MINISTRY PAPER NO. 102 /12

WHITE PAPER ON TAX REFORM 2012

15th NOVEMBER 2012

Ministry of Finance and Planning

Ministry Paper N$^{o.}$ ..../12

White Paper on Tax Reform 2012

The Honourable House is being requested to take note of the following White Paper on Tax Reform 2012. The Honourable House is being asked to note that the White Paper on Tax Reform 2012 seeks to provide the tax framework for economic development in order to procure the vision for Jamaica, to be the place of choice to live, work, raise families and do business.

1.0 Introduction: Rationale for Reform

1.1 Tax reform has become a topical issue locally, especially in recent years. In reviewing the Jamaica tax system, it was determined that the inherent complexities made it pivotal for a tax reform, to ensure a more efficient, equitable and simplified taxation system.

1.2 This rational for reform was further bolstered by the prevailing economic context, which saw Jamaica being regarded as one of the countries where the payment of taxes was difficult and is perceived to be a major hindrance to doing business. In addition, the presence of narrow tax bases, distortionary impact of waivers and incentives, numerous inequities, and declining revenues (fiscal deficit) and a high debt to GDP ratio, it is imperative for Jamaica to continue on the road to meaningful tax reform.

1.3 Jamaica has a long history of tax reform and this White Paper seeks to establish some broad guiding principles which will inform the main future tax related initiatives over the medium to long term.

1.4 The process of developing the White Paper proceeded after a thorough examination of the Green Paper on Tax Reform that was issued by the Ministry of Finance & Planning in May 2011. It also accounts for several written and oral submissions made by members of the public, Ministries, Department, Agencies, interest groups and private sector associations with interest in tax reform. These representations were made to a specially convened Parliamentary sub-Committee which had a series of hearings, commencing September 2011 and culminating in April 2012. The ensuing agreement on the direction for tax reform was therefore generated mainly through a consultative process.

2.0 Guiding Principles

2.1 It is accepted that one of the pivotal functions of any tax system is to garner resources to fund a government's recurrent expenses and expenditure to facilitate growth and development. These revenues are generated from direct taxes on income and indirect taxes on expenditure. However to predicate the taxation system on this function solely would be remiss. GOJ along with its international counterparts accept that the function of any effective taxation system must be construed in the broader sense, whereby the system is predominantly guided by a policy of reducing inequities and providing for acceptable taxation rates to engender local business development and attract FDI.

2.2 The Government of Jamaica is committed to the following principles of an effective tax system:

a. It should be as simple and transparent as possible to allow for ease of taxpayer compliance and effectiveness of tax administration.

b. It should be fair and equitable in distributing the tax burden, thereby ensuring that persons earning higher income pay a higher proportion of their incomes.

c. It should have minimum non-standard tax rates as possible, thereby ensuring simplicity and that similar taxpayers and taxpaying activities are treated/taxed at the same rate.

d. It should be sufficiently flexible, within the context of a medium term tax initiative, in order to ensure that tax policy and administrative changes will be made in a systematic manner.

e. It should remain consistent with meeting the revenue needs of the budget.

f. It should facilitate savings, investments and the allocation of resources to build productive efficiency and enhance economic growth.

2.3 The Government of Jamaica recognizes that taxation causes a reallocation of resources to a greater or lesser degree and that all of the above objectives are not always mutually reinforcing (for example, having taxpayers paying according to ability to pay may lead to a sacrifice of the simplicity and transparency goals).Therefore, the Government seeks a balance among simplicity, fairness, revenue enhancement and the facilitation of economic growth.

3.0 On-going Tax Reform

3.1 The Jamaican tax system from independence was dependent on a multiplicity of indirect taxes, including taxes on international trade, and an income tax system with different marginal tax rates and several deductible allowances. Jamaica engaged in major tax reform in the mid 1980's when:

I. The income tax rates for both personal and corporate income tax were unified at 33/1/3%.

II. All allowances applicable to personal income tax were removed.

III. A withholding tax on interest income was imposed.

3.2 In the 1990's, there was a serious attempt to shift to a modified value added tax to increase revenue yield and economic efficiency. Value Added Tax (VAT) in the form of the General Consumption Tax (GCT) was introduced to replace several forms of indirect tax. The statutory Personal Income Tax (PIT) rate was reduced from 33/1/3 to 25% and the customs tariff rates were reduced and restructured to a Common External Tariff (CET) consistent with the Caribbean Community (CARICOM) arrangements. Tax Administration was also reformed to support effectiveness and administrative simplicity. The initial GCT rate was 10.0% and was applied to a wide range of products in October 1991.

3.3 In 2004, a comprehensive study of Jamaica's Tax System by a team from the Andrew Young School of Policy Studies at Georgia State University found that despite a sound basic structure, there was still major problems remaining including:

i. Weakness in Tax Administration

ii. The need to address a significant fiscal gap estimated then at approximately 2% of GDP arising from Government's resolution of the financial sector crisis of the 1990s.

iii. The ad hoc nature of the system was characterized by a pervasiveness of discretionary waivers, formal tax relief and differential treatment of individuals and companies.

iv. The narrowness of the tax base facilitated by administrative failures, preferential treatment and tax evasion, and which failures could be remedied by progressive substitution of indirect for direct taxes.

v. The dominance of the system by "tax expenditures" including waivers and incentives) having a severe negative impact on revenue and on the allocation of expenditure, including investments.

vi. The existence of horizontal and vertical inequities including individual income taxpayers selectively receiving non tax concessions, differential GCT rates and selective relief from customs duties.

vii. Continuing complexity of the system through a proliferation of different rates within a particular tax type.

3.4 The tax system severely distorted the allocation of expenditure because of differential taxation of capital income, differences in the corporate and individual income tax rates, availability of non-taxable allowances, industry incentives and special treatment of certain sectors as well as the issue of non-compliance. Property transfer arrangements were identified as a major impediment to a properly functioning market.

3.5 Since 2004, the government has sought to address some of these issues. For example, there was a substitution of indirect taxes through increasing GCT rates and as on-going efforts to enhance the effectiveness of tax administration. The pace of reform was constrained by debt induced fiscal challenges and perceived resistance to change from beneficiaries of tax concessions at both corporate and consumer levels.

3.6 In 2008 a tax amnesty was granted with the objective of increasing revenue and expanding the tax rolls to increase compliance over the medium term. There were reductions in property transfer tax and stamp duty on transactions. Indirect taxes were also adjusted on fuel by a rate by $8.75 per litre and a tax was levied on electricity consumption for residential, industrial and commercial users. .Administrative measures were also implemented in an attempt to enhance the effectiveness of revenue collection offices. The Large Taxpayer Office (LTO) was instituted in 2009 in response to an observation that 3% of the taxpayers pay 80% of the taxes in Jamaica. In addition, the Forensic Data Mining Intelligence Unit was established to identify the self-employed and professional persons who were understating their tax liabilities.

3.7 During 2010, the focus was largely on the enhancement of administrative capacities, implementation of lower penalties and fines as prescribed in the GCT and Income Tax Acts and increased efforts to address tax avoidance and evasion. Along these lines, a Cabinet Submission relating to the implementation of a flat tax for small businesses was prepared during the fiscal year. In 2011, there was continuing focus on the consolidation of the various statutory deductions; consolidation and rationalization of the administration of the tax system and the implementation of a toll free line for citizens to report suspected tax cheats. It was also announced that a National Compliance Programme would be implemented by Tax Administration Jamaica (TAJ).

4.0 The 2011 Green Paper on Tax Reform

4.1 In May 2011, the Government tabled Green Paper No 1-2011 entitled 'Tax Reform for Jamaica" (See Appendix 1). Its basic objectives were consistent with the principles outlined in paragraph 2 above. Following a number of hearings with several stakeholders including the Private Sector Organization of Jamaica (PSOJ) which made a comprehensive submission through its Private Sector Working Group, civil society, sectoral groups and associations and representatives from the wider public, the Committee presented a draft submission on May 2, 2012, which was completed and the final report tabled in Parliament on June 21, 2012.

4.2 The Tax Reform Committee essentially recommended that the reform be implemented over a three-year period consistent with the fundamental principles subscribed by the Government of Jamaica and the PSOJ.

4.3 Following the deliberations of the Committee, it was agreed that the basic food subsidy should be removed from the tax system and addressed through a social protection programme but nonetheless, a small number of basic foods and other critical items would have to remain on the zero rated/exempt lists until the economy shows stronger growth, increased employment and a lower incidence of poverty. It was also agreed that stationery, educational apparatus and equipment for use by approved educational institutions intended solely for educational purposes ,electricity, oil products, import services, telephone services and agricultural inputs warranted differential treatment (either higher or lower rates) relative to the standard rate of GCT.

4.4 Other major recommendations of the Parliamentary sub-Committee (some by majority vote rather than consensus) include the following:

i. The statutory Corporate Income Tax Rate (CIT) rate should be reduced in line with rates of regional and international competitors.

ii. Imposition of a 10% withholding tax on dividends[1].

iii. The general PIT threshold should be increased to $624,000 per annum effective January 1, 2013[2].

iv. The payroll tax regime should be harmonized with consolidation of the various payroll deductions.

v. There should be a review and overhaul of the current capital allowances regime to include expenditure on intellectual property and accelerated depreciation.

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[1] The rate for withholding tax on dividend was 5% for FY2012/13 budget.

[2] Given the revenue constraints it was decided that the movement in the threshold would be to $507 312 for FY2012/13.

vi. The requirement for filing an annual asset tax return and payment of an annual asset tax should be abolished[3].

vii. The various fees and charges at ports should be consolidated into a single charge that is GCT compatible.

viii. Additional stamp duty should remain; and the Environmental Levy should also be applied to domestic activities, to ensure WTO compliance.

ix. The motor vehicle licence and property tax regimes should be reviewed and revised as soon as possible.

x. There should be consideration of tax credits for research and development.

xi. Tax delinquents should not benefit from any tax incentive.

xii. The process of selling property to recover property taxes should be simplified and streamlined.

xiii. Tax administration should be enhanced to increase tax effort with consideration being given to:

   a. Regular publication of a list of tax offenders subject to adequate due diligence.

   b. The benefits of online filing should be expanded to allow taxpayers to check their entire account online.

   c. Making it mandatory for companies to file with a review of penalties towards criminal sanctions.

   d. There should be increased provision of taxpayer education services.

xiiv. There should be a limited capital gains tax in lieu of a reduced transfer tax.

[3] It should be noted however, that after these deliberations by the PCC on Tax Reform the Asset Tax regime at that time was modified during the budget for FY2012/13 to correct the prior impediments which resulted in the tax being a nuisance to taxpayers.

5.0 *The 2012-13 Budget and Commitments for the Medium Term*

5.1 The Tax Measures outlined in the Fiscal Budget for 2012/13 were broadly consistent with the main objectives of the Green Paper, which suggested that the reform process should be implemented over a three-year period. The Budget included several revenue enhancement measures that begin to address vertical inequities in the system as well as to enhance compliance by reducing selected tax rates thereby advancing the reform agenda.

5.2 Critically, there was also a significant attempt towards base broadening of the GCT along with a reduction of the standard GCT rate. Action taken on corporate income tax and minimum income tax were also consistent with the general principle of lowering rates and broadening the base. In addition, the Budget recognized the need to immediately approve and implement legislative and administrative amendments to increase voluntary tax compliance and start the process to reduce distortions in the system partly caused by waivers and incentives.

5.3 During the 2012/2013 budget presentation, the House approved the reduction in the Standard Rate of GCT from 17.5% to 16.5%, as well as the steps to be taken to partially widen the GCT base. Most of the items were removed from the zero rated and exempt lists. A small number of basic foods and other critical items was retained because of their social sensitivity or significance to the consumption by the most vulnerable. This narrow list of items will remain on the zero rated/exempt lists until the proposed triggers of stronger economic growth, reduction in poverty levels and improvement in the employment numbers are realised.

5.4 With respect to the GCT applicable to the tourism sector, the revenue measures of 2012/13 sought to streamline its computation by the removal of two main tax-free expenses i.e. transportation and commissions. The implication of the tax on transportation is that operators in the tourism industry will no longer be able to claim transportation and commission as a tax free expense when computing the output tax. The 10% GCT rate for the tourism sector was retained for all categories in the sector and included tour operators, attractions and water sports operators. However, the current tax free status for expenses of commission and transportation will be disallowed in the computation of the output tax for the entire sector.

5.5 A special tax on *inter alia* inbound telephone calls terminating in Jamaica over the land and mobile network was imposed. The rates range from $0.05 per minute on calls originating and terminating on the fixed network in Jamaica; $0.40 per minute on all other calls originating in Jamaica; and US$0.075 per minute on international calls on the mobile network in Jamaica. There are a few exemptions to this tax such as calls to emergency and special services, etc.

5.6 Other measures taken in the 2012/13 Budget in relation to GCT included:

i. Retention of GCT on electricity for commercial and industrial entities but at the new standard rate of 16.5%

ii. Imposition of GCT on imported raw food stuff including meats[4]

iii. Imposition of a 2% GCT at the ports on selected printed matter (excluding newspapers), articles and materials under specified tariff headings. Concessions will be granted to private booksellers to retail textbooks identified by the Ministry of Education as exempt from GCT.

5.7 The Government will reduce the standard rate of GCT over the medium term through to 2015/16. The performance of revenue and the general availability of resources to finance the budget will determine the pace and timing of reduction. In reducing the standard GCT rate, the Government will also move towards unifying all rates at the standard rate subject to the fiscal performance.

5.8 Regarding Special Consumption Tax (SCT), the following measures were taken in the Budget for 2012/13

a. The imposition of standard rate of $960 per litre of pure alcohol (LPA) on Over-proof Rum.

b. The imposition of standard rate of $700 per LPA payable on alcoholic beverages purchased by the hotel/resort cottages.

c. The imposition of a rate of $16.32 per litre on ethanol by the marketing companies

[4] This GCT will not be levied on Chicken meats.

d. The introduction of a specific SCT on bundled tobacco leaves, at a rate of $10.50 as per 0.7 gram of unprocessed tobacco product.

e. Government will move to harmonize the SCT rates per litre of pure alcohol over the medium term.

5.9 Government in the 2012-13 Budget also moved to reduce the statutory Corporate Income Tax (CIT) rate for consistency with the standard Personal Income Tax Rate in line with international benchmarks. The corporate income tax rate structure was modified as follows:

i) The 33 1/3% rate was retained for the regulated companies including those regulated by the FSC, the OUR, the BOJ and the MOFP

ii) The rate was reduced to 25% for unregulated companies.

5.10 The reduction of the statutory CIT rate occurs in a context of a partial broadening of the GCT base and an anticipation of enhanced compliance in the payment of Corporate Income Tax and other business taxes.

5.11 In the 2012/13 Budget with the objective of ensuring that every business pays a direct tax, a minimum income tax was introduced .The applicable tax under this provision is $60,000 per annum and was imposed on:

i) All registered companies with the following exemptions:

a. Companies in the first year of incorporation

b. Charities

c. Any company approved under Section 12 of the Income Tax Act

ii) Companies under an incentive which provides income tax relief

iii) Self-employed professionals (including lawyers, doctors, consultants).[5]

[5] It should be noted that the minimum income tax does not preclude the payment of "normal" assessment based taxation; it merely introduces the concept of every taxpayer being obligated to pay a minimum amount. All taxpayers liable for the payment of tax including the self employed individuals as per the tax laws are required to make self-assessments and do the relevant filing in determining the tax payable for an assessment period.

5.12 From 2013/14 onwards, and subject to enhanced revenue performance, the CIT rates will be standardized around the 25% rate. Any further reductions in the corporate tax rate will be in line with reductions in the personal income tax rate in order to prevent arbitrage between both categories.

5.13 The Government is committed to consolidation of the various payroll deductions for ease of payment and collection. Harmonization of the payroll 'taxes' should be completed by 2014/15 commencing with the amalgamation of PIT and the Education tax in financial year 2013/14. Discussions with the NHT and the NIF will be finalized for implementation in financial year 2014/15.

5.14 The 2012/13 Budget introduced Compensating measures to assist consumers who would be negatively impacted by the broadened base of the GCT in the absence of a strengthened safety net. These measures were specifically targeted to the lower middle income and working poor within the population who now face a higher GCT burden. The measures were: an increase in the annual General Personal Income Tax Threshold and an exemption from GCT on electricity consumption for residential customers.

5.15 For 2012/13, it was also decided to increase the annual general personal income tax threshold from $441,168 to $507,312 with the rate being retained at 25%. The $29,104 tax free portion of the threshold currently enjoyed by workers in the tourism will be fully absorbed by January 1, 2013. However, gratuities paid to hotel workers will remain as a tax free expense. The increase in the general income tax threshold is also consistent with increasing efficiency by shifting the tax burden away from direct taxes.

5.16 From 2013/14 onwards, further reduction of the general personal income tax rate or threshold will be dependent on the overall revenue performance towards meeting of medium term fiscal objectives. Increased tax compliance will facilitate further conjoint reductions in the Corporate and Personal Income Tax rates, further increases in the annual general personal income tax threshold and further lowering of the standard GCT rate.

5.17 In the 2012/13 Budget, a 5% tax was also imposed on dividends payable to residents. This would be withheld at source, paid over to the revenue authorities and treated as a final tax. The thrust for equity and fairness to all taxpayers is at the heart of this proposal which is intended to address the existing anomaly in the system as non-residents are currently subject to withholding tax on dividends. For the medium term through to 2015/16 the rates applicable to dividends payable to domestic and external investors will be standardized at 10%.

5.18 A special tax of 0.2% on a portion of the total assets of financial institutions - insurance companies and securities dealers regulated by the Bank of Jamaica and the Financial Services Commission respectively was imposed as a part of the overall revenue measures for fiscal year 2012/2013. .

5.19 The asset tax regime for non-financial Institutions was also modified as follows:

- Assets Value of Under $50,000. - Tax of $5,000
- Asset Value of $50,000 to $500,000.- Tax of $25,000
- Asset Value of $500,000 to $5 m. - Tax of $50,000
- Asset Value of $5m. To $50 m. - Tax of $75,000
- Asset Value of Over $50 m. - Tax of $100, 000

5.20 The 2012-13 Budget imposed a special per night room tax on all occupied guest rooms as follows: US$1 per room for hotels with under 51 rooms; US $2 for hotels with over 51 but under 100 rooms; US $4 for hotels with over 101 rooms

5.21 A US $20 levy was also imposed on each arriving passenger to Jamaica whose point of origin is outside Jamaica and their final destination is Jamaica.

5.22 Asset taxes, Guest Accommodation Room tax and the air passenger levy in the 2012-13 budget were driven in part by the need to reduce the fiscal deficit towards medium term debt sustainability. The removal of the asset tax may be reconsidered in future but other initiatives, like the Guest Accommodation Room tax and Airline Passenger Levy, do more than meet short term revenue needs, as they facilitate broadening of the tax base and enhancement of the buoyancy of the tax system.

5.23 Licence fees and other miscellaneous fees were increased. There was a 50% increase in motor vehicle licences and other related fees. The tax rate on winnings from the Betting Gaming Horse Racing and Lotteries regime was also increased from 15% to 20%.

5.24 The property tax regime, the proceeds of which are allocated to local government, has been under-performing not only because of indifferent compliance but also because of out-dated property valuation. The current law prohibiting indexing of property between revaluations will be changed. Property value indices will be created on at least a bi-annual basis, and used to adjust all property values between revaluations. Government is committed to completing the current property valuation exercise before the end of the current financial year and to begin implementation using the resulting valuations from fiscal year 2013-14.

5.25 The current system of the property tax encourages non-compliance because there are no serious consequences for non-payment. The Parliamentary Committee recommended that with respect to Property tax, the Government will simplify and streamline the process of selling property in order to execute a lien to recover outstanding property tax within the medium term.

5.26 External tariffs are subject to agreement on a Common External Tariff (CET) within the Caribbean Community (CARICOM), World Trade Organization (WTO) rules and other international trade agreements. . The Government endorses the position of the Parliamentary Committee on Tax Reform that the CET should be reduced over time but reserves the right to vary tariffs on selected commodities upwards as allowed by international agreements, to meet nationally sensitive production objectives.

5.27 In 2012/13 the CET on selected items on List C of the CARICOM Harmonised Tariff was increased by 10%. List C is a Caricom wide listing of items deemed sensitive and which CARICOM members are able to increase subject to WTO bound rates. Examples of some the commodities that were affected by this policy measure included televisions, jewellery and motor vehicles.

5.28 In keeping with the recommendation of the Parliamentary Committee, Government will seek to negotiate regional and international agreement on reduction of the CET in the medium term.

6.0 Towards Reforming the Waiver and Incentive Regime

6.1 The Government is mindful of the high levels of potential revenue foregone through the granting of waivers and incentives and is deeply concerned regarding the uncertainty of the economic benefits emanating from these tax reliefs. As such, the Government is committed to the substantial reduction of the extent of potential revenue foregone through waivers and incentives and to ensure that this is tied to the delivery of meaningful social and economic benefits.

6.2 The Government of Jamaica is committed to enacting legislation to deal with charitable organizations, *inter alia*, as it relates to a reduction in discretionary waivers and as an anti-money laundering and counter financing of terrorism. It is expected that the relevant legislation will be enacted during fiscal year 2013/2014.

6.3 Ministry Paper N°· 32 of 2012 outlined policy to curtail discretionary waivers by means including:

a. Development of waiver policy and procedures;

b. Repeal of all incentives that have not been used over a number of years;

c. Abolition of GCT waiver to public entities liable for the payment of GCT;

d. Abolition of waivers for the importation of Horses;

e. Formalisation of an earlier decision taken in 2011 to eliminate the Modernisation of Industry (MOI) as a discretionary waiver;

f. Introduction of Omnibus legislation to govern waivers and incentives;

g. Establishment of a reform and co-coordinating unit for incentives and concessions to rationalise the assessment approval and monitoring process;

h. Gazetting of all waivers granted above a certain threshold value.

6.4 The Government with the assistance of the Inter-American Development Bank (IDB), has engaged a consultant to evaluate the cost and impact of the existing system of statutory incentives and expects that on the basis of the resulting report, legislation will be introduced on the development of an Omnibus Incentive Act before the end of fiscal year 2013/2014. The proposed omnibus legislation will fundamentally modify the existing regime to enhance its socio-economic cost-effectiveness. Additionally, an inter-agency working group is currently developing a feasible strategy to inform the rationalization of waivers and incentives locally.

6.5 In formulating the Omnibus legislation on tax incentives and waivers, the requisite research as it relates to legal and administrative issues will be undertaken. It is expected that the Omnibus Incentive Act will *inter alia*:

a. Entirely eliminate some incentives and harmonize others;

b. Allow for tax credits to activities directed at productivity enhancement research and development and training;

c. Specify the types of waivers and incentives allowed and conditions for access;

d. Define quantitative caps on waivers;

e. Establish the process for waiving taxes;

f. Allow for disqualification from incentive schemes for entities which are not tax compliant;

g. Require post-performance audits as a basis to establish compliance and effectiveness and to determine whether a specific waiver will continue to be granted.

6.6 The reform process is expected to take account of the existing competitive environment for Jamaica's productive sectors including the tax incentive regimes in other Caribbean and other countries. From this analysis and review, specific actions will be identified for implementation over the medium term commencing with financial year 2013/14. This is to ensure that there is appropriate sequencing of changes. This is necessary in order to minimize the impact on the productive sectors and avoid disruption as Jamaica's productive sector has been developed on the existing system.

7.0 Tax Administration Reform

7.1 Reform of the Tax Administration has been an on-going process. During fiscal year 2012/2013, the Debt-Write Off Policy was approved by GOJ. The necessary administrative and legislative changes *inter alia* will be effected by the end of March 2013. Additionally, all taxpayers registered to file online are currently able to view their entire tax account online.

7.2 The Government in 2012/13, will further be:

a. Implementing aggressive taxpayer registration surveys and collection drives.

b. Expanding the ability to link and crosscheck with other sources. (For example the companies/business names register; statutory registration schemes, professional associations, telephone directory etc.)

c. Strengthening the interest and penalties regime

d. Standardizing the approach to interest and penalties across all tax types

e. Levying interest on a simple interest basis at levels reduced to approximate market rates.

f. Applying penalties according to the nature of the breach, materiality of the breach, and the number of breaches

g. Increasing taxpayer education and awareness through a variety of channels including public media, the internet, print and human interface.

h. Documenting and publishing all policies and procedures that have to be adhered to by the public in observing tax compliance requirements.

i. Ensuring that these procedures are harmonized and consistent across all tax types, that they are not too onerous and that all modifications are approved centrally.

j. Introducing measures to ensure that formal binding rules of the Tax Administration Jamaica on technical matters are republished periodically.

k. Developing and implementing a Compliance Incentive Programme

l. Encourage remaining taxpayers to file returns online, thereby enabling them to check their entire tax account online.

m. Requiring all locally registered Companies to file CIT returns annually whether the company is liable to pay income tax or not.

7.3 It is expected that the following measures being undertaken by the Tax Administration Jamaica will yield reward in the short-term:

i. Expansion of the Large Tax Office (LTO) – to address tax avoidance and evasion among key taxpayers (it is common knowledge that only a small percentage of firms pay a large proportion of the taxes).

ii. Implementation of risk management programmes for high risk programmes.

iii. Conducting overdue audit reviews that are outstanding.

iv. Reform of the Incentives and Waivers regime.

8.0 Conclusion

8.1 Despite numerous achievements, the tax system still requires further reform in order to move the system towards a more effective ideal. In particular, it is intended that the system should move towards more dependence on consumption-based taxes to reduce the distortion against work effort inherent in taxation of income. Consumption taxes, however, allow individuals to work without a tax penalty and then to choose their level of taxation based on the type of goods they consume. As a result, consumption taxes are less harmful to economic growth than direct taxes on activities such as work and therefore the government intends to move towards more dependence on consumption-based taxes.

8.2 In this context, there is scope for a further broadening of the GCT base. The extent to which this transition can be made will likely depend on the performance of revenue, improvements in GDP and the sectors in which these improvements occur, as well as the reduction in the overall incidence of poverty.

8.3 As noted in the World Bank CEM (2011), 'Inconsistent and complex tax policy with numerous exemptions and special privileges not only reduce government revenues but also create distortions for the allocation of capital and lowers investment productivity'(pp. 158) . At the conclusion of the reform, the Jamaican tax system is expected to be more equitable – it should treat similar taxpayers similarly such that waivers, incentives and the tax code should be applied equitably – and it should do so in a simple and efficient manner.

8.4 These goals are at times conflicting – that is, those of equity and efficiency – and since the Ministry is committed to achieving balanced budget and other critical targets by FY 2015/16, the transition to this new system will need to consider the revenue implications in order to protect the debt dynamics. Ultimately, once the reforms are implemented, it is expected that the distortions that the current tax system exerts on the quality and volume of economic activity will be substantially reduced if not eliminated.

8.5 Reforming the tax system in order to achieve fiscal consolidation can be painful and politically unattractive but unavoidable. The Government of Jamaica is absolutely committed to seeing through the process of change. The process of tax reform is designed to ultimately correct the fiscal imbalances and unsustainable level of debt in order to procure the vision for Jamaica, the place of choice to live, work, raise families and do business.

8.6 The Government of Jamaica has been undertaking tax reform for over two decades. Due to *inter alia* budgetary constraints and resistance to change from the status quo, while there have already been significant elements of tax reform, the process has not advanced as quickly as desired.

8.7 It is now those same fiscal constraints exacerbated by a persistence of anaemic growth, which now makes it imperative to accelerate the tax reform process. Subject to the significant debt induced fiscal constraints that exist, Government will build on reform already implemented to cement in place a tax system that is simpler, more transparent and easy to administer, more productive in terms of revenue and more conducive to economic growth. Towards this end, and especially with broader base and greater compliance, there will be reduced reliance on taxation of income and a simultaneous increased dependence on taxation of expenditure while protecting the most vulnerable in society through reduced GCT rates and the retention of exempt/zero rated status for only a narrow range of basic commodities.

8.8 At the same time, business processes and economic activity are being facilitated by lower GCT rates, lower fiscal charges on the transfer of property and lower Corporate Income Tax rates.

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November 15 2012