

Bankarization and tax reform: what's ahead for Cuba's private sector



An elderly woman pays in a private supermarket in Havana (Source: Cubaheute)

Cuba's government is getting serious about introducing digital payment channels. From February 2, all stores must offer the option of accepting cashless payments via app or card terminal. Failure to comply will result in severe penalties from the deadline onwards, which could even include the closure of businesses.

The measure is part of the country's bankarization strategy, which was launched last August. The first step was to convert all petrol stations to exclusively cashless payment methods by the fall. "We are accelerating a process that meets international standards. Electronic payments are part of everyday life for citizens in every country," said the Vice President of the Cuban Central Bank, Alberto Quiñones Betancourt, at a press conference at the time.

In the case of the rest of the economy (regardless of the form of ownership), the following applies: from February 2, at least one form of cashless payment method must be offered in every store. These are an "option and a right of consumers", representatives of the Ministry of Domestic Trade told the party newspaper "Granma".

However, a tour of the Cuban retail sector shows that, contrary to the fears of some observers, there is probably no threat of a wave of closures: the vast majority of private stores now have a QR code clearly visible in the checkout area, which Cubans can use to pay via the "EnZona" and "Transfermóvil" apps. Particularly older people would like to pay with their cell phone, explains a saleswoman at a private bakery in Havana to "Cuba Today". She estimates that one in four payments in her store are now made in this way, and the trend is rising. As an incentive for cashless payments, the "Transfermóvil" app offers a discount of up to 10 percent, which is covered by the respective bank.

Bank transfers are also increasingly being used in business relationships between private companies and between the public and private sector. In most cases, however, only part of the sum is transferred, as the informal exchange of cash is still necessary in order to obtain foreign currency. New schemes involving the purchase of goods for goods allow this. Former BBC correspondent Fernando Ravsberg rates bankarization as "surprisingly successful" so far. However, the extensive digitalization of payment channels, as planned by the government in the long term, requires a functioning currency market, which currently still seems a long way off.

The new tax legislation, which was published in the Official Gazette this week, is likely to be more difficult for the private sector. Employees of small and medium-sized enterprises (SMEs) will have to pay significantly higher income tax from this fiscal year. Instead of the previous top tax rate of five percent from a monthly income of 9510 pesos (30 USD), 10 percent tax will now be withheld from 20,000 pesos (70 USD). The new top tax rate of 20 percent will apply from 30,000 pesos (100 USD), which will significantly increase wage costs. The announced changes to import duties have now also come into force. In addition, the 10 percent sales tax, which was previously only levied on state-run retail outlets, now applies to all businesses. The private catering sector has prepared for this: Many restaurants are already adding a 10 percent service charge to the bill. This could quickly be reclassified as sales tax. "It's like a soccer match where the rules keep changing as the game goes on. But somehow it goes on," the owner of an SME commented to "Cuba Today".

The Cuban private sector currently comprises 9747 SMEs with 262,000 employees, 464 production and service cooperatives with 11,800 members and 596,000 self-employed people. This means that around 19 percent of all employees work in private companies. Several hundred new SMEs were registered at the turn of the year, and the number is expected to rise to over 10,000 in the near future. Most recently, the Ministry of the Economy gave the green light for the establishment of a further 133 SMEs on Thursday. ([Cubaheute](#))