2012/13 Post-Budget Forum
A review of GCT & SCT Measures

Brian J. Denning, Partner
2012/13 Post-Budget Forum
A review of GCT & SCT Measures
Post-Budget Forum: GCT & SCT Measures

Introduction

• Government targets a 6% primary surplus for 2012/13
• New Tax Package presented of J$19.4 billion for 2012/13
• Tax Reform - Three-Year Implementation Programme
• Trade-Off between GCT Rate Reduction & Base Broadening:

MoF
1% GCT Rate Reduction
Limited Base Broadening
J$2.2 billion (annualised)

Trade-Offs

PSWG
5% GCT Rate Reduction
Extensive Base Broadening
J$2bn social intervention
J$5.6 billion annualised
Post-Budget Forum: GCT & SCT Measures

GCT Regime: Some Relevant Features

- GCT is a tax on consumption
- Applies equally to imports and locally supplied goods
- Imports also benefit from GCT exemptions
- Exemptions should be precisely defined
- GCT exemptions create irrecoverable GCT
- Irrecoverable GCT adds to cost structure of doing business
- Multiplier effect through supply chain
- GCT exemptions impact competitiveness of local manufacturers
**Assumption (ignoring GCT):** Landed Import Cost = Manufacturers Sales Price = J$1,000

**Assumed Mark-Up:** Manufacturer (25%), Distributor (15%), Retailer (10%)

**Other Operating Costs:** Incurred at each stage - subject to GCT / not subject to GCT (e.g. labour)

<table>
<thead>
<tr>
<th></th>
<th>Ignore GCT</th>
<th>Exempt</th>
<th>Std (16.5%)</th>
<th>Reduced (8.5%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Imported</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Final Consumer Price</td>
<td>1,674.75</td>
<td>1,722.85</td>
<td>1,951.08</td>
<td>1,817.10</td>
</tr>
<tr>
<td>GCT Collected</td>
<td>n/a</td>
<td>41.25</td>
<td>276.33</td>
<td>142.35</td>
</tr>
<tr>
<td><strong>Local Product:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Final Consumer Price</td>
<td>1,674.75</td>
<td>1,879.39</td>
<td>1,951.08</td>
<td>1,817.10</td>
</tr>
<tr>
<td>GCT Collected</td>
<td>n/a</td>
<td>140.25</td>
<td>276.33</td>
<td>142.35</td>
</tr>
</tbody>
</table>
General Consumption Tax Measures
2012/13 Post-Budget Forum: GCT

GCT Rates: What has changed

Standard Rate
Reduced from 17.5% to 16.5% with effect from 1 June 2012.

Electricity Rate
Residential: threshold of 200 KwH removed – all supplies to residential customers will be zero-rated from 1 July 2012.

Commercial/Industrial: GCT rate to be increased from 10% to 16.5% with effect from 1 July 2012.

Telecoms / Tourism Rates
No change – telecoms - 25% /tourism 10% (other modifications though)
With effect from 1 June 2012, the following goods are subject to GCT at the standard rate (now 16.5%):

<table>
<thead>
<tr>
<th>Items subject to GCT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Imported</strong> raw foodstuff including fresh fruit and vegetables, ground provisions, legumes, onions, garlic, meat, poultry, fish, crustacean or mollusk</td>
</tr>
<tr>
<td>Pickled mackerel, herring, shad and dried salted fish</td>
</tr>
<tr>
<td>Corned Beef, Eggs, Rolled Oats, Condensed Milk</td>
</tr>
<tr>
<td>Beef and Vegetable Patties (i.e. all patties are now taxable)</td>
</tr>
<tr>
<td>Syrup (ex. Tariff Heading 21.06)</td>
</tr>
<tr>
<td>Buns, Biscuits, Crackers (except water crackers)</td>
</tr>
<tr>
<td>Olive oil, all cooking oil sprays</td>
</tr>
<tr>
<td>Any live bird, fish, crustacean, mollusc or any other animal of a kind generally used as or yielding or producing food for human consumption and draught animals</td>
</tr>
<tr>
<td>Unprocessed agricultural produce, including produce from stock farming, fresh water fish farming, forestry cultivation and horticulture supplied directly at the farm gate.</td>
</tr>
<tr>
<td>Planting material including cereal and seeds in their natural state, dormant flower bulbs, corns, roots and tubers and nursery stock, vegetable plants and live trees.</td>
</tr>
<tr>
<td>Surgical gloves, including disposable, sterile and those made of latex rubber</td>
</tr>
<tr>
<td>Printed matter, articles and materials classified under Tariff Heading Nos. 49.01 to 49.05 other than textbooks listed by the Ministry of Education</td>
</tr>
</tbody>
</table>
2012/13 Budget: General Consumption Tax

GCT Exemptions – Contentious Areas

**Raw Foodstuffs:** Domestic versus Imported

**Animal Feeds:** Zero-rated versus exempt

**Other Agricultural Inputs:** Creating Irrecoverable GCT

**Bakery Products:** Require precise definitions

**Textbooks:** Lists are impractical
2012/13 Post-Budget Forum: GCT

Overhaul of Tourism GCT Regime

Accommodation Tax:

To be imposed with effect from 1 September 2012 in addition to the 10% GCT rate. Based on the size of the hotel etc.:

<table>
<thead>
<tr>
<th>Accommodation Category</th>
<th>Accommodation Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 50 rooms</td>
<td>US$1.00 per night</td>
</tr>
<tr>
<td>51-100 rooms</td>
<td>US$2.00 per night</td>
</tr>
<tr>
<td>101+ rooms</td>
<td>US$4.00 per night</td>
</tr>
</tbody>
</table>

Also US$20 fee on airline tickets (where flight originates overseas)

Permitted Exclusions from Tourism Revenue:

From 1 September 2012 (i) commissions to overseas tour operators (ii) airport transfers may no longer be excluded from tourism revenues. Employee gratuities remain deductible.
Special Consumption Tax Measures
# 2012/13 Post-Budget Forum: SCT

## Modification of Alcohol Tax Regime

Increase rate of SCT on Over Proof Rum with effect from **1 June 2012**

<table>
<thead>
<tr>
<th>Alcohol Type</th>
<th>Current J$</th>
<th>Proposed J$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beer &amp; Stouts</td>
<td>1,120</td>
<td>1,120</td>
</tr>
<tr>
<td>Wines, Sparkling Wines, Vermouth and Other Fermented Beverage</td>
<td>960</td>
<td>960</td>
</tr>
<tr>
<td>Brandy, Whiskey, Vodka, Rum (&lt; 57.1% by vol.), Other Spirits &amp; Liqueurs</td>
<td>960</td>
<td>960</td>
</tr>
<tr>
<td>Over-proof Rum (&gt;57.1% by vol.)</td>
<td>450</td>
<td>960</td>
</tr>
</tbody>
</table>

Rates are applied per Litre of Pure Alcohol (LPA):

750 ml bottle of wine (12% vol.) = J$960 x 12% x 750/1000 = J$86.40
### 2012/13 Post-Budget Forum: SCT

**Alcohol Tax Regime for Tourism**

Revision of Concessionary Regime with effect from **1 June 2012**

<table>
<thead>
<tr>
<th>Alcohol Type</th>
<th>Current J$</th>
<th>Proposed J$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beer &amp; Stouts</td>
<td>1,120 (pla)</td>
<td>1,120 per PLA</td>
</tr>
<tr>
<td>Wines, Sparkling Wines (Order needs correction)</td>
<td>US$0.40 per litre</td>
<td>J$700 per PLA</td>
</tr>
<tr>
<td>Vermouth and other wine flavoured with plants etc.</td>
<td>25%</td>
<td>J$700 per PLA</td>
</tr>
<tr>
<td>Brandy, Whiskey, Vodka, Rum (&lt; 57.1% by vol.), Other Spirits &amp; Liqueurs</td>
<td>25%</td>
<td>J$700 per PLA</td>
</tr>
<tr>
<td>Over-proof Rum (&gt;57.1% by vol.)</td>
<td>30%</td>
<td>J$700 per PLA</td>
</tr>
</tbody>
</table>

+J$0.53 billion
**2012/13 Post-Budget Forum: SCT**

**Modification of Tobacco Tax Regime**

SCT is currently imposed at the rate of J$10,500 per 1,000 sticks of:

- Cigarettes containing tobacco
- Cigarettes containing tobacco substitutes

Other tobacco products on the market (formal and informal)

With effect from **1 June 2012**, SCT will be imposed at the rate of J$10.50 per 0.7 grams of “unmanufactured tobacco or refuse tobacco”.

Need to modify the term “manufacture”.
Imposition of SCT on Denatured Ethanol

Ethanol is pure ethyl alcohol
Denatured ethanol involves adding gasoline to make non-potable
Derived from fermentation of sugars – i.e. a biological product.
Primarily used as fuel additive – blends with mogas
Attracts GCT at the standard rate – now 16.5%
MoF perceives that SCT regime affords competitive advantage to petroleum marketing companies over Petrojam
With effect from **1 June 2012** - imposition of SCT on importation or manufacture of denatured ethanol at the rate of J$16.32 per litre
Additional cost likely to be absorbed by marketing companies
2012/13 Budget: Income Tax

Corporate Income Tax

With effect from 1 January 2013 tax will be paid on statutory income as follows:

- Regulated companies – 33⅓%
- Other companies – 25%
- No word on other persons

Regulated companies are companies regulated by

- Financial Services Commission
- Office of Utilities Regulation
- Bank of Jamaica
- Ministry of Finance, Planning & the Public Service

Revenue Loss
J$0.43billion
Income Tax

Minimum Tax
2012/13 Budget: Income Tax

Minimum Tax Regime

Flat rate tax of $60,000 per annum
Effective 1 January 2013 – Y/A 2013
To be imposed on:

- Registered companies except charities, Section 12 ITA, company in its first year.
- Companies benefitting from income tax relief
- Self employed professionals (including doctors, lawyers, consultants)

Revenue Gain
J$0.66billion
2012/13 Budget: Income Tax

Minimum Tax Regime

Will apply whether company is

- Dormant
- Generating losses
- Has calculated a tax charge of <$60,000

Treated as a final tax

- Creditable against estimated tax
- Not refundable if in excess
- Declaration of Estimated Tax – to be paid quarterly?
- All companies to file Returns

Revenue Gain
J$0.66billion
Income Tax

Dividend Tax
2012/13 Budget: Income Tax

Dividend Tax

Change in taxation regime as of 1 June 2012

Residents of Jamaica

- To be taxed at 5% on income from resident companies
- No withholding for corporate shareholders with >25% voting power
- Franked income provisions
- Special exemptions - incentives

Non Residents – no change

- Withholding requirements
- Effect of Tax Treaties

Revenue Gain
J$0.30billion
Other tax

Asset Tax
2012/13 Budget: Other Tax

Asset Tax

Levied under - The Assets Tax (Specified Bodies) Act
New regime will set two distinct bases of taxing

• Institutions regulated by BOJ and FSC – 0.2% of “assets”
• Other companies – fixed rate

Tax was previously $1,000 to $35,000
Filing date will be 15 March – similar to income tax
Implementation date of 1 June postponed

Revenue Gain J$1.95billion
### 2012/13 Budget: Other Tax

#### Asset Tax – other companies

<table>
<thead>
<tr>
<th>Asset Value</th>
<th>Annual Asset Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>At least J$50 mil</td>
<td>J$100,000</td>
</tr>
<tr>
<td>At least J$5 mil but less than $50 mil</td>
<td>J$75,000</td>
</tr>
<tr>
<td>At least J$500,000 but less than J$5 mil</td>
<td>J$50,000</td>
</tr>
<tr>
<td>At least J$50,000 but less than J$500,000</td>
<td>J$25,000</td>
</tr>
<tr>
<td>Less than $50,000</td>
<td>J$5000</td>
</tr>
</tbody>
</table>
2012/13 Budget: Other Tax

Asset Tax – Financial Sector

Tax to be based on total assets incl. guarantees and letters of credit but net of IFRS and prudential loan loss provisions.

Should this include

- Assets valued for IFRS compliant F/S
- Assets under management – e.g. with Security Dealers
- Policyholders funds – Life Ins. Co’s.
- Outstanding tax refunds
Waivers & Incentives
**Waivers and Incentives**

**Reform commencing 2012/13 financial year**

Revenue Gain
J$1.88billion

Overhaul of the system will take place over the current to medium term. Incentives that have not been in use for years will be repealed.
# 2012/13 Budget: Waivers and Incentives

*Policy revision starting with 2012/13 financial year*

## Revisions – current through to medium term

<table>
<thead>
<tr>
<th>Cancel or abolish: all blanket, discretionary waivers</th>
<th>Introduce Omnibus Legislation for waivers and incentives</th>
<th>Waiver Policy and Procedures to include</th>
</tr>
</thead>
<tbody>
<tr>
<td>GCT waivers for public entities</td>
<td>Reform and Coordinating Unit to oversee process for incentives and concessions</td>
<td>Standard application form</td>
</tr>
<tr>
<td>Waivers on horse importation</td>
<td>Waiver Committee to be guided by legislation – members from Tax Policy MoF, TAJ and a representative from civil society</td>
<td>Electronic tracking system</td>
</tr>
<tr>
<td>Discretionary waivers under the Modernisation of Industry Programme</td>
<td>Waivers over a certain threshold to be gazetted</td>
<td>Elicit standard form responses in keeping with the procedures</td>
</tr>
<tr>
<td></td>
<td>Appeals may be made to the Minister</td>
<td></td>
</tr>
</tbody>
</table>
Questions?
2012/13 Post Budget Forum
A review of Tax Measures

Venneshia Sinanan-Forde - Manager
2012/13 Budget
A review of Tax Measures

• Telephone calls
• Motor Vehicle Fees
• Personal Income Tax Threshold
• Tax on Winnings
• Additional Stamp Duty (ASD)
• Common External Tariff (CET)
Review of Tax Measures

Telephone Calls
2012/13 Budget: Tax on Telephone Calls

• Calls originating & terminating on fixed networks in Jamaica
  
  JA$0.05 / minute

• Other calls originating in Jamaica (domestic & international)
  
  JA$0.40 / minute

• International calls terminating on a mobile network in Jamaica
  
  US$0.075 / minute
2012/13 Budget: Tax on Telephone Calls

Exemptions

• Free minutes offered by service providers – 30% of total call time

• Domestic calls, as follows:
  • Numbers used to access emergency & special services, e.g. Police, fire, etc
Exemptions (continued)

• Domestic calls, as follows:
  • Numbers to activate and deactivate services
  • Calls to access voicemail
  • Calls to voicemail
  • Calls to add or determine available credit
  • Calls to on-net customer care
2012/13 Budget: Tax on Telephone Calls

• Implementation Date  
  15 July 2012

• Estimated Revenue Yield  
  JA$5.25 billion
Review of Tax Measures

Motor Vehicle Fees
2012/13 Budget: Motor Vehicle Fees

- Motor Vehicle Licence Fees
- Motor Vehicle Fitness Fees
- Motor Vehicle Registration Fees
- Licence Plates
- Licence Fees

50%
2012/13 Budget: Motor Vehicle Fees

• Implementation Date
  1 June 2012

• Estimated Revenue Yield
  JA$0.60 billion
Review of Tax Measures

Personal Income Tax Threshold
2012/13 Budget: Personal Income Tax Threshold

$507,312 p.a.

$441,168 p.a.
2012/13 Budget: Personal Income Tax Threshold

Implications

• Additional $5,512 per month in tax free allowance
• Tax free benefit enjoyed by hotel workers will no longer be applicable
• Result in the removal of an estimated 2,981 people from the income tax net
2012/13 Budget: Personal Income Tax Threshold

• Proposed Implementation Date
  1 January 2013

• Estimated Revenue Loss
  JA$0.10 billion
Review of Tax Measures

Tax on Winnings
2012/13 Budget: Tax on Winnings

20% → 15%
2012/13 Budget: Tax on Winnings

• Implementation Date
  1 June 2012

• Estimated Revenue Yield
  JA$0.38 billion
Review of Tax Measures

Additional Stamp Duty
With effect from **1 July 2012**, the following goods are to be subject to Additional Stamp Duty (ASD) at a rate of 15%:

<table>
<thead>
<tr>
<th>Tariff Heading</th>
<th>Description of Goods</th>
</tr>
</thead>
<tbody>
<tr>
<td>02.04</td>
<td>Meat of sheep or goats, fresh, chilled or frozen</td>
</tr>
<tr>
<td>0210.11.00</td>
<td>Hams, shoulders, and cuts thereof, with bone in</td>
</tr>
<tr>
<td>0210.12.10</td>
<td>Bacon</td>
</tr>
<tr>
<td>0403.10</td>
<td>Yogurt</td>
</tr>
</tbody>
</table>
Review of Tax Measures

Common External Tariff (CET)
2012/13 Budget: Common External Tariff

10 percentage points

List C of Harmonised Tariff
List C of the Harmonised Tariff include items such as:

<table>
<thead>
<tr>
<th>Tariff Heading</th>
<th>Description of Goods</th>
</tr>
</thead>
<tbody>
<tr>
<td>22.03</td>
<td>Beer, stout and ale</td>
</tr>
<tr>
<td>22.07</td>
<td>High strength alcohol including denatured spirits</td>
</tr>
<tr>
<td>2710.30</td>
<td>Gas oils (including diesel oil)</td>
</tr>
<tr>
<td>71.13</td>
<td>Articles of jewellery and parts thereof, of precious metal or of metal clad with precious metal</td>
</tr>
<tr>
<td>7117.00</td>
<td>Imitation jewellery</td>
</tr>
<tr>
<td>91.01</td>
<td>All watches</td>
</tr>
</tbody>
</table>
2012/13 Budget: Common External Tariff

- Implementation Date
  1 June 2012

- Estimated Revenue Yield
  JA$1.95 billion
THANK YOU