

**MINISTRY PAPER NO. 15/13**

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**REVENUE MEASURES FOR FINANCIAL  
YEAR 2013/2014**

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**12 February 2013**

**Ministry of Finance and Planning**

## **MINISTRY PAPER .....**

### **REVENUE MEASURES – FY 2013/2014**

1. This Honorable House is being requested to take note of the following revenue measures for the Fiscal Year 2013/2014. These revenue measures are being taken to support the achievement of the Primary Balance target of 7.5% of GDP that has been agreed with the International Monetary Fund and is consistent with GOJ's commitment to the broadening of the tax base, and ensuring revenue adequacy.
2. The first three (3) measures are being implemented based on GOJ's commitment to broadening the tax, as well as increasing the efficiency of the tax, through simplification. In reviewing the value added tax system, it was determined that the following amendments will be made:-

#### **GENERAL CONSUMPTION TAX MEASURES**

3. **Inclusion of the Telephone Calls Tax (TCT) as part of the GCT Base**

The Telephone Calls Tax (TCT) was first introduced via Revenue Measures FY 2012/2013.

It is proposed that the Telephone Calls Tax (TCT) be included in the taxable base for the purpose of calculating the GCT. This would be in keeping with the accepted principle of a value added tax (VAT), whereby the tax payable is on the consideration (total monies/benefits in kind received for the service or the good), given that an expense that is recoverable from the taxpayer in relation to a good or service provided, based on the principle of a VAT becomes a part of the taxable base.

**This measure is expected to yield approximately J\$1.3 Billion and is to be implemented on March 1, 2013**

4. **Inclusion of all fees and taxes paid at the ports (Environmental Levy, CUF/CAF, CET, and ASD) as part of the GCT Base.**

Similarly, GOJ in simplifying the GCT system is proposing that all fees and taxes paid at the port, inclusive of the Environmental Levy, Customs User Fee/Customs Administration Fee, CET, SCT are to be included in the taxable base for the purpose of calculating the GCT.

**This measure is expected to yield approximately J\$1.5 Billion and is to be implemented on March 1, 2013.**

5. **Amendment to the GCT Act to account for GCT on the face value of prepaid vouchers/airtime.**

It is proposed that the GCT Act be amended to ensure that the telecommunications providers account for the GCT that is due and payable on the face value of the prepaid/airtime sold.

E.g.

When a final customer purchase a \$100 card, the face value is \$100, the tax is \$25.00. The full cost would be \$125.00. However currently when the service providers sell the card (wholesale), it is sold at a discounted rate, the GCT is paid on the discounted amount. The retailer selling the card may or may not be a registered taxpayer; therefore the full GCT is not remitted to the Government.

The measure is aimed at increasing compliance, thereby ensuring that the GCT collected by non-registered taxpayers is accounted for by the telecommunication providers.

This measure **SHOULD NOT** result in an additional tax liability to the consumers, as illustrated in the example above, the consumer is already taxed in this regard. It represents an administrative measure to correct the current anomaly.

**This measure is expected to yield approximately J\$0.2 Billion and is to be implemented on March 1, 2013**

**INCOME TAX MEASURES**

6. **Increase the tax on Dividends payable to Residents to 15.0 per cent**

It is proposed that the tax on dividends payable to residents be increased to fifteen percent (15%).

In an effort to continue broadening the tax base and the harmonization of income tax rates, this measure will seek to stem the level of revenue leakage that could occur with the wide disparity between the rate of Income Tax and the tax on dividends.

Every Jamaican resident, who is in receipt of dividend income paid by a Jamaican resident company, will therefore pay tax at the rate of 15%.

Jamaican resident companies, which receive dividends paid by a non-resident company, should account for and pay income tax at the rate of 25% for individuals



and/or unregulated companies or 33<sup>1/3</sup>% for regulated companies subject to Double Tax Treaty (DTT).

The tax paid in circumstances where there is a DTT is subject to the DTT.

The 15% rate is not applicable to preference dividend payments.

Non-resident shareholders who receive dividends on their income will continue to be taxed as before, that is: (i) Subject to the DTT or (ii) to the rates of 25% for individuals and/or unregulated companies or 33<sup>1/3</sup>% for regulated companies respectively

**This measure is expected to yield approximately J\$0.8 Billion and is to be implemented on April 1, 2013**

## **7. Imposition of Surtax on the Taxable Income of Large “unregulated companies”.**

Currently unregulated companies pay 25% (as per reduction emanating from Revenue Measure FY 2012/2013).

GOJ in reviewing the current economic situation, although committed to the continued reduction in direct taxation rates, is hard pressed in addressing the short fall in revenues. It is proposed that a Surtax<sup>1</sup> of five percent (5%) be imposed on the taxable income of large ‘unregulated companies’ (as per the Income Tax Act). This represents an additional 5% on the rate now being levied.

For the purposes of the tax, “Unregulated companies” refer to all companies other than companies regulated by the:

- Financial Services Commission (FSC)
- Bank of Jamaica (BoJ)
- Ministry of Finance and Planning (MoFP)
- Office of Utilities Regulation (OUR)

“Large companies” means companies with gross income equal to or greater than J\$500,000,000.

Entities that are currently under income tax incentives are exempt from this charge.

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<sup>1</sup> Surcharge/Surtax used interchangeable. It is used to describe an additional levy calculated by reference to the basic amount of tax due. Surcharges are introduced as emergency measures in response to political and/or economic situation. A surtax or supertax is a tax levied on income or capital in addition to another tax which is levied on the same income or capital. Hence this could be described as an additional tax in some cases. (International Bureau of Fiscal Documentation (IBFD) – International Tax Glossaries, Sixth Revised Edition, 2011)

**This measure is expected to yield approximately J\$1.2 Billion and is to be implemented on April 1, 2013**

**8. Increase in the Education Tax Rate**

It is proposed that the Education Tax be increased by 0.5 percentage points for employers and 0.25 percentage points for employees/self employed.

The tax is imposed as follows:

- (a) Employers contribution will increase from 3% to 3.50%
- (b) Employees contribution from 2% to 2.25%
- (c) Self-employed contribution from 2% to 2.25%

The increase in the Education Tax is being undertaken to address the continued shortfall being experienced by the Student's Loan Bureau. The increased amounts will therefore be targeted to greater funding for said entity as a part of GOJ commitment to improvement in the education system.

**This measure is expected to yield approximately J\$2.8 Billion and is to be implemented on April 1, 2013**

**TRADE (BORDER) TAX MEASURES**

**9. Application of a Customs Administration Fee (CAF) on all imports. (except for Charitable Organizations, Bauxite Sector)**

Currently, a Customs User Fee (CUF) is imposed at the ports. There have been some challenges in respect to the continuation of the CUF based on WTO guidelines regarding whether the user fee is a true reflection being offered by the Customs Department.

As a result, it is proposed that a Customs Administration Fee (CAF), be imposed on all imports. The CAF will supplant the current CUF and other processing fees payable at the ports, which would represent a more accurate reflection of the services being offered by Jamaica Customs Department and would be in keeping with the WTO guidelines.

This fee will be commensurate with the service provided by the Customs Department and is outlined as per attached schedule (Appendix II).

Imports by *Approved Charitable Organizations* and the *Bauxite Sector* are to be exempt from the CAF.

**This measure is expected to yield approximately J\$1.2 Billion and is to be implemented on April 1, 2013**

**OTHER REVENUE ENHANCEMENT INITIATIVES (INCLUDING COMPLIANCE MEASURES)**

**10. Increase the local Stamp Duty Rate and Transfer Tax (on properties).**

It is proposed that the rate of Stamp Duty and Transfer Tax on properties be increased to 4% and 5% up from 3% and 4% respectively.

The applicable increases are not imposed on estates, which will remain at the current rate.

**This measure is expected to yield approximately J\$2.0 Billion and is to be implemented on April 1, 2013**

**11. Amendment to the fee and gross profit structure for Betting Gaming and Lotteries**

In keeping with discussions with the industry regulators, it was determined that the applicable fees and charges (including gross profit tax) should be amended to account for the current realities. This would aid in ensuring the continued viability of the regulatory activities undertaken by the various bodies relating to Betting Gaming and Lotteries.

The changes to the applicable fees and gross profit tax payable by the specified groups are outlined at Appendix I.

In keeping with the industry request to expand their earning ability, GOJ has agreed to allow for the sale of lottery tickets on Sundays & public holidays.

Increase in lottery tax (GPT) from 17% and 23% to 20% and 25% for the specified list as per the table 1 below:-



**Table 1: Changes in GPT Rates**

DESCRIPTION	EXISTING RATE	PROPOSED RATE
Cashpot	17%	20%
Lucky 5	17%	20%
Dollaz	23%	25%
Lotto	23%	25%
Pick 3	17%	20%
Instant Games	17%	20%
Super Lotto	23%	25%
Pick 2	17%	20%
Pick 4	17%	20%

**This measure is expected to yield approximately J\$1.5 billion and is to be implemented on April 1, 2013**

**12. Reform of the Property Tax rate regime and initiate measure to increase low Property Tax compliance rate.**

The last review of the Property Tax rates were done in 2010 using the values approved in 2002. Given the increasing demands for solid waste collection and community infrastructure (such as street lightning,) GOJ, after careful consideration, is proposing that a flat rate of \$1000 be charged on the first \$100,000 of unimproved land value, with a rate of 1.5% being charged on the value above \$100,000 up to \$1 million and a rate of 2.0% on unimproved land value over \$1 million.

Proposed Rate	Description of Property Value
Flat rate of \$1000.00	Unimproved Value up to \$100,000
One and a half per cent (1.5%)	Unimproved Value in excess of \$100,000 up to \$1,000,000 (\$1 million)
Two percent (2%)	Unimproved Value over \$1,000,000 (\$1 million)

In addition to the change in the rate, there is a need for improved compliance.

The level of compliance in respect to this tax has been significantly low and as such, a new compliance programme is to be implemented between the Ministry of Local Government and the Tax Administration of Jamaica in respect to outstanding sums.

**This measure is expected to yield approximately J\$3.4 Billion and is to be implemented on April 1, 2013**

**13. Introduce “Transfer Pricing” and Thin Capitalization Rules**

Legislation is to be introduced to provide for the introduction of Transfer Pricing Rules and Thin Capitalization Rules.

In respect to the Transfer Pricing Rules, there is a reference in the Income Tax Act to the application of the *“arms length principle”*. The *“the arms length principle”* is one that states that the company in doing transaction with a related party - branch et al must conduct the transaction as if it was with an unrelated party.

However these rules are considered to be inadequate to deal with the amount of inter-group and intra-group transactions.

The House will recall that the Group Headquarters Regime was recently passed in law. The introduction of Transfer Pricing rules was also approved by Cabinet at the time when this regime was approved. Work has started on this legislation.

The Thin Capitalization rules speak to how companies are capitalized i.e. the debt to equity ratio. In most countries these ratios are maintained at a pre-determined level (within the statute) to ensure that Investors are protected whereby mitigate against a high percentage of investments in highly indebted entities; and protect the revenue - as interest payments are deductible expenses and serve to reduce the tax base (income).

These are regarded as anti-avoidance measures and will assist with more accurate assessments and audits of taxpayer income, which should ultimately result in minimizing tax evasion and revenue leakage.



## SUMMARY OF 2013/2014 REVENUE MEASURES

GENERAL CONSUMPTION MEASURES	Revenue Impact J\$ (billion)
Include the TCT as part of the GCT base.	1.3
Include all fees and taxes paid at the port (Environmental Levy and CUF/CAF) as part of the GCT base.	1.5
Telecom providers should account for GCT on the face value of prepaid vouchers/airtime.	0.20

### INCOME TAX MEASURES

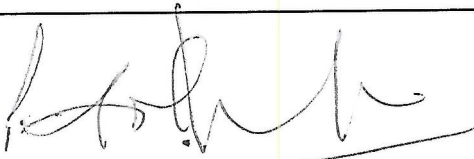
Increase the tax on dividend to 15.0 per cent	0.8
Impose a surtax of 5.0 per cent on "Large Unregulated Companies" (Definition as per corporate income tax disaggregation)	1.2
Increase the Education Tax rate by 0.5 percentage points for employers and 0.25% for employees	2.8

### TRADE TAX RELATED MEASURES

Apply a Customs Administration Fee (CAF) on all imports (except for the Charitable Organizations, Bauxite Sector).	1.20
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### OTHER REVENUE INITIATIVES (INCLUDING COMPLIANCE MEASURES)

Increase the Stamp Duty and Transfer Tax rates (for properties) up from the current 3.0% and 4.0% rates to 4.0% and 5.0% respectively.	2.0
Amendment to the fee structure and gross profit tax for Betting Gaming and Lotteries sector	1.5
Initiate measures to increase the relatively low property tax compliance rate and reform the property tax regime.	3.4
Introduce "Transfer Pricing Rules" and "Thin Capitalization Rules"	N/A
<b>TOTAL</b>	<b>15.9</b>

  
 Dr. Peter Phillips, MP  
 Minister of Finance and Planning  
Feb. 12<sup>th</sup>, 2013

## Appendix I: AMENDMENTS TO THE FEE STRUCTURE AND GROSS PROFIT TAX

		EXISTING	NEW
<b>BETTING SECTOR</b>		\$	\$
Follow-up inspections/re-inspection (per visit)		-	20,000
<b>Racing Promoter CTL - Licence Fee</b>			
	p/a	0.00	500,000.00
<b>CTL OTB PARLOURS</b>			
Initial application Fee		10,000.00	15,000.00
Premises Fee		0.00	15,000.00
Agents Fee		0.00	10,000.00
Terminal Operators		0.00	4,000.00
<b>Bookmakers</b>			
Bookmakers Permits		100,000.00	200,000.00
Betting Office Licence		400.00	10,000.00
Bookmaker's Agency Permits		400.00	10,000.00
Book maker 's betwriters Betting offices		-	4,000.00
Terminal Operators p/race day License		0.00	4,000.00
<b>Betting Lounges</b>		0.00	15,000.00
<b>GAMING</b>			
Decommission/Re-commission facilitation of repairs of machines (per month, per machine)		0.00	1000.00
Licenses of workers in Gaming Lounges		0.00	5,000.00
Gaming Premises Fee		500.00	1,000.00
Gaming Premises Fee		1,000.00	2,500.00
Gaming Machine Fee		2,500.00	4,000.00
Licenses of Lottery Agents		-	5,000.00
Licensing of manufacturers of locally made machines		0.00	200,000.00
Disc Fees Machines		500.00	1,000.00
License Fee of all prescribed Premises for Lottery		0.00	10,000.00
Sales Outlet		0.00	1,075.00

## Appendix II: Proposed Customs Administration Fee (CAF) Structure

Description	Proposed New Fee Structure
Processing Fees AEO Entry	J\$20,000.00
Processing Fees C78X Entry	J\$2,500.00
Regular Entry Processing Fees - LCL/etc	J\$5,000.00
Regular Entry Processing Fees - Containers	J\$15,000.00
Entry Processing Fee - Vehicles	J\$55,000.00
AEO/Site Examination - Containers	J\$25,000.00
Port/Warehouse Examination - Containers	J\$20,000.00
Examination of LCL (Includes Pallets, Skids, D & E Containers but excludes Barrels, Small Cartons or other small personal shipments)	J\$2,500.00
Examination of Bulk Cargo (per ship excluding commodities already stated in this schedule)	J\$1,000,000.00
Processing Fee for Cigarette Entries - per stick	J\$1.00
Processing Fee for Tobacco Entries - per kg	J\$600.00

Form	Description	Proposed New Fee Structure
C7	Application to load or unload cargo at a sufferance wharf	J\$10,000.00
C15	Application to amend report	J\$1,000.00
C24A	Provisional Entry	J\$5,000.00
C24B	Bill of Sight - Regular	J\$2,500.00
	- Pallets/Skids/D-Containers	J\$5,000.00
	- Containers	J\$25,000.00
C25	Temporary Import	J\$10,000.00
C26	Application to remove goods under bond prior to entry	J\$10,000.00
C27	Unaccompanied Baggage Declaration	J\$1,500.00
C28	Refund of Duties Paid Twice/Over Payment	J\$5,000.00
C32	Request to repack warehouse goods	J\$10,000.00
C33	Application to remove goods for re-warehousing	J\$10,000.00
C36	Trans-shipment Shipping Bill	J\$3,500.00
C43	Temporary Export	J\$3,500.00
C44	Proceeds of Sale	J\$5,000.00



<b>Form</b>	<b>Description</b>	<b>Proposed New Fee Structure</b>
	Private Warehouse Fees	J\$75,000.00
C73	Authorization of a person act for another	J\$5,000.00
C82	Shipping Bill for Export	J\$3,000.00
C83	Import Entry	J\$2,000.00
C88	Letter Clearance	J\$10,000.00
	Customs Brokers Licensing Fee (New & Renewal)- Individual	J\$20,000.00
	Customs Brokers Licensing Fee (New & Renewal) - Body Corporate	J\$25,000.00
	Denovo Entries	J\$5,000.00

**NB: Any processing fees not list above but are permissible under the customs act will attract a fee of \$2,500.**

