Jamaica: 2015/16 Budget

12 March 2015

Tightening the Tax Net – Spreading the Burden

In Brief:

- **New tax measures of J$10.348 billion.**
- **Increase of Special Consumption Tax (SCT) by J$7 per litre on auto fuels.**
- **Imposition of GCT at 16.5% on residential electricity consumption in excess of 350 kWh per month .**
- **Withholding tax of 3% to be imposed on payments made by large entities for services obtained locally.**
- **Petroleum Cess of 1% imposed on Petrojam to be replaced with a specific SCT rate of J$2 per litre.**
- **Increase in Personal Income Tax (PIT) Threshold to J$592,800 for the Year of Assessment 2016.**
- **Environmental Levy of 0.5% to be applied to domestic supplies in order to broaden base and address WTO concerns.**
- **Increase in SCT on cigarettes from J$10.50 to J$12 per stick.**
- **Comprehensive reform of life assurance income tax regime.**
- **Overhaul of Trade & Business License Fees and Excise Duty fines, fees and penalties.**
- **Customs duty on racehorses reduced from 40% to 5%.**

In Detail:

Introduction:

Dr. The Honourable Peter Phillips, Minister of Finance and Planning presented the Government's plan to fund the 2015/16 Budget in Parliament today.

This follows the Minister's tabling of the 2015/16 Estimates of Expenditure (of J$641.5 billion) and Revenues Estimates (of J$443 billion) on 19 February 2015.

This was the first time in Jamaica's history that both Revenue & Expenditure Estimates were tabled together and is in keeping with the reformed fiscal governance framework which requires these Estimates to be tabled and approved by 31 March of the financial year to which they relate.

The Government's 2015/16 Revenue Estimates of J$443 billion compare to revenues collected of J$397 billion in 2013/14 and J$289 billion (nine months) of 2014/15. This revenue comprises primarily of taxes. Historically Jamaica has had a poor record of achieving the tax revenue targets. Tax revenues have continued to perform below target for 2014/15. We expect that this is primarily due to the country's continued sluggish economic performance combined with the pervasiveness of non-compliance which remains a challenge. On the positive side, Jamaica has passed six consecutive quarterly reviews under its IMF Programme and the Minister indicated that the country is expected to formally pass the 7th review by 31 March 2015.

Greater Tax Compliance Needed:

It is still widely perceived that an undue tax burden is being placed on an unacceptably small population of compliant taxpayers. These taxpayers are relatively easy to collect from so recourse to this group has been repeatedly made over the years to fund our fiscal deficits. Higher taxes have also been imposed on certain sectors based on their perceived ability to pay (e.g. banking & financial services, telecommunications/utility companies).

Recent tax policy reform measures and compliance initiatives have sought to redress this imbalance and the efforts of both the Ministry of Finance & Planning and Tax Administration Jamaica (TAJ) are to be commended. Much more remains to be done though to spread the tax burden more equitably across the Jamaican society.

Private sector leaders and associations have therefore regularly called for the Government to prioritise the securing of greater levels of tax compliance and the stimulation of economic growth as the primary means to generate additional taxes as opposed to relying on new taxes to be levied each time funds are needed.

New Taxes & Compliance Measures Announced:

It appears that Minister Phillips has heeded these calls. In his presentation today he indicated that the Government will be seeking an additional J$12.3 billion from enhanced tax compliance measures with a further J$10.348 billion from new tax measures in order to finance the 2015/16 Budget.

The anticipated additional revenue for 2015/16 from the new tax measures announced today is highlighted in the table below:

New Tax Measure	J$ Bn
Increase in SCT on auto fuels	6.412
GCT on residential electricity above 350 KwH per month	0.807
Environmental Levy – on domestic supplies (0.5%)	0.962
Increase in SCT on cigarettes	0.488
Petroleum Cess–specific rate	1.824
Overhaul of Trade & Business License Fees	0.500
Reform of Life Assurance Tax Regime	0.000
Reduce duty on racehorses	(0.001)
Increase in PIT tax-free Threshold from 2016	(0.644)
Total	**10.348**

The new tax compliance measures announced today are as follows:

New Compliance Measures
3% withholding tax on local service fees paid by Large Entities
Full implementation of zero-rating on Government purchases
Update of Excise Duty fines, fees and penalties

Increase in Special Consumption Tax (SCT) on automotive fuels:

With effect from **18 March 2015** the rate of specific SCT on automotive fuels will be increased by J$7 per litre. It is unclear at this point as to whether this increase will also apply to marine diesel oil or ethanol.

The following table highlights the current and proposed rates:

Fuel	Current J$	Proposed J$
Gasoline – Leaded	16.6498	23.6498
Gasoline – Unleaded 87	16.1061	23.1061
Gasoline – Unleaded 90	16.4792	23.4792
Automotive Diesel Oil (ADO)	15.4145	22.4145

PwC Commentary: *Recent reductions in global oil prices (and in turn lower prices at the petrol pumps) have given the GoJ an opportunity to raise tax revenues by increasing the specific rate of SCT. Ad valorem SCT had previously been* *reduced from 15% to 10% in April 2011 in order to ease the pressure on the consumer when oil prices were at record levels so in some respects this represents a re-imposition of such tax in light of favourable market conditions.*

The specific rate also preserves the tax take in an environment of falling prices while capping the level of tax should prices rise.

Imposition of GCT on residential electricity consumption:

Under current tax rules the supply of electricity for residential use is zero-rated for GCT purposes (i.e. not subject to GCT) whereas supplies for industrial or commercial use attract GCT at the standard rate of 16.5%.

It is proposed that with effect from **1 April 2015** supplies of electricity for residential use in excess of 350 kWh per month will attract GCT at the standard rate of 16.5%. Consumption of up to the first 350 KwH per month will continue to be zero-rated.

PwC Commentary: *The imposition of GCT on heavy consumers of residential electricity is an efficient and effective way to impose tax on a small group of taxpayers (approximately 6.4% of JPSCO's consumer base) who have the both the propensity to consume and ability to pay. The measure may also promote greater energy conservation (which in turn could assist in reducing the country's oil importation bill) and investment in renewables.*

Environmental Levy – imposition on domestic supplies:

At present an Environmental Levy of 0.5% is imposed on the CIF value of goods imported (with certain exceptions including CARICOM imports).

The sustainability of this levy has been a cause for concern in light of Jamaica's WTO commitments. To address this matter and simultaneously broaden the base on which the levy is imposed, the following is proposed with effect from **1 April 2015**:

- The levy shall be reinstituted on CARICOM imports (i.e. it shall therefore apply going forward to both CARICOM & Non-CARICOM imports).
- The levy shall also be charged on the domestic supply of all goods (with limited exceptions such as supplies by charitable organisations, exempt organisations, the mining sector etc.);
- A credit may be claimed in respect of environmental levy paid by manufacturers on the importation of productive inputs (e.g. raw materials and intermediate goods).
- The levy will be administered by requiring taxpayers to file quarterly returns to account for the levy and remit same. The return and levy shall be due within one month after the end of each quarter.

PwC Commentary: *Further details will be required in order to undertake a proper evaluation of the proposed regime. Based on the limited details provided, it is unclear whether each supplier of goods in the domestic supply chain shall be required to account for the environmental levy. This would result in the multiple imposition of the levy if a credit is not granted generally (i.e. not just to manufacturers). Even if a credit is given (e.g. where the regime will operate in a similar manner to GCT) then the regime appears to require extensive reporting/administration. We would recommend the impact on Jamaican businesses be carefully evaluated before such a regime is implemented.*

Increase in SCT on cigarettes:

With effect from **13 March 2015** the specific rate of SCT on cigarettes will increase from J$10.50 per stick to J$12 per stick. This will be directed to the National Health Fund.

The price of a packet of 20 cigarettes will therefore attract specific SCT of J$240.

The importation or supply of cigarettes also attracts GCT at the standard rate of 16.5%.

PwC Commentary: *The Minister indicated that this increase was consistent with Jamaica's commitments under the WHO's Framework Convention on Tobacco Control (FCTC). The focus of this measure appears to be on cigarettes only and not on the broader range of tobacco products or their substitutes – presumably because they have also been subjected to tax increases in the recent past.*

Petroleum Cess – Replacement with a specific rate of SCT:

The Ministry Paper #34/2015 indicates that at present Petrojam Limited is required to pay a Petroleum Cess of 1% to the Petroleum Corporation of Jamaica Limited (PCJ). With effect from **18 March 2015** it is proposed to replace this Cess with a specific rate of SCT of J$2 per litre (which would accrue to the Consolidated Fund). The Minister emphasized in his presentation that this change shall not have any impact on Petrojam's reference billing prices for petroleum products.

PwC Commentary: The proposed replacement of the cess with SCT will redirect an existing revenue stream from PCJ to the Consolidated Fund (which will benefit to the tune of J$1.824 billion). To the extent that this SCT will be greater than the cess previously paid, it would appear that it is expected that Petrojam will absorb any additional cost to the extent that it cannot pass on the cost to its customers. It is unclear how this will matter will be regulated by the Ministry.

Overhaul of Trade & Business License Fees:

In his presentation, the Minister noted that fees imposed under the Trade & Business Licenses Act (which accrue to the local authorities) are significantly outdated and do not even cover associated administrative costs. It is proposed that the fee structure will therefore be significantly overhauled with effect from **1 April 2015**.

PwC Commentary: *It is unclear at this point how much of the proposed J$500 million in expected revenues will be spent in maintaining and policing such an islandwide system of licensing. Properly structured, this mechanism could be used to identify informal and non-compliant businesses, extract meaningful contributions from them to the public purse and make it more difficult for them to stay under the tax radar. If structured and implemented improperly however, this mechanism could entangle legitimate businesses in further bureaucratic 'red tape' and this would fly in the face of recent important tax reforms.*

Reform of Life Assurance Income Tax & Asset Tax Regime:

Historically the income tax regime has taxed life assurance companies in a different manner to other businesses given the long-term nature of life assurance, pension and annuity business. Under current tax law regionalised life assurance companies are subject to a 3% gross premiums tax on premiums derived from life assurance, pensions and annuities business as well as a 15% investment income tax on income and profits from all other sources.

With effect from **1 January 2015** (i.e. the Year of Assessment 2015), it is proposed that the current life assurance income tax regime (i.e. with premium tax and investment income tax) be abolished and replaced by the application of the general income tax regime to life assurance companies which shall be subject to income tax on their profits at the standard income tax rate of 25%.

In line with the above reform it is proposed to simultaneously reduce the Asset Tax imposed on life assurance companies from 1% to 0.25% (the rate currently imposed on banks and other financial institutions). This honours a commitment previously given by the Minister when he temporarily increased the asset tax rate for life assurance companies to 1% in April 2014.

PwC Commentary: *As the life assurance sector has evolved over the years and developed new insurance and investment products, the current form of taxation has presented a variety of challenges (including in respect of product pricing and administration). In contrast the imposition of income tax on the basis of chargeable profits (i.e. the same basis on which other businesses are taxed) addresses these issues and the sector has asserted that it is more conducive to its future development.*

As regulated entities we would expect that life assurance companies shall be ineligible to claim the Employment Tax credit (ETC). In addition it is important that the reform includes specific tax rules concerning what reserve accounting will be acceptable for tax purposes in order to minimise uncertainty and disputes in the future.

We also note that the Minister specifically indicated his intention to have further dialogue in the current fiscal year on the 0.25% asset tax currently imposed on the banks and other financial institutions. This is to be welcomed as this asset tax has been onerous on the sector and the incidence of this tax is particularly harsh on certain players given the nature of their businesses. It is important that Jamaica revisits this matter urgently if it wishes to be a competitive location for financial services.

Reduction of Duty on Racehorses:

With a view to enhancing the local horseracing industry, it is proposed to reduce the rate of customs duty on the importation of horses (not for breeding purposes) from 40% to 5% with effect from **1 April 2015**. This shall apply to imports under the following tariff headings: 0101291000, 0101299010 and 0101299020.

Increase in Personal Income Tax (PIT) tax-free threshold:

Income tax is imposed on Jamaican tax-resident individuals at the rate of 25% on income in excess of an annual tax-free threshold. With effect from **1 January 2016** (i.e. the Year of Assessment 2016) this threshold will be increased to **J$592,800**.

The following table highlights the current and proposed annual tax-free thresholds:

Year of Assessment	J$
2013	441,168
2014	507,312
2015	557,232
2016 (proposed)	592,800

PwC Commentary: *Minister Phillips indicated the proposed J$35,568 increase in the threshold will remove 8,441 persons from the income tax net and will cost J$2.4 billion on an annualised basis. This illustrates how costly the tax-free threshold is as a mechanism to remove the lower-paid from the income tax net. The take-home pay of each of these 8,441 persons will increase by a maximum of J$8,892 per annum i.e. J$35,568 x 25%. In total this is J$75,057,372 (J$8,892 x 8,441).*

In other words less than 3.13% of the total cost of increasing the threshold is in fact attributable to the lowest paid persons who are removed from the tax net. Instead 96.87% of the cost is attributable to persons who earn income above the threshold. To illustrate the inefficiency of the threshold mechanism at relieving the lower-paid, it would cost the Government less to give J$50,000 in cash to 45,000 persons at the lowest income levels! It is therefore recommended that consideration be given to alternative mechanisms which are less costly and more targeted at alleviating the tax burden on persons at the lowest income levels.

The Ministry Paper #34/2015 supporting the Budget Presentation also outlined a number of new compliance measures.

Withholding Tax Regime on Certain Local Services:

In an effort to improve tax collections from small and medium service enterprises, it is proposed to implement a new withholding tax regime which shall be applicable to payments by large entities (to be defined) to local businesses (i.e. Jamaican tax residents) in respect of services rendered. The rate of withholding recommended is 3% and this should be creditable against the service provider's income tax liability. The withholding shall not apply to invoices below a *de minimis* level of J$50,000.

The proposed date of implementation for this regime shall be **1 May 2015**.

PwC Commentary: *Further details will be required in order to properly assess the full impact of this proposed regime including what services are covered /excluded and what service providers (if any) shall be exempt from the provisions. We also expect it will be difficult to implement such a new withholding system by the proposed date.*

Full implementation of the elimination of Zero-Rating on Government Purchases:

Under current tax rules, supplies to Government are liable to GCT in the normal manner. This is coupled with a GCT withholding mechanism whereby the Government entity retains the GCT component upon settling the supplier invoice, remits same to TAJ and issues a withholding tax certificate to the supplier.

Certain Government entities retained their GCT-free status as a result of specific provisions. With limited exceptions it is intended to remove this status in order to ensure that these entities will be liable to GCT on goods and services acquired.

Overhauling Excise Duty Fines, Fees & Penalties:

Under current excise law, the fines, fees and penalties imposed are grossly inadequate in order to deter non-compliance. As part of the tax reform process it is proposed to increase these amounts to appropriate levels.

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If you have any further questions in connection with the above or would like to explore further how the above proposed tax measures may impact your business or personal arrangements, please feel free to contact any member of our specialist tax team listed overleaf or your usual PricewaterhouseCoopers Jamaica contact.

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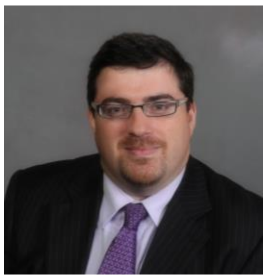

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