Taxation Services
Client Newsletter

Jamaica Budget 2009/10

Difficult Decisions in Challenging Times

23 April 2009

PRICEWATERHOUSECOOPERS

Introduction

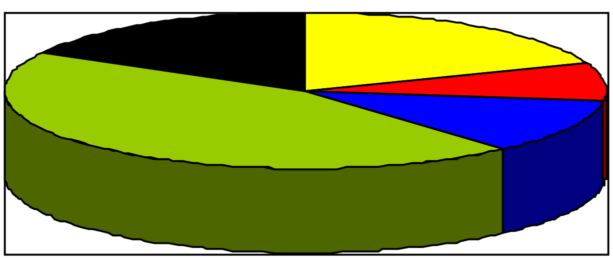
The Hon. Audley Shaw, Minister of Finance and the Public Service today (23 April 2009) delivered the much-anticipated 2009/10 Budget Presentation in Parliament.

The Jamaican public had been bracing itself for significant tax measures in light of recent Government pronouncements against the background that the nation faces significant fiscal and other economic challenges at this time. These have been exacerbated by the global recession, recent devaluations of the Jamaican dollar as well as interest rate increases.

The country's anaemic economic performance is reflected in the 0.6% contraction in output in fiscal year 2008, a 12.4% inflation rate and a US$105 million decline in Net International Reserves in calendar year 2008.

Expenditure Estimates

The Government had previously tabled its 2009/10 Estimates of Expenditure totalling $547.75 billion (now increased to $556.7 billion according to the Minister in his presentation) in Parliament on 7 April 2009. The following represents the allocation of the expenditure budget over major heads of expenditure:



Education Health Security Interest Other

Of particular note, the country's public debt obligations (principal and interest) amount to nearly 56% of the total budget whilst interest obligations amount to nearly 45% of the 2009/10 recurrent expenditure budget.

Financing the 2009/10 Budget

Minister Shaw indicated that the Government intends to fund the $556.7 billion 2009/10 in the following manner:

	J$ billion
Projected Revenues - Tax	274.9
- Non-Tax	15.5
Bauxite Levy	0.1
Capital Revenue	20.3
Grants	10.2
Additional Borrowings	217.6
New Tax Measures	18.13
Total	556.73

Summary of New Tax Measures

The Minister announced the following new tax measures today:

	J$ billion
Increased SCT on automotive fuel and increase in Customs User Fees on finished petroleum products	13.328
Removal of GCT Exemptions	7.500
Removal of preferential taxation of employee perquisites	1.200
Increased GCT rate of 20% on sale of telephone instruments	0.736
Imposition of withholding tax on dividends paid to non-residents	1.341
	24.105
Less: Cost of:	
Increase in Income Tax Threshold	5.202
Increased Pensioners' Allowances	0.128
Reduction in Transfer Tax & Stamp Duty	0.644
	5.974
Net Revenue Increase	18.131

Overview of 2008/09 Revenue Performance

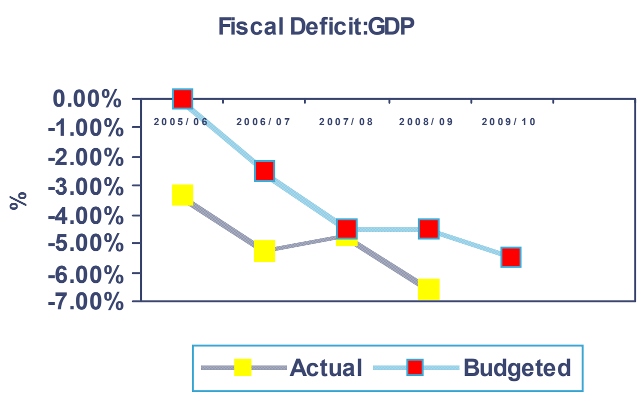
Revenues for the fiscal year 2008/09 were 9.8% below budget.

Tax revenues of $246.2 billion fell short of budget by 7.1%, with GCT being 19.6% less than budgeted. This reflects reduced consumption due to the economic down-turn.

Fiscal Deficit

The country's fiscal deficit as a percentage of Gross Domestic Product (GDP) is regarded as an important indicator of Jamaica's ability to control and manage its national finances. Balancing the budget is therefore a critical milestone that must be achieved in order to improve the country's financial health.

The following table highlights the programmed fiscal deficit as a percentage of GDP as well as the actual outturn for each fiscal year.

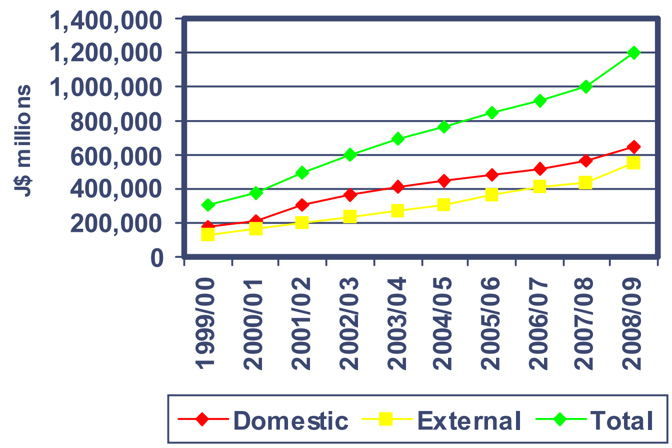


Given the Nation's ever-growing public debt obligations, it can be seen that a balanced budget has been an elusive goal.

A fiscal deficit of 4.5% of GDP was programmed for 2008/09 but the country performed much worse achieving an actual outturn of 6.8% of GDP. The Government announced today that it is programming a fiscal deficit for 2009/10 of 5.5% of GDP.

National Debt: A Ten-Year Summary

The following table highlights the movement in the nation's public debt over the ten year period from 1999/00-2008/09.



Specific Tax Measures

The following represents a preliminary review by the PricewaterhouseCoopers (PwC) specialist tax team of the specific tax initiatives which were announced by Government today. As noted above, these are designed to raise the incremental $18.131 billion in revenues required to fund this year's budget:

Increase in Special Consumption Tax (SCT) on Petrol

The Minister indicated that SCT on petrol shall be increased by $8.75 per litre with effect from 27 April 2009. The *ad valorem* component of the SCT will remain unaffected at levels that have prevailed since 1999.

It would appear that this increase will only apply to automotive fuels but clarification on this point would be welcomed, particularly whether the increase shall apply only to gasoline (Unleaded 87, Unleaded 90 and E-10) or whether Automotive Diesel Oil (ADO) is also included.

It is estimated that this measure (along with the increased customs user fee noted below) will yield additional revenues of $13.328 billion in the current fiscal year. The Minister indicated that 20% of these revenues shall be placed in the Road Maintenance Fund and devoted exclusively to the repairs of all classes of roads.

Set against the background that Jamaica does not produce oil, gasoline has historically been taxed in Jamaica at low levels (by international standards). The need to modify this tax regime (to permit re-balancing of our tax system) has been long recognised including by the Matalon Report on Tax Reform (2004) which recommended that GCT be imposed automotive fuels. Attempts were made to reform the regime in 1999 by the then PNP administration but were abandoned after the announcement sparked widespread riots and public disorder.

The imposition of the tax as SCT as opposed to GCT means the tax will be levied at importation or manufacture and avoids imposing the responsibility on retailers to collect the tax. Furthermore, unlike GCT, the SCT will not be claimable as an input tax credit by registered taxpayers, hence eliminating the uncertainty of how much tax revenue would be lost to credits claimed by businesses.

Increase In Customs User Fees for Imported Petrol

The Minister also announced that Customs User Fees (CUF) applicable to the importation of finished petroleum products (excluding products imported under the *PetroCaribe* Agreement) shall increase from 2% to 5% of the customs value of applicable imports. This shall apply with effect from 27 April 2009.

Removal of GCT Exemptions from certain Goods

General Consumption Tax (GCT) is currently imposed at the standard rate of 16.5% on the supply within Jamaica (by registered taxpayers) or importation of most goods or services. The Third Schedule to the GCT Act sets out a list of goods and services which are exempt from GCT.

The Minister announced that with effect from 27 April 2009, the following goods (which are currently GCT-exempt) will be subject to GCT at the standard rate of 16.5%:

- Automatic data processing machines (e.g. computers) under tariff heading 84.71 as well as parts and accessories under tariff heading 8473.30
- Books, printed matter (not including newspapers), articles and materials classified under tariff headings 49.01 to 49.05.
- Fish, cock and noodle soup in aluminium sachets
- Syrup (ex. Tariff heading 21.06)
- Motor spirit, lubricating oil for commercial fishing.
- Live Birds, Fish etc. for food
- Rolled Oats
- Salt

The Minister confirmed that a wide range of goods will retain their GCT-exempt classification including raw foodstuffs, basic foodstuffs (other than specified above), prescription drugs, certain medical goods, certain educational or agricultural inputs etc.

It is estimated that this measure shall yield revenues of J$7.5 billion in the current fiscal year.

From a tax reform perspective, the reduction of the number of GCT exemptions is an important step in seeking to tackle some of the complexities, imbalances and administrative challenges that exist in our current tax regime.

This was recognised by the 2004 Matalon Report on Tax Reform which recommended that the number of GCT exemptions be significantly reduced. The Minister has however still chosen to retain many of the GCT exemptions on the statute books.

We note that the Summary of Measures makes reference to the reform of GCT on ‘Goods and Services’ but no reference is made elsewhere to the imposition of GCT on services currently exempt. We would welcome clarification on this point and in particular with regards to electricity and water, the former being rumoured to have been in the Minister’s cross-hairs for inclusion within the tax base.

Increase in GCT Rate Applicable to Telephone Instruments

The rate of tax applicable to the importation or supply of telephone instruments will be increased from 16.5% to 20% effective 27 April 2009. The Minister indicated that this will harmonise the rate of GCT on instruments with the existing 20% rate which applies to the supply of telephone services and the sale of phone cards.

This measure represents a departure from the stated policy of simplifying the tax system and eliminating discrimination. The 2004 Matalon Report also recommended the elimination of non-standard GCT rates. An opportunity was also missed to address uncertainties and inequities in the GCT regime applicable to telecommunications. This regime currently imposes GCT at different rates on the same services depending on whether they are procured on a pre-paid or post-paid basis.

Instead, the Government appears anxious to capitalise on the seemingly insatiable appetite of Jamaicans to spend unlimited time on their telephone and upgrade their handsets as new models are launched.

It is estimated that this measure shall yield revenues of J$736 million in the current fiscal year.

Tax on Dividends paid to Non-Residents

Dividends paid by companies that are listed on the Jamaica Stock Exchange presently benefit from a zero rate of taxation. In December 2008 the Honourable Prime Minister announced that this relief would be extended to all dividends paid by "Jamaican owned companies".

Although the legislation to give effect to this change has not yet been promulgated, we understand that the intention is to allow for tax at the rate of zero percent to be applied to dividends paid to Jamaican tax residents.
In referring to this announcement, the Minister has indicated that dividends paid to "non-resident shareholders of listed companies" shall be subject to withholding tax at the rate of 33⅓% with effect from 1 July 2009. We would welcome clarification on whether it is intended to tax only corporate non-resident shareholders at this rate since individuals are normally taxed at 25%.

On this basis, such non-resident shareholders would no longer be able to rely on the tax exemption currently afforded to companies quoted on the Jamaican Stock Exchange. It should be noted however that to the extent that a non-resident shareholder is resident in a jurisdiction which has concluded a tax treaty with Jamaica, then the shareholder may qualify for treaty protection to reduce or eliminate his Jamaican tax exposure..

It is estimated that this measure will yield revenue of J$1.341 billion in 2009/10.

Removal of Preferential Basis of Taxation of Certain Employee Emoluments

Certain employee perquisites were targeted by the Minister for removal of the favourable tax treatment that they enjoyed for many years. This amendment is scheduled to take effect from 1 July 2009 and is expected to yield revenue inflows of J$1.2 billion in the current fiscal year. Preferences which will be targeted include:

Living Accommodation:

Employees who were provided with living accommodation as part of their emoluments hitherto paid tax on this benefit up to a maximum of 15% of the remaining elements of their emoluments, instead of the full value of the accommodation.

Tourism Gratuities:

At present, hotel workers are entitled (subject to certain conditions) to receive tax-free gratuities from an approved gratuity scheme of up to J$250,000 per annum. This enables such workers to earn tax-free income up to J$470,272 per annum (inclusive of the current general tax-free threshold). The Ministry

Paper indicates that hotel workers will continue to enjoy this enhanced tax-free limit until the general tax-free threshold reaches this level (i.e. J$470,272 or above), whereupon the general threshold shall apply to all persons (i.e. the tax-exemption afforded to gratuities shall be abolished).

Laundry & Uniform Allowances:

We anticipate that these allowances shall no longer be payable on a tax-free basis.

On this basis, it will be important for employers to review current contractual commitments to employees as well as any agreements with unions which govern the payment of such allowances to assess how these may be affected by the abolition of their tax-free status.

Significant Increase of Tax Threshold

With effect from 1 July 2009, the tax-free threshold for income tax purposes will be significantly increased from $220,272 to $320,736 with a further increase to $441,168 with effect from 1 January 2010. Income earned in excess of this revised threshold remains subject to income tax at 25%.

It is estimated that this measure will cost $5.202 billion for the current fiscal year. This measure is a critical part of the overall tax package presented by the Minister. In particular, the increase in the threshold will provide much needed relief from income tax for heavily burdened PAYE taxpayers. It is estimated that the increases in the threshold will take 85,000 PAYE workers out of the income tax net by 1 January 2010.

Notwithstanding the doubling of the income tax threshold to $441,168 by 1 January 2010, the threshold will remain significantly below the amount recommended by the Matalon Report on Tax Reform (2004) of $275,184 (with effect from 1 January 2004) which was to be indexed thereafter to inflation. In today's terms (at February 2009), this threshold would be approximately $505,000 (based on the movement of the Consumer Price Index). The disparity will continue to grow over time.

Increase in the Threshold for Pensioners and the Elderly

Under current income tax rules the first $45,000 of pension income derived annually from an approved pension or retirement scheme is exempt from income tax with a further $45,000 exemption (in respect of any income) if the recipient is 55 years or over.

Minister Shaw announced that with effect from 1 July 2009 each of the above allowances shall be increased to J$80,000. On this basis, pensioners and the elderly may earn tax-free income (inclusive of the general tax-free threshold) of the following amounts:

	1 July 2009 (J$)	1 January 2010 (J$)
Pensioner 65 and over	480,736	601,168
Individual 65 and over	400,736	521,168
Pensioner aged 55–64	400,736	521,168

It is estimated that this measure will cost J$128 million in 2009/10 and will remove an additional 4,500 pensioners from the income tax net.

Consolidation of Payroll Taxes:

The Minister indicated that payroll taxes would be consolidated with effect from 1 July 2009 but neither his Presentation nor the Ministry Paper outlined any further details as to how this will be achieved.

Once these are forthcoming, we will issue a supplement on same. Issues which need to be clarified include:

1) what consolidated rates shall apply?
2) will the J$500,000 NIS income cap be increased or abolished?
3) how the separate rules and bases for each payroll tax will be harmonised to facilitate consolidation?
4) how will the employed persons be treated versus the self-employed?

Reduction in Transfer Tax and Stamp Duty Rates

In pursuit of a general programme to reduce rates and with the express aim of stimulating the real estate market, the Minister announced today that the rate of transfer tax shall be reduced from 5% to 4% while the rate of stamp duty on conveyances shall be reduced from 4.5% to 3% with effect from 1 January 2010.

For real estate transactions, this will normally mean that vendors shall be liable to an aggregate of 5.5% of the consideration payable (transfer tax and stamp duty combined) while the purchaser shall be liable for stamp duty of 1.5%.

It is estimated that this measure will cost J$644m for the current fiscal year.

Administrative Enhancements

The Minister spoke of several administrative measures which are expected to enhance the revenue collection process and assist in the management of the various Ministries.

These include the establishment of the following:

- Large Taxpayer Office (LTO):

  This office, which commenced operation in January, deals with the 3% of taxpayers who contribute over 80% of the taxes paid.

- Forensic Data-Mining Intelligence Unit (FDIU):

  This unit will focus on identifying self employed persons that are not compliant.

In addition, efforts are being made to improve the customer service of the Collectorates, so as to be more efficient and customer friendly. The Revenue Protection Division is to be re-established and work will continue in ensuring that customs collections are more effective.

In addition the Ministries are to benefit from the following:

- Central Treasury Management System (CTMS):

  This will be a centralised system to manage public funds which, it is expected, should reap financial benefits from the reduction in wasteful spending.

- Public Accountability Inspectorate (PAI):

  The inspectorate will be responsible for reviewing reports tabled in Parliament and ensuring that the recommendations are followed and implemented. It will also assist Ministers in the investigation of issues as necessary in order to promote accountability and transparency.

New Phase of Amnesty

The recently concluded Amnesty programme is to be extended to taxpayers who previously avoided declaring taxes, estimated to number over 200,000 persons. Such persons are being invited to come forward and declare for 2008/9 forward.

Submissions will be accepted on a “no questions asked” basis up to October 2009. Thereafter, persons will be assessed when audited and this could cover several years.

Important Notice: PricewaterhouseCoopers has prepared this Client Newsletter to alert clients on the principal changes announced in the 2009/10 Budget. The changes are outlined in general terms and for information purposes only and therefore should not be acted upon without securing professional advice.

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

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