

MINISTRY PAPER NO.

12

**Revised Revenue Measures 1999/2000**

Members of this Honourable House will recall that on the 15<sup>th</sup> April, 1999, a number of revenue measures was announced, including an average increase of 30% on the Special Consumption Tax on specified Petroleum Products. This was projected to yield \$2.8B.

2. Following the widespread reaction from the population to the announcement of this tax, the Government established a broad-based Committee, headed by the President of the PSOJ, Mr. Peter Moses, to examine all the factors, as well as to see if there can be any mechanism to cushion the effects of the increase of the price of gasoline.

3. The Committee proceeded to review the recent increase in the fuel tax and proposed a number of measures to increase revenues and reduce expenditures in order to close the gap resulting from any adjustments to the tax.

4. This Committee has recommended a 50% reduction in the tax on petroleum products and Cabinet has accepted the recommendation to reduce the rate of increase with respect to the petroleum products.

5. Consequently, as of April 28, 1999 it is proposed that the existing tax be modified as shown in **Appendix I**.

- a. The tax on Premium Gasolene will be \$2.3396 per litre, down from \$4.1501. The effect of this will be an estimated reduction in price of \$2.00 per litre to the consumer.
- b. Unleaded Gasolene will be \$1.9793 per litre, down from \$3.7898 per litre. It is estimated that this will lead to a \$2.00 per litre reduction to the consumer.
- c. Automotive diesel oil will be \$2.0198 per litre, down from \$3.5829 resulting in an estimated decrease of \$1.7469 per litre to the consumer.
- d. Kerosene (domestic) will be \$2.0198 per litre, down from \$3.5829 per litre. This is estimated to result in an estimated reduction in the per litre price of \$1.9151.

6. A sample of prices for seven regional countries is shown in the table below. Only Trinidad, which is an oil producing country, has prices below the estimated price of US\$0.47 per litre for Unleaded Gasolene:

**Comparative Consumer Prices within the Region  
(December 1998)**

Country	Unleaded Gasolene US\$ per Litre	Kerosene US\$ per Litre	A.D.O. US\$ per Litre
Argentina	0.91	0.44	0.40
Bolivia	0.68	0.19	0.41
Peru	0.64	0.29	0.38
Brazil	0.55	-	0.24
Jamaica*	0.47	0.40	0.40
Trinidad	0.45	0.18	0.20
Mexico	0.47	-	0.33

\*Estimated price at April 28, 1999

Source: Petroleum Corporation of Jamaica

7. The estimated yield for 1999/2000 is \$1,531M and the measure will take effect from the 28th April, 1999.

**Structure of the Petroleum Tax.**

8. It is proposed to retain the existing structure of the tax, i.e. with a specific and an **ad valorem** segment. The proposals set out above will revise the specific segment and will allow for the recovery of the anticipated yield for 1999/2000. An **ad valorem** tax at the rate specified in the schedule below will be imposed on the amount by which the ex-refinery price exceeds the floor price per litre if the product is manufactured in Jamaica. If the product is imported, the **ad valorem** tax will be applied to the amount by which the value per litre exceeds the floor price specified in the schedule below:

Item	Rate of Ad Valorem	Floor Price per Litre \$
Leaded Gasolene	87.30	8.8427
Unleaded Gasolene	80.09	9.1970
Automotive Diesel Oil	85.96	7.7529
Kerosene (excluding Turbo Jet A1 Fuel)	73.56	8.1812

9. The floor price has been set at levels of \$2.50 above the existing ex-refinery price and will allow an additional amount of tax to be collected if prices exceed the relevant floor prices.

With this revision to the Special Consumption Tax on petroleum products, there is a shortfall which must be addressed. **The estimated shortfall is**

**\$B**  
**1.324**

The proposal to address this shortfall is:

**A Interest on Securities**

Arising from the representations of the Securities Dealers, it is proposed that a deduction at the rate of 15% of interest earned is to be withheld at source by issuers of all investment instruments, commercial paper and on managed funds. Securities include all instruments defined by the Securities Act and all issues by agents of managed funds. This deduction is to be treated as a tax credit towards the investors income tax liability. The balance of tax remaining is payable at the appropriate rate on the filing of the relevant income tax return for the year of assessment.

Administrative procedures will be put in place to expedite refunds where this becomes necessary e.g. pensioners, small deposit holders, etc. The withholding rate of 15% will also be applicable to time deposits and savings accounts held at institutions operating under the Bank of Jamaica Act, Banking Act and the Financial Institutions Act. **The estimated incremental yield for 1999/2000 is**

**1.75**

**These proposals will take effect from June 1, 1999.**

This proposal will offer some small initial relief of 10 percentage points to individuals and 18.3 percentage points to Corporations with savings under five years in specified financial institutions. This should provide some short-term cash flow relief to these savers and should support the Government's initiative towards the reduction of interest rates.

- B. Cabinet has agreed to the introduction of a **tax-free savings instrument**. These instruments must be held for a minimum period of five years. It applies to all instruments across all institutions. Provision has been made for interest to be paid quarterly over the life of the instrument, but if the principal is withdrawn the total tax on the interest earned over the years on the sums withdrawn becomes payable.

Omar Davies, MP  
Minister of Finance & Planning  
April 26, 1999

APPENDIX 1									
PROPOSED AMENDMENT TO INCREASE TAX ON MOTOR SPIRITS FOR 1999/2000									
AVERAGE PRICE STRUCTURE FOR THE YEAR									
	PREMIUM GAS		UNLEADED GAS		AUTO DIESEL		KEROSENE		
Factory Price (per litre)	6.3427		6.6970		5.2529		5.6812		
Current Tax	5.0658		5.0624		4.3495		3.6859		
Recovery of CET	0.3144		0.3238		0.2952		0.3129		
Sub-Total	5.3802								
Additional Tax	2.3396		1.9793	5.3862	2.0198	4.6447	2.0198		3.9988
Total Tax	7.7198		7.3655		6.6645				6.0186
Factory Price With Tax	14.0625		14.0625		11.9174				11.6998
Margin - 28-31%	3.9375		3.9375		3.4560				3.6269
Average Price to Consumers	18.0000		18.0000		15.3734				15.3267
Average Price ex New Tax	15.2398		15.7082		12.8669				12.8744
Increase in Price	2.7602		2.2918		2.5066				2.4523
Percentage Increase in Price	18.11		14.59		19.48				19.05
Current Tax as a % of Current Price	35.3		34.3		36.1				31.1
Total Tax as a % of New Price	42.9		40.9		43.4				39.3
Volume (Million Litres)	203		306		207				15
Increase in Revenue (J\$'million)	476		606		418				31
Total Increase (J\$'million)	1,531								