MINISTRY PAPER

Tax Measures and User Fee

Members of the Honourable House are asked to take note of the revenue measures for 2000/01.

I. Interest on Securities

2. Members will recall that in April of 1999, the House agreed that:

i. 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.

ii. The deduction to be treated as a tax credit towards the investor's tax liability.

iii. The balance of tax remaining payable at the appropriate rate on the filing of the relevant income tax return for the year of assessment.

3. After one month of the new tax year, indications are that not many of the persons who ought to have filed tax returns have done so. Indeed, some investors have requested that the Commissioner approve the withholding of 25% tax at source in order to relieve them of the onerous task of filing these returns for the remaining 10%. This measure has also had the effect of shifting the income tax burden from PAYE. Whereas in 1998/99 PAYE collections accounted for 58.2% of total income tax collections, with the increase in coverage of the withholding tax, the PAYE as a percentage of income tax fell to 48.5%. In order to comply with this request, and further address the imbalance caused by the disproportionate reliance on PAYE, it is proposed to increase the withholding tax from 15 - 25% at source.

4. It is estimated that this will yield $3.215B. **The effective date of implementation of the withholding of 25% at source will be May 1, 2000.**

II. Restricting Income Tax Relief on Gratuity Payments

5. Members will recall that in 1991 tax exempt status was accorded to gratuities paid to workers in licensed tourist accommodations in respect of food, beverage, accommodation and other services supplied to customers. The order approving the scheme provides that the total amount of tax free gratuity in any year of assessment should not exceed 10% of the amount billed. The restriction of exempt gratuity to 10% of specified sale receipts does not limit the amount of gratuity that can be exempted in proportion to emoluments. Historically, gratuities were granted to service personnel in hotels. The gratuities might have been significant in relation to the emoluments of the lower paid service staff, but did not relate much to the emoluments of management staff. Over the nine years of this scheme it has been observed that even though the amount of gratuity is within 10% of sales limit, the amount is too high in proportion to total emoluments.

6. The incentive has therefore provided the opportunity to shift a significant amount of emoluments which would otherwise be taxable to tax-free gratuities. The amounts now being claimed as gratuities are not true gratuities in the historical sense. Audits of enterprises have shown that in some entities a gratuity pool is created from 10% of gross sales from which disbursements tantamount to bonuses are made to staff.

7. It is therefore proposed that in addition to the 10% of sales condition:

i. maximum non-taxable benefit to any individual should not exceed $125,000 p.a.;

ii. persons with a taxable income of $500,000 or more would not benefit from tax relief on gratuity payments.

The projected yield is $150M. This proposal is effective April 10, 2000.

III. Increase in Queen's Warehouse Fees

8. The current basic rent charged in respect of packages deposited in a Queen's Warehouse is 0.8334 cents per week per cubic foot. An additional

rent charge of 10% of the accumulated basic charge for each week after the first week is added.

9. The above charges have led importers to use the Queen's Warehouse as convenient, cheap, and secure storage areas. These fees are extremely out of line with wharf and airport charges. The intention is to increase the fees to twice the wharf fees as a deterrent to importers using the Queen's Warehouse as cheap storage facility. This move would also facilitate speedier clearance of goods, improve cash flows from Customs Duties and relieve some of the congestion.

10. For the fiscal period 1999/2000 under $30,000 was collected in fees. In some instances, the very low rates charged for storage was not collected. It is proposed to increase the fees as set out in the table below:

Goods	Period of Time	Unit Basis	Rate J$
Goods other than motor vehicles	1st week or part thereof	Per 1 cubic metre or part thereof	60.00
	Each subsequent week or part thereof	- do -	120.00
Motor Vehicles	1st week or part thereof	- do -	240.00
	Each subsequent week or part thereof	- do -	300.00

These measures are estimated to yield $165M for 2000/2001 and will take effect on June 1, 2000.

IV. Increase in Threshold

11. The Personal Income Tax threshold presently stands at $100,464.00. It is proposed that some measure of relief will be provided by lifting the threshold by $20,000. The proposal is for a new threshold level to be $120,432.00 per annum. This will be effective at the start of the new tax year

January 2001. The estimated cost for January - March 2001 is $312M. **The new threshold will relieve 89,100 individuals from paying any tax.**

V. Dividends

12. Certain segments of the population have been clamouring for a removal of the Personal Income Tax on dividends on the basis that this move would encourage the movement of funds into the equity market and away from fixed income securities. If the Government were to accede to the wishes of those persons requesting the removal of the tax on dividends, the loss to the revenues would be just under $1.2B. This cannot be afforded at this time.

13. In the memorandum of understanding between the Government and the Private Sector, the Administration agreed to seriously examine the proposal. The principle for the removal of the tax has been accepted and it is proposed to eliminate the tax over a three year period.

- Effective June 1, 2000, the tax payable on dividend income, paid after the effective date, will be computed at the personal Income Tax rate of 20%.
- Effective April 1, 2001, the tax payable on dividend income, paid as from April 1, 2001, will be computed at the rate of 10%.
- Effective April 1, 2002, the tax payable on dividend income, paid as from April 2002, will be computed at a zero rate of tax.

This is estimated to cost $250M in this financial year.

Omar Davies, MP
Minister of Finance & Planning

April 6, 2000

SUMMARY OF TAX MEASURES

		$B
Increase in Withholding Tax at Source to 25%	3.215	
Increase in Queen's Warehouse Fees	0.165	
Restriction of Income Tax Relief on Gratuity Payments	0.150	**3.530**
Less Threshold Increase	(0.300)	
Less Reduction in Personal Income Tax on Dividends by 5%	(0.250)	
TOTAL of New Tax Measures		**2.980**