

## **MINISTRY PAPER 34/15**

# **REVENUE MEASURES FOR FINANCIAL YEAR 2015/16**

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**Ministry of Finance and Planning  
12 March 2015**

## MINISTRY PAPER # 34 /2015

### REVENUE MEASURES – FY 2015/16

The Honourable House is being requested to take note of the following revenue measures for the Fiscal Year 2015/16.

Members are being asked to note that the revenue measures although seeking to provide for revenue adequacy, seeks to continue Government of Jamaica (GoJ) thrust for improving tax administration and providing for base broadening and increased compliance efforts, in order to ensure equitable distribution of the tax burden.

#### 1. Amendment to the Taxation Regime for Life Insurance Companies

- I. House members are asked to recall that via Ministry Paper – Revenue Measures FY 2014/15 and Corrigendum to said Ministry Paper, dated April 17, 2014 and April 30, 2014 respectively, the Asset Tax rate for all financial institutions was initially increased from 0.14% to 0.25%. Subsequently the rate for the life insurance companies was increased to 1%, with a commitment to reduce the rate in keeping with the fiscal realities.
- II. In line with the commitment, GoJ, has determined that the rate be synchronized with the rate for other financial institutions.
- III. Additionally, over the period, a review of the applicable taxation regime for the insurance industry, was undertaken and it was determined that the following changes be made to modify the taxation regime as follows:-
  - i. *Reduction of Asset Tax rate to 0.25 % (Similar to the rate for all other financial institutions)*
  - ii. *Abolition of the Gross Premium Tax and the Net Investment Income Tax.*
  - iii. *Introduction of a Corporate Income Tax, at a rate of 25%*
- IV. The proposed amendment would be applicable for **year of assessment 2015.**

The combined measures are estimated to be at least revenue neutral.

## **2. Increase in the Special Consumption Tax (SCT) on Cigarettes**

- I. An increase in the specific Special Consumption Tax (SCT) charged per stick of cigarette is being proposed.
- II. The House may recall that the last increase on this product was initiated in January 2010, where there was an increase from J\$8.50 per stick to J\$10.50 per stick. As signatory to the World Health Organization's Framework Convention on Tobacco Control (FCTC), the Ministry of Finance and the Ministry of Health, in light of Jamaica's commitment has sought to balance the imperatives of reducing tobacco consumption whilst ensuring further revenue considerations.
- III. It is being proposed that the specific SCT be increased to J\$12.00
- IV. The implementation date is **13<sup>th</sup> March 2015**

**Estimated Revenue Gain \$0.488 billion**

## **3. Increase in the Specific SCT rates on Petrol (i.e. E10 87, E10 90, Diesel and Ultra Low Sulphur Diesel)**

- I. Although cognizant of the impact the reduced price of oil has had on the economy on average, the GoJ has engaged in a comprehensive analysis. House members are being asked to note that the systematic reduction in oil prices has had an adverse impact on GoJ revenues.
- II. The loss has been significant and therefore GoJ has noted the need to insure against future contingencies. It is therefore being proposed that the specific SCT be increased by \$7.00 per litre.
- III. The proposed implementation date is **18<sup>th</sup> March 2015**

**Estimated Revenue Gain \$6.412 billion**

**4. Replacement of the 1.0 per cent Petroleum Cess to a specific SCT of \$2 per litre**

- I. House Members are being advised that the GoJ has taken a decision to replace the current 1% Petroleum Cess, paid by Petrojam to the Petroleum Corporation of Jamaica (PCJ), with a Specific SCT of \$2 per litre.
- II. It is anticipated that this will yield additional gross revenue for fiscal year 2015/16 of \$1.824 Billion.
- III. The House is being asked to note that the **implementation of this measure, however, will NOT have any impact on Petrojam's reference billing prices for petroleum products.**
- IV. The proposed implementation date is **18<sup>th</sup> March 2015**

**5. Increase in the Annual General Personal Income Tax (PIT) Threshold**

- I. House Members are being advised that during the last fiscal year FY 2014/2015, via Ministry Paper 44/14, the annual general personal income tax threshold was increased from \$507,312 to \$557,232 (up by \$49,920.00) .
- II. It is recommended that the threshold be increased to **\$592,800.00**. This measure is being proposed in recognition of the social impact occasioned by the economic adjustments as a result of the reform efforts.
- III. The movement of the threshold will result in an additional 8,441 persons falling outside of the tax base.
- IV. The implementation date is **1st January 2016**.

**Estimated Revenue Loss \$0.644 billion**

**6. Re - Imposition of GCT at the standard rate on residential electricity**

- I. It is being proposed that there be a re-imposition of GCT on electricity on residential customers. It is proposed that this be applicable only to residential customer usage above 350kWh. Customers whose usage falls below this amount would not be required to pay the applicable GCT.

- II. The House is being asked to note that the measure is recommended on the grounds that it will widen the tax net and reduce distortions, whilst not adversely impacting a wide cross section of individuals, as only those in the higher usage category (above the threshold) will have GCT applied to their bills on the additional kWh in excess of the 350 kwh.
- III. It is also felt that the reduction in oil prices and the resultant reduction in electricity costs will help to mitigate any adverse impact on those consumers that will be affected by the re-introduction of this measure.
- IV. The implementation date is **1st April 2015**

**Estimated Revenue Gain\$0.807 billion**

## **7. Broadening the base of the Environmental Levy**

- I. The House may recall that the Environmental Levy was imposed in 2008, at a rate of 0.5%. Since then the levy has been charged based on the CIF value of all goods imported, with the exception of Government, Diplomats, International Organizations, Passengers (up to the stated allowance of US\$500, and most recently, CARICOM imports).
- II. In regards to the reform initiatives of base broadening and to provide for equity, it is being proposed that the 0.5% levy be imposed equally on the domestic side.
- III. It is proposed that the imposition be in respect to domestic sales, with a tax credit available for the environmental levy paid on imported productive inputs.
- IV. With the aforementioned changes, the 0.5% environmental levy is to be applied to imports of all goods (including CARICOM imports), and to the total domestic supplies of all goods (excluding the services sector, charitable organizations, exempt organizations, International organizations and Mining. Mining is excluded only on the basis that a separate agreement exists in respect to this industry's accounting for environmental damage associated with its production process.
- V. The implementation date is **1st April 2015**

**Estimated Revenue Gain \$ 0.962billion**

**8. Reduction of Import Duties (CET) on Horses**

- I. The House may recall that in 2012, GOJ sought to curtail discretionary waivers. In light of this, via Ministry Paper No. 32/12, FY 2012/13, the waivers on the importation of horses was terminated.
- II. The current situation has been exacerbated by the inability to access quality stock of horses and this continues to be an issue in the horseracing sector.
- III. The measure reduces the current rate of duty i.e. 40% to 5%, in respect of horses imported with tariff headings 0101291000; 0101299010 and 0101299020.
- IV. The implementation date is **1<sup>st</sup> April 2015**

**Estimated Revenue Loss - \$0.001 billion**

**9. Rationalization of Outdated Fees, Fines and Penalties**

- I. ***Trade & Business Licence Fees***
  - i) House Members are being asked to note that the licence fees collected as per the Licences on Trades and Business Act represent revenues to the local authorities, in order to support their administrative programmes.
  - ii) The House is also being asked to note that the fees were last amended as far back as 1987, with fees as low as J\$2.00. The fees have long since not been effective and fail to cover associated administrative costs incurred. In light of this the increase is seen as critical.
  - iii) The date of implementation for the revised fee structure is **1<sup>st</sup> April 2015**

**Estimated Revenue Gain \$0.500 billion**

**II. *Fine, Fees & Penalties – Excise Unit***

- i) House Members are being asked to note that a similar situation exists in respect to the fines and associated penalties under the Excise Duty Act and Regulation.
- ii) The existing fines, fees and penalties had not changed since 1942, and it was felt that the insignificant sums do not pose any deterrence to non-compliance. The measure is therefore seen primarily as a compliance measure and therefore the revenue gain is miniscule as revenue will only arise in the case of a breach. GoJ believes it is necessary that in reforming the tax system, antiquated and outdated structures are addressed. This measure seeks to do this.

**10. Full implementation of the elimination of zero-rating under the GCT Act in respect to Government Purchases**

- I. The House is being asked to recall that as a part of the tax reform initiatives undertaken in 2014, GoJ broadened the GCT base through the reduction of the zero-rated category including the introduction of GCT on government purchases.
- II. Some entities because of their enabling legislation retained GCT status. The second phase of the reform seeks to address this by providing for requisite changes, to ensure that all government entities are liable for the payment of GCT, with few exceptions.
- III. This measure, although not a pure revenue measure, is seen as a continuation of the base broadening and streamlining of the GCT, which it is anticipated will bolster revenue.

## **11. Withholding Tax on Specified Services**

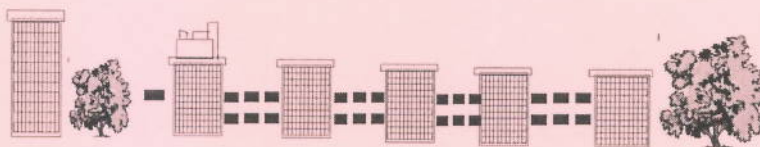
- I. The House is being asked to approve the introduction of a withholding tax on specified services. This measure is seeking to improve the current compliance rates in respect to tax collection from the smaller and medium enterprises.
- II. The proposed regime will be applicable to the supply of services above a de minimis amount of \$50,000 per invoice and will seek to align GoJ imperatives in relation to the concept of third party reporting.
- III. It is proposed in the initial phase of the withholding provision that the reporting requirements be limited to larger entities such as financial institutions, ministries/agencies/departments and utility companies.
- IV. The rate of withholding being recommended is 3%.
- V. The rate would be applicable to income earned by service providers. The reporting would be done on a cash basis and the credit would be available when the amounts have been paid/received i.e. when the withholding certificate has been issued/ received.
- VI. The measure similar to the provisions relating to GCT, are seen primarily as compliance measure, as it anticipated that the withholding provision will only strengthen the tax reporting.
- VII. The proposed implementation date is **1<sup>st</sup> May 2015**.

## SUMMARY OF 2015/2016 REVENUE MEASURES

| Proposed Revenue Measures                                                                                                                                         | J\$ Billion        |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|
|                                                                                                                                                                   | Annualized         |
| 1. Amendment to the Taxation regime for Life Insurance Companies                                                                                                  | 0                  |
| 2. Increase in the Special Consumption Tax (SCT) on Cigarettes (\$10.50 to \$12)                                                                                  | 0.488              |
| 3. Increase the Specific SCT rates on Petrol (i.e. E10 87, E10 90, Diesel and Ultra Low Sulphur Diesel by J\$7.00 per litre                                       | 6.412              |
| 4. Replacement of the 1.0 per cent Petroleum Cess to a specific SCT of \$2 per litre                                                                              | 1.824              |
| 5. Increase in the General Personal Income Tax (PIT) Threshold to \$592,800                                                                                       | (0.644)            |
| 6. Re-introduction of GCT on electricity for residential customers (with an increased threshold of 350 kWh) at the standard rate                                  | 0.807              |
| 7. Rationalization of the Environmental Levy. - Introduction of the 0.5% on domestic sales (excluding the services sector)                                        | 0.962              |
| 8. Rationalization of Outdated Fees - Trade & Business Licence                                                                                                    | 0.500              |
| 9. Rationalization of Outdated Fees - Excise Unit                                                                                                                 | Compliance measure |
| 10. Reduction of Import Duties (CET) on Horses - From 40% Duty to 5% Duty.                                                                                        | (0.001)            |
| 11. Full implementation of the elimination of zero-rating under the GCT for government purchases (with exception of public schools and the Jamaica Defense Force) | Compliance measure |
| 12. Withholding Tax on Specified Services (at a rate of 3%)                                                                                                       | Compliance measure |
| <b><u>TOTAL</u></b>                                                                                                                                               | <b>10.348</b>      |



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March 12<sup>th</sup>, 2015



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Printed by Ministry of Finance and Planning