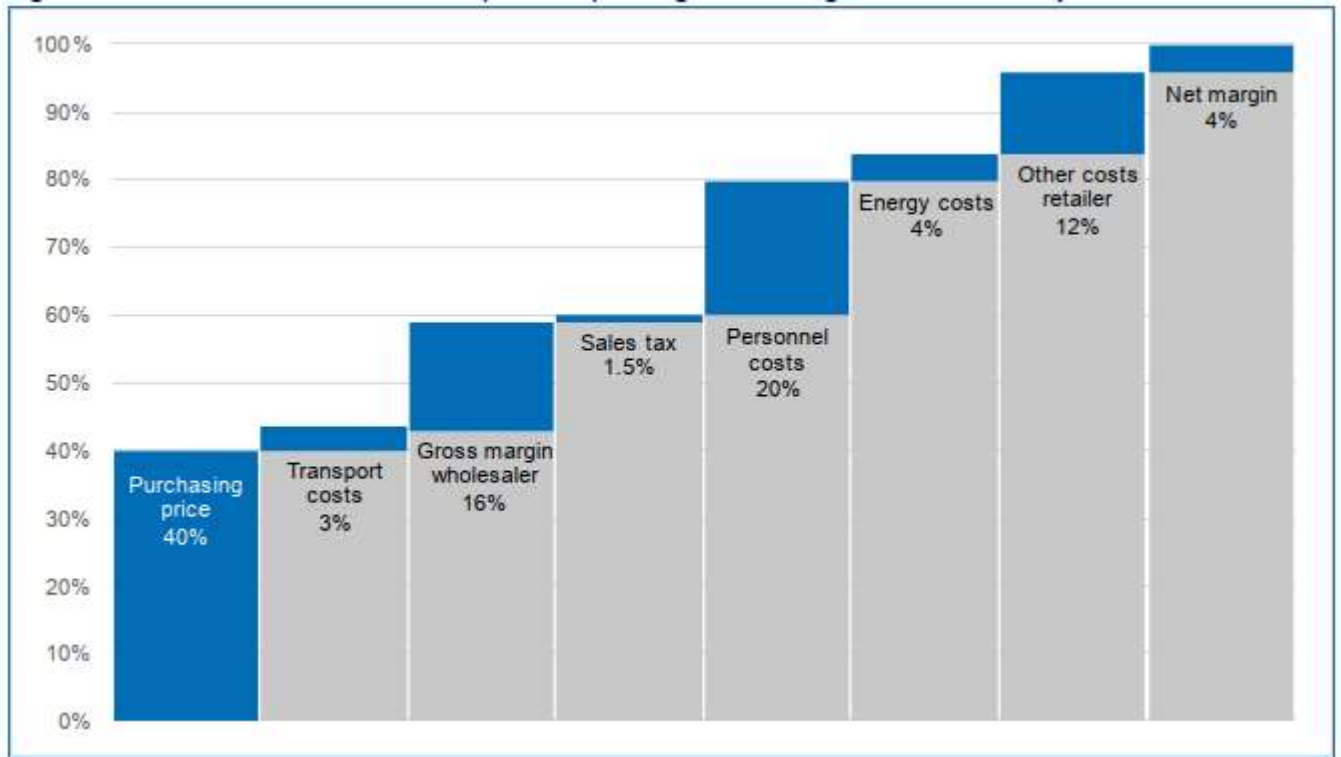
Annex 4.A. Import duties, excises, and taxes - 2013-2019

Period	2013	2014	2015	2016	2017	2018	2019
BBO	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
BAVP						1.50%	1.50%
BAZV		1%	2%	2%	2%	2% / 3%	3%
Profit Tax	28%	28%	28%	25%	25%	25%	25%
AOV/AWW Employer	9.50%	10.00%	10.50%	10.50%	10.50%	10.50%	10.50%
AZV Rate Employer	8.90%	8.90%	8.90%	8.90%	8.90%	8.90%	8.90%
Sickness Insurance Premium Employer	2.65%	2.65%	2.65%	2.65%	2.65%	2.65%	2.65%
Accident Insurance Premium Employer	0.25% - 2.5%	0.25% - 2.5%	0.25% - 2.5%	0.25% - 2.5%	0.25% - 2.5%	0.25% - 2.5%	0.25% - 2.5%
Dividend Tax (Max.)	10%	10%	10%	10%	10%	10%	10%
Import Duties - Basic goods / products (Min. - Max.)	0% - 22%	0% - 22%	0% - 22%	0% - 22%	0% - 22%	0% - 22%	0% - 22%
Import Duties - Vervoermaterieel (Min. - Max.)	0% - 50%	0% - 50%	0% - 50%	0% - 50%	0% - 50%	0% - 50%	0% - 50%
Import Duties - Tabak, sigaren, vuurwerk	57%	57%	57%	57%	57%	57%	57%
Excises - Distilled Beverages	Afl. 1,844 p/ hL	Afl. 1,844 p/ hL	Afl. 1,844 p/ hL	Afl. 1,844 p/ hL	Afl. 1,844 p/ hL	Afl. 1,844 p/ hL	Afl. 2,653 p/ hL
Foreign Exchange commission	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%
Tourist Levy	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%
Gaming Tax	4%	4%	4%	4%	4%	4%	4%
Environmental Levy - Timeshare (studio)	\$10 p/ stay	\$10 p/ stay	\$10 p/ stay	\$10 p/ stay	\$10 p/ stay	\$10 p/ stay	\$10 p/ stay
Environmental Levy - Timeshare (One bedroom)	\$15 p/ stay	\$15 p/ stay	\$15 p/ stay	\$15 p/ stay	\$15 p/ stay	\$15 p/ stay	\$15 p/ stay
Environmental Levy - Timeshare (Two Bedroom)	\$25 p/ stay	\$25 p/ stay	\$25 p/ stay	\$25 p/ stay	\$25 p/ stay	\$25 p/ stay	\$25 p/ stay
Environmental Levy - Timeshare (Car rentals)	\$1/ p/ day p/ car	\$1/ p/ day p/ car	\$1/ p/ day p/ car	\$1/ p/ day p/ car	\$1/ p/ day p/ car	\$1/ p/ day p/ car	\$1/ p/ day p/ car
Environmental Levy - Regular (transient) hotels	\$3 p/ occ. Room p/ night	\$3 p/ occ. Room p/ night	\$3 p/ occ. Room p/ night	\$3 p/ occ. Room p/ night	\$3 p/ occ. Room p/ night	\$3 p/ occ. Room p/ night	\$3 p/ occ. Room p/ night
Transfer Tax	3% - 6%	3% - 6%	3% - 6%	3% - 6%	3% - 6%	3% - 6%	3% - 6%
Property Tax	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.60%
Cesantia	Afl. 40 p/ werknemer	Afl. 40 p/ werknemer	Afl. 40 p/ werknemer	Afl. 40 p/ werknemer	Afl. 40 p/ werknemer	Afl. 40 p/ werknemer	Afl. 40 p/ werknemer
Partner- en Orphan Pensioen Premium Employer	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%

Sources: Tax Department (TD), Algemene Ziektekosten Verzekering (AZV), Banco di Seguro Social (SVB), Customs Department (CD), Centrale Bank van Aruba.

Annex 4.B.

Weighted average cost breakdown for 17 selected retail products in Aruba, 2016Q4

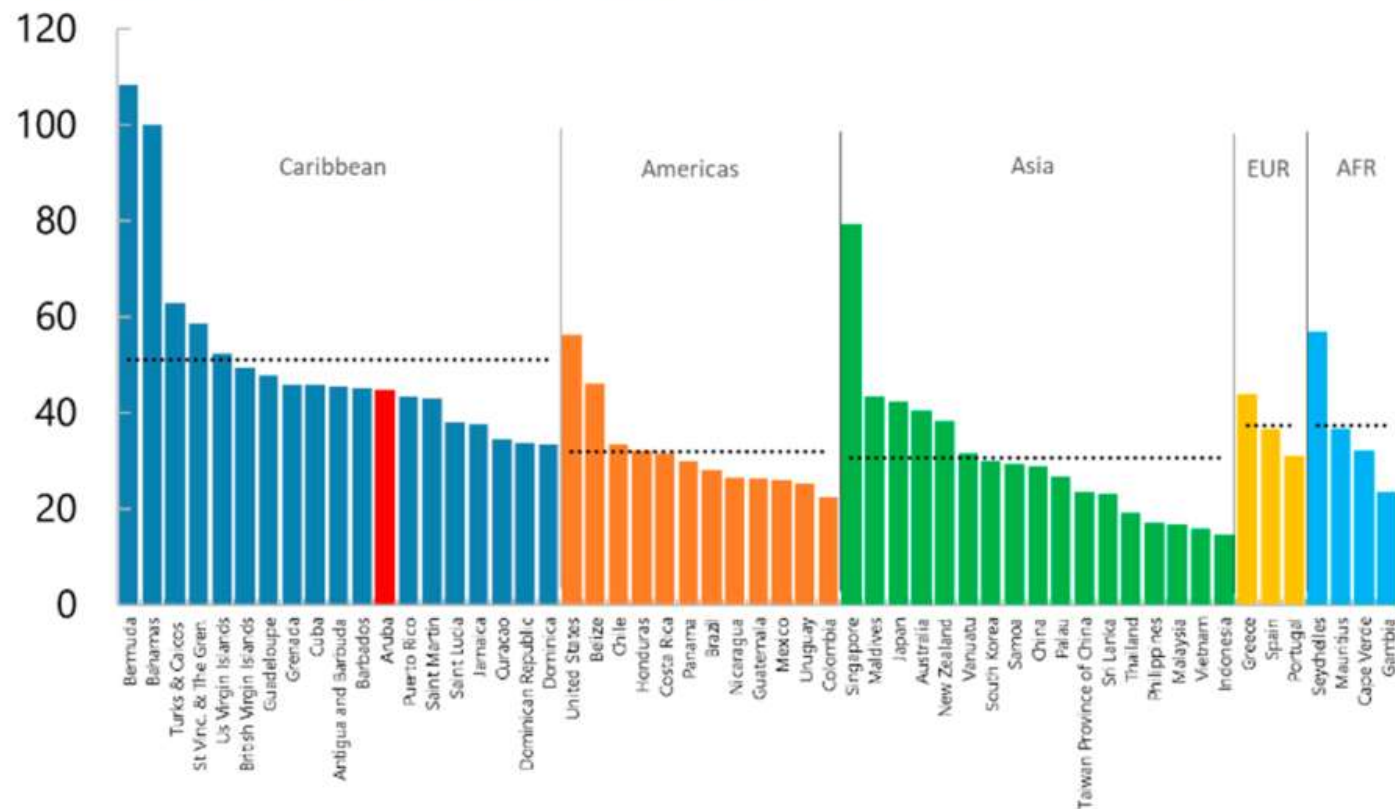


Source: Ecorys (2017).

Annex 4.C

Week at the Beach Index, January 2019 1/

(12 month moving average, Bahamas=100)



Source: IMF staff calculations.

1/ "Week at the Beach Index (W@TB)" measures the average cost of a 7-day-trip in a country's beach destinations. The Index is a composition of an average hotel price (3 to 4 'bubble' rating) from TripAdvisor and over 80 million crowdsourced data on meals, taxi fares, water, coffee, and beer.

5. Recommendations

Reviewing the contents of the previous chapters on the cost of doing business, it seems that labor costs are considered high in Aruba, especially because of the employers high social security contributions (old-age pension, disability, and survivors' insurance). When compared with 15 other island economies, Aruba is second only to Cuba regarding its employer social security contribution rate (see Chapter 3).

A regional comparison of tax burdens reveals that when social contributions are included, Aruba has the highest tax burden in comparison to eight other island economies (see Chapter 3). A more sustainable tax burden demands continued efforts to diminish government expenditures.

When it comes to taxes, businesses are burdened not only by the level of taxes, but also by the complexity of the tax structure. Several stakeholders also mentioned the frequent tax changes and tax introductions they faced in the recent past.

Utilities are mentioned as costly by representatives of the tourism industry. Between 2005 and 2011, tariffs increased by 8.7 percent per year. In more recent years, the rate of increase was smaller. A recommendation to businesses is to save electricity cost by privately using alternative energy sources such as wind and sun, which are both plentiful on the island.

Businesses on the island are hindered not only by material costs such as taxes, social premiums, and utilities cost, but also by immaterial costs such as time and effort. The cost and effort to start up new businesses are considered high, although no quantifiable evidence was provided by the respondents. Furthermore, demands emerged to address the enforcement of labor and tax laws on the island, in light of perceptions of an unfair competition environment in some sectors.

In terms of moving forward, and considering the limitations of this study, the main policy recommendations for improving the business environment would center around complimentary strategies aimed at:

- Structural reform of government institutions and procedures to improve costs and time of transactions and administrative procedures. The recent announcement of the eGovernment program will be a first step in the right direction;
- Acceleration of fiscal reforms with a focus on enhancing the business environment and investment climate by reducing the direct tax burden placed on small and medium-size enterprises; and
- Labor market reforms to close the search and transaction costs between labor markets and businesses. The recommended strategies would complement the institutional and fiscal reforms and promote the formalization of the labor markets, thereby reducing unfair competition from the informal economy.

If the Aruban economy is to thrive and become as strong and resilient as the Economic Policy of the Government of Aruba has proposed, then transformation and structural reforms need to be executed in coordination and collaboration with the private sector.

