

MINISTRY PAPER # 44 /2014

REVENUE MEASURES – FY 2014/2015

The Honourable House is being requested to take note of the following revenue measures for the Fiscal Year 2014/2015.

Members are being asked to note that the revenue measures are predicated on the essential tenets of the tax reform, including providing amendments to existing taxes to improve tax efficiency and effectiveness.

1. Modification of the alcohol regime to unify the Specific SCT on all alcoholic beverages

- a) House Members are being asked to recall that the tax regime for alcohol has been subject to systematic modification since 2010, when beers and stouts were distinguished from other alcoholic beverages. In 2010, the taxation of alcoholic beverages, with the exception of White Over-proof Rum, was amended from an ad valorem rate of thirty per cent to a specific rate per litre of pure alcohol (l.p.a), with a higher rate being accorded to beers and stouts. At the time the rate for beers and stouts was determined at \$1,120 per l.p.a and for all other alcoholic beverages (except White Over proof Rum) at \$960 per l.p.a. .
- b) The regime was subsequently amended in 2012 to provide for White Over-proof rum to be taxed at the rate of \$960 per l.p.a, the same rate as other non beer/stout alcoholic beverages.
- c) The modified regime at the time also provided for a concessionary rate for tourism entities, of \$450 per l.p.a, which was later supplanted by a rate of \$700 per l.p.a in FY 2012/2013.
- d) Based on Government commitment to provide for a standard rate of taxation and to reduce any existing anomalies, it is being proposed that a single specific SCT rate based on alcohol content be applied across the board.
- e) The recommended rate is \$1,120.00 per l.p.a.

Estimated Revenue Gain \$0.844 billion. The effective date for implementation is April 22, 2014.

2. Increase in the age limit of second sale vehicles on which GCT will be applicable, whilst maintaining the rates

- a) The House is advised that the proposal to increase the age limit of second hand sale vehicles to which GCT is applicable from eight (8) years to ten (10) years was extensively discussed at the tax sub-committee of Parliament and was agreed to by the Parliamentary Committee.
- b) The current rates, which were initially amended in FY 2012/2013, as outlined in Table I will remain unchanged.

| Motor Cars | |
|---|-------------|
| Motors Cars (cc rating 0 – 1999 cc) | \$10,000.00 |
| Motors Cars (cc rating 2000 cc – 2999 cc) | \$15,000.00 |
| Motors Cars (cc rating 3000 & upwards) | \$20,000.00 |
| Motor Trucks (cwt) | |
| Trucks – 0 – 30 | \$10,000.00 |
| Trucks – 31-60 | \$10,000.00 |
| Trucks above 61 and up | \$25,000.00 |

Estimated Revenue Gain \$0.026 billion. The effective date for implementation is April 1, 2014.

The Order was drafted and gazetted to effect this change already, as per Parliamentary approval.

3. Levy on withdrawals from deposit-taking institutions and encashments from securities dealers

- a) As a part of Revenue Measures FY 2014/2015, the House is being asked to approve the introduction of a levy on withdrawals from deposit-taking institutions and encashments from securities dealers.
- b) This levy will be chargeable on all withdrawals from deposit taking institutions by means of :-
 - i. Electronic banking (e-banking),
 - ii. Point of Sales (POS),
 - iii. Cheques,

- iv. Withdrawals – ABM/ATM/ETM or over the counter and;
 - v. Internet transfers (with the exception of transfers between accounts of the same person in the same financial institution.)
- c) This levy will also be charged on all encashments from securities dealers, whether partial or in full. An encashment is defined as each payment made by a licensed securities dealer to, or on the instruction of, any of its account holders arising from the full or partial encashment of (or other withdrawal of funds from) the account holders' account with the licensed securities dealers.
- d) It is proposed that a minimal ad valorem levy as detailed in table II be charged on the value of each withdrawal (as defined above) from deposit-taking institutions and securities dealers.

| Table II: Levy Rates on Withdrawals from deposit taking institutions and securities dealers | |
|--|------------------|
| Value of Transaction | Levy Rate |
| Less than One (1) Million Dollars | 0.1% |
| One (1) Million to Five (5) Million Dollars | 0.09% |
| Greater than Five (5) Million – Less than Twenty (20) Million Dollars | 0.075% |
| Greater than Twenty (20) Million Dollars | 0.05% |

- e) The House is being asked to note that for withdrawals of \$1,000; \$5000 and \$10,000 the associated tax payable would be \$1.00, \$5.00 and \$10.00 respectively.
- f) The House is advised that a similar tax has been introduced in a number of countries. Included in this listing are Argentina, Brazil, Peru, and Columbia.
- g) The tax will be collected by the financial institutions and paid over on a monthly basis to the Tax Administration Jamaica. The financial institutions will be required to file the requisite returns to Tax Administration Jamaica (TAJ) and report to the relevant regulator, detailing the value and volume of the these transactions.

Estimated Revenue Gain \$2.25 billion. The effective date for implementation is June 1, 2014.

4. Increase in premium tax for regionalized and non-regionalized Life Assurance companies

- a) The House is advised that regionalized and non-regionalized Life Assurance companies are required to pay as per Section 48 of the Income Tax Act a rate of 3.0 and 4.0 per cent, respectively of gross premiums earned per year.
- b) The proposal seeks to provide for a unified rate of 5.5%, which would result in an increase by 2.5 and 1.5 percentage points for regionalized and non-regionalized companies respectively.

Estimated Revenue Gain \$0.276 billion.

The tax will be applicable for the remaining eight (8) months of year of assessment 2014 in relation to the statutory Income for the said year. The first four months will be charged at the old rate of tax. There after the increased rate will be effective for every subsequent year of assessment.

5. Increase in Investment Tax for insurance companies

- a) The House is reminded that throughout the reform initiatives, taxation in respect to insurance companies have remained unchanged.
- b) In the aim of providing for a unified taxation rate, it is being proposed that this be increased by five percentage points to twenty percent (20%).

Estimated Revenue Gain \$0.701 billion.

The tax will be applicable for the remaining eight (8) months of year of assessment 2014 in relation to the statutory Income for the said year. The first four months will be charged at the old rate of tax. There after the increased rate will be effective for every subsequent year of assessment.

6. Increase in the Asset Tax

a) The House is advised that the modified asset tax was introduced in FY 2012/2013. The following increase is being proposed :-

(1) For the specified entities regulated by the Bank of Jamaica (BOJ) and the Financial Services Commission (FSC). (i.e. comprising Deposit Taking Institutions (DTIs), Insurance companies and Security Dealers), the rate of 0.14 per cent applied to the taxable value of the assets will be increased to 0.25 per cent.

(2) For other entities, the new tax rates to be payable in accordance with the schedule set out in the table below. The House is being asked to note however that the last two (2) categories, which represent micro and small businesses, the rates remain unchanged. This is also shown in table III:

| Table III: Proposed Rates for "Other Entities" (not regulated by the BoJ or FSC) | |
|---|--------------|
| Asset Value Annual Tax | (J\$) |
| At least \$50M | 200,000 |
| At least \$5M but less than \$50M | 150,000 |
| At least \$500,000 but less than \$5M | 100,000 |
| RATES FOR THE FOLLOWING CATEGORIES REMAIN UNCHANGED | |
| At least \$50,000 but less than \$500,000 | |
| Less than \$50,000 | |

b) The House is advised that the tax remains an annual tax with filing/due date of March 15. The tax is not allowable as a deduction under the Income Tax Act.

Estimated Revenue Gain \$1.788 billion. The tax is effective as per year of assessment.

7. Modification of the duty regime for specified motor vehicles

- a) The House is being asked to recall that via Ministry Paper No. 32, during FY 2012/2013, there was an increase in the rates of select List C items, by ten percentage points in order to meet revenue needs.
- b) Based on GoJ commitment to rate reduction, the following changes are proposed:-
- (i) **Reduction of the customs duty (CET)** rate by ten percentage points for vehicles 2000 cc and above, a reduction from 30% to 20%.
- (ii) **Modification of SCT rates by ten percentage points for petrol \ diesel vehicles over 3500 cc and Hybrid vehicles as per Table III below:-**

| Table IV: Changes in the SCT Rates (Petrol and Diesel Vehicles) | | |
|--|--------------------------------|--------------------------------|
| Description of Vehicles | Current Rate | Proposed Rate |
| Dealer Rates | | |
| Exceeding 3500 cc (Diesel and Petrol) | 30 % (petrol) 23 % (diesel) | 20 % (petrol) 13 % (diesel) |
| Hybrid | 0% | 10% |
| Individual Rates | | |
| Exceeding 3500 cc (Diesel and Petrol) | 40% (petrol) 30% (diesel) | 30% (petrol) 20% (diesel) |
| Hybrid | 0% | 10% |

Estimated Revenue Gain \$0.250 billion. The effective date for implementation is May 1, 2014.

8. Re-directing of SCT from Road Maintenance Fund to Central Government

- a) The House of Representatives is reminded that a decision was previously taken to provide for a portion of the proceeds from the SCT on petrol to be allocated to the Road Maintenance Fund (RMF). This allocation was to be solely directed toward servicing of the US\$340mn guaranteed debt from China Exim Bank.
- b) In its commitment to prudent debt management, the GoJ is seeking to provide for consolidated debt servicing through the Central Government budget. The amounts that would have been allocated to

the RMF will be held by the GoJ and one single debt payment made in respect to the outstanding loans to China.

- c) It is estimated that the portions from the SCT be redirected from the RMF to Central Government would be valued at **J\$1.2 billion**.

9. Increase Annual General Personal Income Tax (PIT) Threshold

- a) The House is being asked to recall that the annual general personal Income tax (PIT) threshold was adjusted via the FY2012/13 Ministry Paper, which resulted in the current threshold being \$507,312.00.
- b) An increase in the annual general PIT threshold from \$507,312 to \$557,232 (up by \$49,920). The movement of the threshold will result in approximately 12,823 persons falling outside of the tax base.

Estimated Revenue Loss J\$(0.650) billion. The effective date for implementation is January 1, 2015.

SUMMARY OF 2014/2015 REVENUE MEASURES

| Description of Revenue Measures | Revenue Impact \$ Billion |
|---|------------------------------|
| 1. Modification of the alcohol regime to unify the Specific SCT on all alcoholic beverages - (\$1,120) | \$ 0.844 |
| 2. Increase in age limit of second sale vehicles on which GCT will be applicable (from 8 to 10 years) | \$ 0.026 |
| 3. Levy on withdrawals from deposit-taking institutions and encashments from securities dealers | \$ 2.250 |
| 4. Increase in premium tax for regionalized and non-regionalized Life Assurance companies. (Up to 5.5%) | \$ 0.276 |
| 5. Investment tax for insurance companies (up to 20%) | \$ 0.701 |
| 6. Increase in Asset Tax | \$ 1.788 |
| 7. Modification of duty regime for specified motor vehicles | \$ 0.250 |
| 8. Redirecting of portion of SCT from the Road Maintenance Fund to Central Government | \$ 1.200 |
| 9. Increased Annual General PIT Threshold (\$557,232) | \$ (0.650) |
| TOTAL | <u>\$ 6.685</u> |



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