MINISTRY PAPER #____ /2014

AMENDMENTS TO TAX REGIME TO ALLOW FOR RETENTION OF BENEFITS AND/OR REDUCTION OF TAXES

The Honourable House is being asked to note that Cabinet has approved the following proposed changes to the current tax regime.

The measures will allow for either the retention of the existing benefits or the reduction in applicable taxes for certain sectors of the economy. The legislations to be amended to provide these changes are: the General Consumption Tax (GCT) Act, the Customs Duty Act and the Stamp Duty Act.

The measures are summarized as follows:

1. **Amendments to Certain Laws/Legislation to allow for Regularization (and Expansion) of Tax treatment for Free zone Operations and Tourism sub-sectors.**

   The House is being asked to note that the changes that are being proposed as per this amendment is divided into two (2) main categories. These being:-

   1.1 Amendments to the GCT Act to regularize the benefits currently enjoyed by free zone operators (including the Business Process Outsourcing entities) and the tourist accommodation sub-sector i.e. hotels and resort cottages.

   These proposed changes would, therefore, provide GCT concession on goods and services. **The GCT Act would be amended to provide for zero rating in respect to:-**

   a) ***Purchase of locally supplied goods and services for operators within the free zone (including BPO operations with free zone status), with the exception of utilities such as light and telecommunications services.*** The House is reminded that water supply is not currently subject to GCT.

b) ***Purchase of locally supplied goods by the accommodation subsector (hotels and resort cottages).*** The applicable concession would not be expanded and therefore the concession is restricted to the items currently on the respective entities approval listing. The benefit would **only** be provided to entities that are grandfathered. Services would remain subject to GCT.

1.2 Amendment to the Productive Inputs Relief (PIR) Regime as per the recently passed Fiscal Incentives Act (FIA) to include motor vehicles and animal feeds as inputs to the ground transportation and attraction sub-sectors respectively.

a) ***Benefits to the Ground Transportation Subsector – Expansion of the inputs allowed as per the PIR:***

i. The sector currently pays twenty percent (20%) CET/Customs Duty. The amendment seeks to provide 100% relief on applicable CET for motor vehicles. General Consumption Tax and Special Consumption Tax however would remain payable.

ii. Based on the varying operations under the rubric of ground transportation, the GoJ upon consultation with the sector has provided benefits that would best meet the economic needs of each sub-grouping. The benefits to be accorded as detailed in Table 1:-

Table 1: Benefits to the Ground Transportation Sub-Sector		
Car Rental Sector	***Contract Carriage Operators***	***Tour Operators***
• A benefit to be provided for motor cars as per Section 11 of the Road Traffic Act, with cc rating up to a maximum of 2,500 and CIF up to a maximum of US $35,000 under the PIR.	• It is proposed that the contract operator's policy be modified to accommodate motor car with seating capacity of 8 or more, with a maximum cc rating of 2500 and maximum CIF value of US$35,000 under the PIR.	• It is being proposed to expand the benefit to this sector by making a provision under the PIR to include town cars and limousines.
• Vehicles exceeding any of these limits will not be allowed under the PIR and will be subject to their full tax liability.	• **The sector will be allowed a maximum of 50 vehicles in any given year. The actual number of vehicles that will be allowed will be dependent on the available fiscal space.**	• The vehicles allowed will be limited to those with cc rating from a minimum of 2500 to a maximum of 3,500 and CIF value up to US$35,000. Full duties will be payable on the value in excess of US$35,000 CIF.
• **The sector will be allowed to import up to 800 vehicles per year.**		• **The sector will be allowed to import a maximum of 20 vehicles at this rate. Similarly the number of vehicles to be imported under this category will be dependent on the available fiscal space.**

b) ***Benefits to the Attractions Subsector – Expansion of inputs allowed as per the PIR to include animal feed.***

i. Animal feed currently attracts Customs Duty and Additional Stamp Duty. The subsector has indicated that animal feed represents a vital component and the duty structure was prohibitive. Given this consideration, it is being proposed that animal feeds be allowed as per the PIR with noted exceptions.

ii. The noted exceptions are as follows:-
   - Goods listed in Part I of the Fourth Schedule of the Resolution; and
   - Goods of a type which, the Commissioner of Customs is satisfied, can be obtained in adequate supplies from a local manufacturer or from a manufacturer within the CARICOM Single Market.

iii. In order to ensure that this system is not subject to abuse, there will be certification by the Ministry of Agriculture, who will monitor to ensure that only animal feed destined for use within the attractions sub-sector will be given this tax relief.

iv. Animal feed will, however, still attract ASD.

2. Amendment to the Stamp Duty Act to provide for Reduction in the Additional Stamp Duty on Alcoholic Beverages

i. The proposed amendment seeks to reduce the ASD paid on alcoholic beverages. The amendment is being undertaken against the background of the recent adjustments to the tax regime for alcoholic beverages.

ii. GoJ in reviewing the taxation of alcohol, held consultations with tourist and the wholesale/retail industries. It was noted that the change in the SCT had already negatively impacted some entities, particularly the smaller entities. To ensure competitiveness, it was determined that necessary adjustments would be undertaken to reduce the burden across the board.

iii. Two types of ASD are currently applicable to alcoholic beverages. These are an ad valorem ASD and a specific ASD. The current proposal seeks to provide for the following:-
   - A reduction in the Specific ASD on alcoholic beverages (Wines, Liqueurs, Cordials) from US$1.60 per litre to US$1.00 per litre; and
   - A reduction in the Specific ASD on alcoholic beverages (beers) from US$0.90 per litre to US$.60 per litre.

iv. It is estimated that the revenue loss would be approximately $200 million.

v. The reduction becomes effective 1st June 2014.

3. Suspension of Customs Duty payable on Cellular Telephones

i. Cellular telephones currently attract Customs Duty/CET of twenty percent (20%).

ii. This measure proposes a removal of the 20% CET currently payable on 'smart phones' imported into Jamaica. The aim of the measure is to provide for increased access to these types of phones, which may be used to enhance business communications and assist in the operations of micro and small businesses.

iii. Given that the duty regime has been set by CARICOM, Jamaica is unable to unilaterally change the rate. The Government of Jamaica therefore sought approval from the Council for Trade and Economic Development (COTED) of CARICOM for the suspension. The approval has been received.

iv. The period for the suspension is three (3) years, beginning July 1, 2014 and expiring June 30, 2017.

SUMMARY OF AMENDMENTS AND/OR PROPOSED MEASURES AND EFFECTIVE DATE	
Proposed Changes to the Tax Regime	**Effective Date (Implementation)**
Amendments to Certain Laws/Legislation to allow for Regularization (and Expansion) of Tax treatment for Free zone Operations and Tourism sub-sectors.	1st July 2014
Amendment to the Stamp Duty Act to provide for Reduction in the Additional Stamp Duty on Alcoholic Beverages.	1st June 2014
Suspension of Customs Duty payable on Cellular Telephones	Three (3) years beginning July 1, 2014 and expiring June 30, 2017.

Peter Phillips, Ph.D., MP
Minister of Finance and Planning
May 27th, 2014