MINISTRY PAPER No. 33/16

"REVENUE MEASURES FOR FISCAL YEAR 2016/17"

Ministry of Finance and the Public Service

12th May 2016

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REVENUE MEASURES FISCAL YEAR 2016/2017

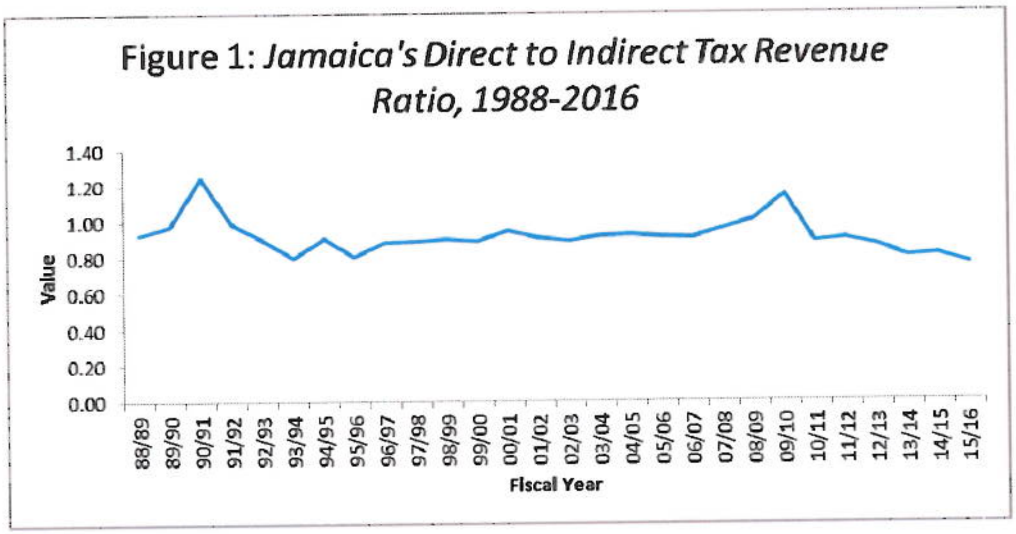
The House of Representatives may recall that the Government of Jamaica's macroeconomic programme has fiscal consolidation as one of its main pillars, which has been predicated on certain main fiscal parameters, these being: a Debt-to-GDP ratio of 96% by 2020; a Primary Surplus on Central Government operations of originally 7.5% of GDP during FY 2013/14 – 2016/17, to be maintained thereafter at levels consistent with meeting the debt targets.

2. House Members are further reminded that, as noted in the Fiscal Policy Paper tabled in Houses of Representatives on April 14, 2016, the Central Government's targeted Primary Surplus as a percent of GDP (7.5%) was achieved for FY 2013/14 and FY 2014/15. For FY 2015/16 the targeted primary surplus (7.25% of GDP) was also achieved. The primary surplus target for FY 2016/17 (and the medium term) is 7.0% of GDP.

3. This process of fiscal consolidation has occurred against the background of tax policy reforms which, since FY 2009/10 has been evidenced by, among other things:

- A gradual broadening of the base for the General Consumption Tax (GCT);
- Reduction in the standard rate for GCT from 17.5% to 16.5%;
- Periodic increases in the annual general Personal Income Tax (PIT) threshold ;
- A comprehensive reform of the tax incentive regimes, which focused primarily on streamlining tax incentives through the provision of employment-related income tax credit in relation to both Corporate Income Tax (CIT) and PIT liabilities for incorporated and unincorporated enterprises, respectively;
- Periodic adjustments to the Special Consumption Tax (SCT) regimes for alcohol, cigarettes and transport fuel;
- A reform of the Stamp Duty and Transfer Tax applicable to the transfer of property; and
- The reform of the asset tax regime for both financial and non-financial enterprises.

4. The reforms highlighted in paragraph 3 have, over time, shifted the relative burden of the tax system from direct to indirect taxes, but has maintained the progressivity of the income tax system. The FY 2016/17 programme seeks to further accelerate the shift from direct to indirect taxes, consistent with Government of Jamaica policy. Figure 1 illustrates the evolution of Jamaica's tax structure (i.e. mix of direct and indirect taxes levied) since 1988 and shows that the ratio of direct to indirect taxes declined from its most recent peak of 1.14% in FY2008/09 to reach 0.75% in FY 2015/16.



Source: Compiled by the Taxation Policy Division, Ministry of Finance and the Public Service.

5. These reforms have sought to balance the Government's objectives of *equity* and *economic efficiency* while ensuring that there is sufficient tax revenues to support sustainable fiscal consolidation. In this way the tax reforms have, in general, supported both a short-term stabilization objective and a medium to long-term economic growth objective.

In keeping with this, the tax measures to be implemented in FY 2016/17 are as follows:-

i. ***Increase in the Annual General Personal Income tax Threshold to $1,000,272***

a) House Members are being advised that, as a part of revenue measures for FY 2016/17, **effective July 1, 2016**, the first phase of the annual general personal income tax threshold increase will be undertaken. The amount will be increased to **$1,000,272 for all individuals**, whether employed (and subject to P.A.Y.E) and/or self-employed.[1] Simultaneously, the marginal tax rate to be charged in respect of income in excess of $6.0 million (earned by individuals) is to be increased to 30%. The tax rate in respect of income in excess of the annual general personal income tax threshold and up to $6.0 million remains at 25%. The second phase of the increase which will result in the annual general personal income tax threshold increasing to $1.5 million, will be implemented on April 1, 2017.

b) This has an associated potential revenue loss of approximately **$12.5 billion** for FY 2016/17.

c) The proposed increase in the annual general personal income tax threshold will result in an additional **74,035** persons (i.e. those who earn up to $1,000,272) falling outside of the income tax roll. This subset of persons is part of a larger cohort of approximately 252,000 P.A.Y.E. employees plus thousands of others who are self-employed.

d) The Honourable House is being reminded that the annual general PIT threshold was last increased on 1st January 2016, as part of the revenue measures tabled in FY 2014/15, which saw an increase from $557,232 to the current threshold of $592,800.

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[1] As a practical matter, in order to facilitate the administration of the threshold, it is customary that the threshold be placed at a level perfectly divisible by 12 (months) and 52 (weeks). Accordingly, the general PIT threshold will, in FY 2016/17 be increased to $1,000,272 per annum.

ii. ***Increase the Specific Special Consumption Tax (SCT) rates on Petrol (i.e. E10 87, E10 90, Diesel and Ultra Low Sulphur Diesel by $7.00 per litre)***

a) The House is reminded that *via* Revenue Measures FY 2015/2016, there was a $9.00 increase in the *Specific* SCT on petrol, effective 18th March 2015. At the time the increase comprised of the 1% cess which had been amended from an *ad valorem* cess to a *Specific* tax of $2.00 per litre, with an additional $7.00 per litre to be attributed as revenues for the benefit of the Consolidated Fund.

b) Against the backdrop of continued depressed world oil prices relative to the peak levels of 2014 (notwithstanding recent signs of moderate volatility), it is prudent for GoJ to provide for an additional increase at this time, in order to preserve the integrity of the revenues.

c) The proposed increase of $7 per litre is estimated to yield **$6.489 billion** and will be effective, **13th May 2016.**

iii. ***Introduction of an SCT regime for Liquefied Natural Gas (LNG) and Revision of Heavy Fuel Oil (HFO) regime***

a) In keeping with Jamaica's current taxation regime for other petroleum products, it is proposed that tax structure for LNG be introduced comprising a S*pecific SCT* as well as an *Ad-Valorem SCT*.

b) Currently the General Consumption Tax (GCT) Act provides only for GCT to be applied to LNG. Considering the expanded base of users of LNG over the medium to long term, it is determined that the applicable GCT be removed and supplanted with the proposed SCT regime.

c) The introduction of a new tax regime for LNG also provides an opportunity to begin to re-balance the tax structure in respect of other petroleum products which compete with LNG as a source of energy, primarily, Liquefied Petroleum Gas (LPG) in the form of Propane and Diesel. Table 1 shows the existing tax structure applicable to LNG and to its main competitor fuels.

Table 1: Tax Structure for LNG and Its Main Competing Products

LNG:	Based on current provisions in the GCT Act, LNG is not exempt and therefore attracts a standard rate of 16.5%
Heavy Fuel Oil (HFO)	SCT: $0.1512 per litre
Propane	SCT: $2.006 per litre (*specific*), 0.395 percent of price (*ad valorem*)
Diesel	SCT: $24.4145 per litre *(specific)* , 10.0 percent of price (*ad valorem*)

d) It is recommended that effective **13th May 2016**, the SCT regime be amended as follows:

- for LNG: introduce a *Specific* SCT of $4.56 per mmbtu[2] and an Ad Valorem SCT of 3.5%; and
- for HFO: increase the Specific SCT to $2.0006 per litre and the Ad Valorem SCT to 0.395%.

e) This recommended structure will, at current price levels, produce a ratio of SCT to price for LNG and HFO of 3.7% and 6.5%, respectively.

f) The potential revenue yield from this measure for FY 2016/17 is estimated at **$1.415 billion.**

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

a) The House of Representatives is being asked to note that Jamaica through its commitment, as jointly executed by Ministry of Health (MoH) and Ministry of Finance (MoF), is seeking to reduce tobacco consumption locally, in conformity to Article 6 of the ratified *Framework Convention on Tobacco Control* (FCTC).

[2]Natural gas is measured in **MMBtu's.** British Thermal Unit (BTU), MBTU, **MMBTU**. A standard unit of measurement used to denote both the amount of heat energy in fuels and the ability of appliances and air conditioning systems to produce heating or cooling.

b) House Members are being asked to consider and approve an increase in the Specific Special Consumption Tax (SCT) charged per stick of cigarette. The House may recall that the last increase on this product was via Revenue Measures 2015/16, up from $10.50 per stick to $12.00 per stick.

c) It is recommended that the *Specific* SCT be increased to **$14.00 per stick**. The increase will be applicable to cigarettes, cigars, cigarillos, cheroots [including Cigars, cheroots, cigarillos of tobacco substitutes].

d) It should be noted that no further changes are being recommended in respect of SCT chargeable for unbundled tobacco.

e) The annual potential revenue gain from this measure is estimated at **$0.574 billion**. In line with the previous SCT related measures, the implementation date is **13th May 2016.** .

v ***Increase in the Departure Tax to US$35***

a) The House is reminded that the departure tax requires significant updating, as it was last amended in October 2009 to J$1,800.00. Prior to this increase, the last increase dated back to 1999.

b) At the time of the increase in 2009, the Jamaican amount was equivalent to US$20.00. The revaluation of the Jamaican dollar has seen the US dollar value of the tax being reduced to roughly US$14.00. Currently this amount is less than the average rate charged across the Caribbean and Latin America.

c) It is therefore being proposed that the departure tax be increased to US$35.00. It is also proposed that hereinafter, the tax be denominated in US dollars.

d) The potential revenue yield is estimated at **J$ 5.300 billion**, and the policy change will be effective **1st June 2016.**

7. Table 3 below provides a summary of the proposed revenue measures and the respective potential revenue effects.

TABLE 3: SUMMARY OF REVENUE MEASURES

TAX MEASURES -FY 2016/17	**REVENUE IMPACT (- ve) / +ve (J$Billion)**
1. PIT reform phase 1: Increase the annual general income tax threshold to **$1,000,272** and increase marginal tax rate on income above $6.0 million to 30%.	(-12.500)
2. Increase the Specific SCT component by $7.0 per litre on Petrol [$1.048 Billion yield per $1 per litre]	6.489
3. Introduce a SCT regime for LNG and revise the regime for HFO	1.415
4. Increase the *Specific* SCT on cigarettes, cigars, cigarillos, cheroots [including Cigars, cheroots, cigarillos of tobacco substitutes] to $14 per stick.	0.574
5. Increase the Departure Tax to US$35.00 (current rate approx. US$14.53)	5.300
TOTAL	**1.278**

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May 12, 2016