

# ***2014/15 Revenue Measures Revised – “Withdrawal Levy” withdrawn and substituted by two new measures...***

## ***Introduction***

Following an outcry from a wide cross-section of the society, the Honourable Dr. Peter Phillips, Minister of Finance and Planning on 30 April 2014, announced that there would be a removal of the proposed levy on withdrawals from deposit taking institutions and encashments from securities dealers.

He further announced the imposition of a withholding tax on insurance premiums paid to non-resident insurers and the enforcement of the requirement for local purchasers of services from non-residents to account for the GCT on those services. There were also other revisions to the Revenue Measures previously mentioned in his presentation to the House of Representatives on 17 April 2014.

## ***The revised measures at a glance...***

- Deferral of the date of imposition of the standardisation of SCT Rate on alcoholic beverages imported by the tourism sector
- Cancellation of the proposed levy on withdrawals from deposit-taking institutions and encashments from securities dealers
- Withdrawal of the proposed increase in premium tax and investment income tax imposed on life assurance companies
- Increase in Asset Tax rates for the life insurance sector
- Minor clarifications of the previously proposed reduction in Customs Duty/SCT imposed on certain motor vehicles

## ***The new measures at a glance...***

- Withholding tax of 15% on insurance premiums paid by certain Jamaican residents to non-residents
- Implementation of an enhanced framework for imposing GCT on imported services, and prohibition of the claiming of input credits in respect of GCT on imported services. Specified sectors will be excluded from these requirements

*Summary of the effect of the revised measures...*

<b>Updated Tax Measures at a Glance</b>	<b>Prior estimates J\$m</b>	<b>Effect of revision J\$m</b>	<b>Revised estimates J\$m</b>
Standardisation of SCT rate on alcohol of J\$1,120 per litre of pure alcohol	844	(36) (note 1)	808
Increase in the age-limit of motor vehicles (up to ten years old) whose second sale is liable to GCT	26		26
Levy on withdrawals from deposit-taking institutions and encashments from securities dealers	2,250	(2,250) (note 2)	-
Premium tax on all life assurance companies increased to 5.5%	276	(276) (note 2)	-
Investment tax on life assurance companies increased from 15% to 20%	701	(701) (note 2)	-
Increase in Asset Tax rates	1,788	930 (note 3)	2,718
Reduced customs duty/SCT on certain motor vehicles	250	0 (note 4)	250
Redirection of SCT from the Road Maintenance Fund to Central Government	1,200		1,200
Increase in Annual Income Tax Threshold	(650)		(650)
Introduction of a 15% withholding tax on insurance premiums paid by residents to non-residents		2,300 (note 5)	2,300
Implementation of an enhanced framework for imposing GCT on imported services			
<b>TOTAL</b>	<b>6,685</b>	<b>(33)</b>	<b>6,652</b>

**Notes on the effects of the revision to previous estimates:**

1. effect of the deferral of this measure on the tourism sector by one month
2. previously proposed measures now withdrawn
3. further increase in ad valorem asset tax rate on the life insurance sector
4. no effect of revised measures on prior estimates
5. new measures

## ***Overview of the revisions to the previously announced tax measures***

### ***Deferral of the date of imposition of the standardisation of SCT Rate on alcoholic beverages imported by the tourism sector***

In his presentation of 17 April 2014, the Minister proposed that with effect from 22 April 2014 the rate of special consumption tax (SCT) on alcoholic beverages imported or manufactured in Jamaica would be standardised as follows:

<b>Alcohol Type</b>	<b>Current J\$*</b>	<b>Proposed J\$*</b>
Beers & Stouts	1,120	1,120
All other Alcoholic Beverages	960	
Alcohol imported etc. by tourism sector	700	

\* rate chargeable per litre of pure alcohol (LPA)

While there are no further changes to the proposed rates, it is our understanding that, following concerns raised by the tourism sector regarding its competitive position in the global environment and the time that it takes the sector to adapt to changes in the tax regime, the Minister has agreed to delay the increase in the rate imposed on alcohol imported by the tourism sector from \$700 to \$1,120 per litre of pure alcohol by up to one month.

### ***Cancellation of the proposed levy on withdrawals from deposit-taking institutions and encashments from securities dealers***

In his prior presentation, the Minister had proposed to introduce a levy of up to 0.1% on certain withdrawals from deposit-taking institutions and encashments (whether full or partial) from securities dealers.

In presenting the Revised Measures, the Minister declared that the proposal to implement this levy would be withdrawn.

### ***Withdrawal of the proposed increase in premium tax and investment income tax imposed on life assurance companies***

Life assurance companies pay tax on two sources of income, namely premium income derived from life assurance, pension and annuity business (i.e. long-term business) and “investment income”, the latter comprising all remaining taxable sources of income other than premium income.

Whereas premium tax is imposed directly on gross premiums received, investment income is taxable after deduction of “management expenses”, that is expenses incurred in earning that income.

The proposal to increase these rates has been withdrawn; however, as noted below, it is now proposed to further increase the rate of Asset Tax imposed on life insurance companies.

### *Further increase in Asset Tax rates for the life insurance sector*

You will recall that, with effect from 31 December 2012, a modified Asset Tax regime was introduced for “specified regulated entities” – deposit-taking entities regulated by the Bank of Jamaica (BoJ) and securities dealers and insurance companies regulated by the Financial Services Commission (FSC). An ad valorem Asset Tax at the rate of 0.14% was imposed on the “taxable value” of their assets as determined by the Asset Tax (Specified Bodies) Act.

In his prior presentation, the Minister had proposed that the rate at which the ad valorem Asset Tax is imposed on specified regulated entities be increased from 0.14% to 0.25%. It is now being proposed that this rate be further increased to 1% for life insurance companies for a period not exceeding one year, after which the rate will presumably revert to that imposed on other specified regulated entities.

### *Clarifications to the previously proposed reduction in Customs Duty/SCT imposed on certain motor vehicles*

In the 2012/13 Budget, customs duty rates were increased by 10% on a variety of ‘luxury’ goods including certain motor vehicles. It has been asserted that these rate increases have adversely impacted the local automotive sector.

In an effort to reduce this burden (with a view to stimulating the local automotive trade), it was proposed that the rate of customs duty on certain motor vehicles with a cc rating of 2,000 and above be reduced from 30% to 20%. It has now been clarified that this reduction also extends to all categories of pick-ups and hybrid vehicles.

Further, it was announced in the previous presentation that the SCT rate on hybrid motor vehicles would be increased from 0% to 10%. The Minister advised that this proposed increase was unintended and the rate will remain at 0%.

## ***New measures to be introduced***

In addition to the revised tax measures, the Minister also announced the introduction of two new measures. Along with the further increase in the Asset Tax rate for life insurance companies, these two new measures are meant to offset the cost to the Consolidated Fund of the revision to the previous measures.

### *Withholding tax on insurance premiums paid by certain Jamaican residents to non-residents*

In his presentation on 30 April 2014, Minister Phillips proposed the imposition of a withholding tax at the rate of 15% on all insurance premiums paid by Jamaican residents to non-residents. Premiums paid by registered Jamaican insurance companies will be exempt from this withholding tax.

It is unclear at this time how this measure will affect certain situations, such as where premiums are paid through registered insurance brokers. However, we await the legislation which we expect will clarify the treatment to be applied.

It is further proposed that the measure will be implemented on 30 April 2014.

### *Implementation of an enhanced framework for imposing GCT on imported services, and prohibition of the claiming of input credits in respect of GCT on imported services*

In 2003, the GCT Act was amended to require the recipients of imported services to account for the GCT on the value of such services, since the Jamaican Revenue is unable to collect GCT from the foreign supplier of those services. Hence a Jamaican purchaser of such services would be required to account for the GCT applicable to that supply to the Revenue.

However, the administrative procedures surrounding the implementation of this measure were not fully implemented. The Minister indicated that this has resulted in significant revenue losses.

In his presentation of 30 April 2014, he stated that the regulations surrounding the imposition of GCT on imported services will be improved and it is expected that these improvements will reduce the revenue losses. We expect, for example, that the exact circumstances in which a service will be deemed to be “imported” will be clarified.

It was further proposed that the GCT Act would be amended to prohibit a taxpayer’s ability to claim input credits in respect of GCT incurred on imported services. Hence, the purchaser of the services will not be able to offset the GCT paid on the “imported services” against his output tax (viz. tax charged on his own sales). This will result in an additional cost to the business. Currently, a registered taxpayer who makes taxable supplies is able to claim an input tax credit, with few exceptions, in respect of the GCT paid on all services.

The House was informed that this measure, which will take effect on 1 June 2014, would remove the incentive for persons to acquire services from non-residents (including their offshore branches) in preference to local suppliers whose services would be subject to GCT.

The Minister noted that this measure would not be applicable to the supply of electricity, business processing operations, tourist accommodation and services imported by the bauxite/alumina sector.

***Based on our dialogue with the Ministry of Finance and Planning we understand that the detailed framework for the regime, including the specific rules that will guide the implementation, is being developed and we expect further details to be forthcoming.***

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 below or your usual PricewaterhouseCoopers Jamaica contact.

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