

THE MODIFICATIONS OF THE GENERAL CONSUMPTION TAX ACT

1. Introduction

For the GCT to become a simple tax and broad based the following changes are required:-

- (a) Zero rating limited to exports.
- (b) Exemptions limited to a narrow range of goods and services.
- (c) The base of the GCT to be broadened. This would be achieved by eliminating the exempt status presently accorded to a number of important sectors of the economy, including construction and transportation of goods.
- (d) Alcoholic beverages, tobacco products which are presently subjected to special consumption tax (GCT), to be also subjected to GCT.
- (e) Special treatments to be eliminated. This would include the elimination of the tourism scheme.

SUMMARY OF MAIN RECOMMENDATIONS

2. Treatment of Agriculture

- (a) Agriculture is presently zero rated. This status should be changed to exempt.
- (b) Persons engaged in export agriculture should be allowed to opt for registration as registered taxpayers.
- (c) Zero rating of agricultural equipment should be limited to items that are designed for farming or commercial fishing.
- (d) Zero rating of fertilizers, insecticides, fungicides, anti-sprouting materials packaged in sizes excluding 5.0lbs. or 2.2 kilos; in other words, when items are packaged for household use, example flying insect killer insecticides, they should be taxable.

3. Treatment of Foodstuff

- (a) Raw foodstuff which are presently zero rated should be exempted.
- (b) All processed foodstuff should be subject to GCT.
- (c) If for policy reasons not all processed foodstuff cannot be subject to GCT, then those foodstuffs that are zero rated should be exempted.
- (d) Notwithstanding the above, consideration should be given to reducing the number of items not subject to tax. Items that could be considered to be taxable are corned beef, canned sardines, herring and mackerel, patties, rolled oats, margarine and salt.
- (e) When a foodstuff is exempted and the raw material or intermediate good makes up the major production cost, (i.e. baking flour in the production of bread; packaging materials in the case of milk) special relief should not be provided for such raw material as the exempted foodstuff should be subject to some tax.

4. **Taxation of Excisable Goods**

- (a) Excisable goods, namely alcoholic beverages and tobacco products which are presently subject to Special Consumption Tax, should also be subject to GCT.
- (b) Implementation of the above recommendation would result in a general price increase of 10% for all alcoholic beverages and tobacco products.
- (c) An increase of 10% in the price of beers and cigarettes may not be possible at this time as the price of these items have recently been increased by the manufacturers. A compromise option would be to increase the revenue to the point that the retail price would be increased by 5 to 6%. This would be achieved by re-calculating the SCT rate.
- (d) The opportunity should be taken to simplify the rate

structure of special consumption tax. The rate should be ad valorem. The specific rate should be eliminated. The revenue to be raised should be expressed by using a whole number rate.

5. **Taxation of Motor Vehicles**

- (a) The existing rate structure, despite its recent introduction, needs to be modified. It does not meet the current situation. Firstly, the GCT rate on motor vehicles should be calculated on a value that includes the so-called "recoverable," generally amounting to \$8,000 for each motor vehicle presently being collected by dealers. Secondly, the fixed margins of 12.5%, which is a legacy of price controls, is to be abandoned within the next few months. (This information was recently provided to the Automobile Dealers Association).
- (b) Motor vehicles should be subject to a SCT at time of importation or sale by a manufacturer in Jamaica and in addition to GCT at standard rate 10%.
- (c) The rate(s) of SCT should be set at a level that would result in more-or-less the same amount of GCT as is presently being collected on a specific class of motor vehicles.
- (d) SCT rates applicable to motor vehicles which are imported by a person who is not a dealer should be set to provide a 12.5 per cent differential between the SCT sales for dealers and non-dealers.
- (e) In the case of motor vehicles imported by dealers, the SCT should be calculated on the value of the vehicle for customs purposes plus the customs duty. GCT at standard rate would be calculated on this value. At the time of first sale GCT would be calculated on the price, including any other charges that may be made, i.e. recoverables. The GCT paid at time of importation would

be subject to input tax credit.

6. **Tourism Activities**

- (a) There are two areas of concern in respect of the application of GCT to tourism activities:-
 - i) the tourism scheme for calculating net tax payable; and
 - ii) compliance in relation to the rental of villas and apartments to tourists, etc.
- (b) the "tourism scheme" introduced to cushion the impact of the introduction of GCT on the tourism sector should be eliminated as soon as possible;
- (c) Consideration should be given for the retention of all or part of the deduction from gross value of sales for expenditures related to overseas expenditures, transportation and gratuities in calculating the output tax payable. The retention of this part of the scheme would be subject to the registered taxpayer offering his services on a tax included basis;
- (d) A transitional provision should be introduced to cover fixed price contracts and other special situations that may arise in respect of overseas commitments;
- (e) To correct the current situation in respect of registration non compliance by owners of villas and apartments who rent to tourist whereby owners, agents manager or executive of a tourist accommodation complex, should be made responsible to collect and remit tax on all revenue derived from the activities in its accommodation complex.

7. **Utilities**

- (a) The World Bank Report recommends that electricity be subject to GCT. This recommendation should not be accepted at this time.

- (b) As electricity and water are exempted all their purchases including capital goods should not be free of GCT. Never-the-less the Act provides relief for capital equipments, etc. The World Bank Report recommends the elimination of this relief. The amount of tax involved when expressed as a percentage of total revenue for the utilities is very small.
- (c) It is recommended that the utilities not be given any special relief from GCT.

8. **Coverings and Containers**

The present wording of the provision zero rate under specified conditions coverings and containers purchased by manufacturers/producers. The wording should be modified to say manufacturers/producers of taxable goods. In addition zero rating should be provided for containers and coverings.

The provision that provides zero rating status for coverings and containers reads in part "Covering and containers supplied to manufacturer or producer on such terms and conditions...."

Based on the above wording manufacturers or producers whether engaged in a taxable or exempt activity can obtain free of GCT coverings and containers as long as they meet the terms and conditions as may be set by the Commissioner and which are for the exclusive use by such manufacturer or producer in the packaging of his goods.

The provision is too broad. It should be available only to manufacturers or producers of taxable goods.

The covering and container scheme should be restricted to persons who are registered taxpayers engaged in manufacturing or producing taxable goods.

9. Taxation of Transfers and Assignments of Rights

At the present time consideration received in respect of the transfers and assignments of rights, such as copyrights, patents, licences, trademarks are not subject to GCT. Transfers and assignments of rights are included in the definition of a choses in action. Choses in action are excluded from the definitions in the Act of the terms "goods" and "services." GCT is levied on goods and services. Therefore, as a chose in action is neither a good or a service it does not fall within the taxing provisions of the Act. There are no valid reasons why it should not be subject to GCT.

The GCT Act should be amended to provide for the consideration relating to transfers and assignments of rights, such as copyrights, patents, licences and trademarks, should be subject to GCT.

10. Incentive Industries

The World Bank Reports recommends that Legislation should be tightened to specify that incentive treatment is to be allowed for purchases of goods and services used in the production activities of the incentive firms.

This recommendation is directed primarily at the zero rating provision in Part II of the First Schedule of the GCT Act, Group 5, item 5, which reads "Goods and services purchased in Jamaica and goods imported in or taken out of bond in Jamaica by or on behalf of persons engaged in the production of bauxite and alumina" are zero rated.

The provision is too broad and appears to provide the bauxite and alumina companies more benefits than they are entitled to under the various pieces of legislation affecting this sector.

Zero-rating for Bauxite and Aluminium as mentioned in Item 5, Group 5, of Part II of the First Schedule should be deleted as the necessary relief is provided in other zero rating provisions and under the general provision for input tax credit.

11. Real Property

The present GCT treatment of real property is mixed; it ranges from taxable, e.g. commercial rents; exempt e.g. construction operations as defined under the Constructor's Levy Act; and in some cases excluded from the definition of both "goods" and "services."

Real Property should be treated as follows

- (a) Real property activities to be taxable -
 - i) Lease or rental of land other than for agricultural purposes and building site;
 - ii) Sale of new buildings other than residential dwellings;
 - iii) Lease or rental of residential dwelling for less than 30 days;
 - iv) Repairs, renovations, alterations and demolition of buildings and structures; and
 - v) Real estate commissions or fees.

- (b) Real property activities to be exempted -
 - i) Sale of raw and improved land;

- ii) Sale of new and existing residential dwellings;
- iii) Sales of existing non-residential dwellings and structures
- iv) Leases or rental of residential dwellings for periods exceeding 30 days; and
- v) Civil engineering works.

- (c) The timing for the implementation of the above is important. At least three months should be allowed from the date of the announcement of the proposed treatment of real property.
- (d) The construction materials presently exempt, namely cement, cement blocks, construction materials made of cement should be taxable. Exempt status should continue the exemption for marl, stone and gravel. Pipes two inches in diameter which are presently zero-rated should be subject to GCT.
- (e) A refund scheme should be developed to provide purchases of small residential units a refund of GCT paid on construction materials and services which were inputs into small units, say those below 400 square feet. The refund could be used to pay the transfer tax on the unit.

12. Transportation

- (a) Transportation of people in taxis and in public transportation vehicles, excluding tour services, should continue to be exempt;

- (b) Transportation of goods within Jamaica should be taxable; it is presently exports;
- (c) Input tax credit for SCT paid on motor fuels should not be allowed; this is presently the case.

13. International Freight and Ancillary Services.

The existing zero rating provision for international freight and people and ancillary services should be amended.

The new policy should provide zero-rating for services supplied directly in respect of the transportation of passengers or goods, either to Jamaica from any other country or place outside Jamaica or from Jamaica to any country or place outside Jamaica. Ancillary services such as loading, unloading or handling should be exempted. It appears that the provision is being abused by incentive firms that make tax-free purchases not used as production inputs; for example, motor vehicles motor vehicles, construction materials, purchases for furnishing staff residencies and other purchases that appear to be for use by employees. Further, the provision is not needed as other provisions in the Act which provides the GCT relief to which these companies are entitled.

Modifications of the General Consumption Tax Act
Estimated Revenue, 1993-194

1. Tourism Scheme

(\$Mil)

(a)	Elimination of the tourism scheme	
i)	1992 - tax foregone	\$366
ii)	1993 increase [10%]	<u>37</u>
iii)	Est. tax foregone 93/94	\$403
iv)	Estimated new revenue for 6 months	202
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(b)	Modification of the scheme	
i)	1992 tax foregone	\$303
ii)	1993 increases [10%]	<u>30</u>
iii)	Est. revenue foregone	\$333
iii)	Estimated new revenue for 6 months	167
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Modification of the scheme recommended 167

2. Imposing GCT on Excisables

(a)	Full application	
i)	1992 tax foregone	\$212
ii)	Increase 10%	<u>21</u>
iii)	Estimated 1993/94	\$232
(iv)	Estimated for 9 mths.	174
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(b)	Partial application	
i)	1992 new revenue	\$167
ii)	1993 increase 10%	<u>17</u>
iii)	Estimates 1993/94	\$184
iv)	Estimated new revenue for 9 months	138

Partial Increase recommended 138

3.	Exempting Agriculture	9
4.	Exempting processed foodstuff (344 x 110 x .75)	283
5.	Taxation of processed foodstuff (109 x 110 x 75)	90
6.	Real Property	
	a) Taxation of construction other than residential housing (150 x 110 x 50)	83
	b) Taxation of construction materials presently exempted	<u>83</u>
	c) Total additional tax	166
7.	Transportation of goods (10 x 110 x .75)	8
8.	Misc. elimination of zero rated items	
	a) Household insecticides	7
	b) Coverings and containers for exempt items	16
	c) Elimination of relief on inward transportation	8
	d) Sports equipments, etc	<u>2</u>
	Total	33
9.	Fuel for fishermen - reduction of present relief by 50%	7
10.	Increase in revenue as a result of increasing the effectiveness of the self assessment system by the elimination of zero rated items, etc.	50
11.	Taxation of choses in action Total	<u>8</u> 959
12.	Less input tax credit - machinery & equipment for manufactures/procedures (12 x .75)	<u>(9)</u>
	Total additional revenue	950 =====

**REVENUE ESTIMATES
OF PROCESSED FOODSTUFF
THAT SHOULD BE TAXED**

Patties	11
Biscuits (water crackers)	10
Breakfast Cereals	5
Salt	6
Buns	5
Oil	16
Sardines	37
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TOTAL: -	90