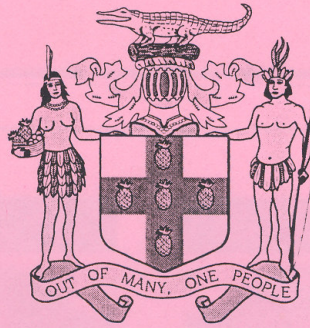


Ministry Paper No. 17

Ministry papers



Tax Measures and User Fees 1998/99

April 16, 1998

Ministry of Finance and Planning

TAXATION MEASURES 1998/99

Members of this Honourable House are invited to take note of the New Tax Measures being proposed for FY 1998/99.

I. Increase in the Personal Income Tax Threshold to which a Nil Rate applies

In keeping with this Government's policy of increasing the Personal Income Tax threshold to which a nil rate applies, it is proposed to make a further amendment. With effect from the 1st January, 1999 this threshold will be increased to \$100,464 per annum. The effect of this increase will be to remove an additional **20,000** persons of paying Income Tax. All other taxpayers will benefit from the relief.

II. Increase in Special Consumption Tax on Specified Petroleum Products

Oil prices have fallen on the World Market and this has been reflected in the differences paid at the pump late last year, as against prices currently prevailing.

The refinery has adjusted its prices downwards, but because margins are sometimes applied as fixed amounts, the full impact of these reductions are sometimes not enjoyed by the consumer. Also contributing to the fact that a proportionate reduction in World Prices of Crude is not enjoyed by the consumer, is the fact that the tax on Motor Spirits, Automotive Diesel Oil and Kerosene Oil has been frozen, and has operated as a Specific Tax, i.e. a fixed amount is charged per litre.

This has had the effect of safeguarding the revenue, while not allowing the segment of the tax which is based on the price of the product to trip in as had been legislated. However, it has also had the beneficial effect of keeping down the tax on Petroleum Products when World Prices were high.

It is against the background of falling World Prices and reduced prices at the pump that the opportunity is being taken to earn some additional revenue at a time when it is likely to be least painful to consumers.

It is proposed to increase the Special Consumption Tax on the following items:

1. Motor Spirit - Leaded Gasolene
2. Motor Spirit - Unleaded Gasolene
3. Automotive Diesel Oil
4. Kerosene Oil (Domestic)

The likely impact of these increases are shown at **Appendices 1 and 1a**. Appendix 1 demonstrates the average prices which are likely to obtain **over the next year** and Appendix 1a demonstrates the anticipated prices at the pump **on Friday, 17th April, 1998**.

As demonstrated in Appendix 1, the tax on Premium Gasolene is scheduled to increase by \$2.8271 per litre. The effect of this will be an estimated \$3.1951 increase in the price to the consumer. (A pump price of \$14.7601) The tax on Unleaded Gasolene is increased by \$2.6919 resulting in an increase in price of \$3.1026 per litre (a pump price of \$15.0001). The tax on Automotive Diesel Oil is increased by \$2.3901 resulting in an increase in price of \$3.1526 per litre (a pump price of \$13.3301).

It is also proposed to increase Kerosene (Domestic) by \$2.3901 to discourage contamination of gasolene. This is estimated to result in an increase in price of \$1.4280 per litre. The final price to the consumer will depend on the level of the distribution chain from which the purchase is made.

The anticipated price at the pump on April 17 in Jamaica and comparable international prices are shown below:

Comparative Consumer Prices for Petroleum Products

Country	Regular Gasolene US\$/USG	UnLeaded Gasolene US\$/USG	Auto Diesel Fuel US\$/USG
Jamaica	1.53	1.56	1.36
Trinidad & Tobago	1.29	1.69	0.77
Bahamas	2.50	2.50	1.85
Barbados	2.73	2.73	2.37
Dominican Republic	1.57	1.99	0.92
Belize	2.36	2.41	1.75
Antigua	N/A	2.11	1.99
Miami USA (Self-Service)	N/A	1.16	1.18
Miami USA (Full Service)	N/A	1.58	1.48
Germany (Feb. 1998)	N/A	3.19	2.09
United Kingdom (Feb. 1998)	4.26	N/A	3.31
Japan (Feb. 1998)	N/A	3.02	2.45

Source: Petrojam

The estimated yield for 1998/99 is \$2.368M and the measure will take effect from the 17th April, 1998.

III. Structure of the Petroleum Tax.

It is proposed to retain the existing structure of the tax, i.e. with a specific and an ad valorem segment. The revised specific segment will allow for the recovery of the anticipated yield for 1998/99, as well as the removal of the 5% CET on Crude Oil and the reduction of the CET on Finished Products which is discussed under Rationalization of Tax on Crude Oil below. 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 specified below 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, as determined under Section 13 (1)(a) of the GCT Act, exceeds the floor price specified in the schedule below:

Item	Rate of Ad Valorem \$	Floor Price Per Litre \$
Leaded Gasolene	62.51	8.6070
Unleaded Gasolene	60.75	8.8663
Automotive Diesel Oil	57.75	8.0432
Kerosene (excluding Turbo Jet A1 Fuel)	47.58	8.4040

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.

IV. Rationalization of Tax on Crude Oil

It is also proposed to remove the 5% CET on Crude Oil and to recover the tax foregone by increasing the Specific Duty components of Special Consumption Tax on specified products. This will result in a rationalization of the existing tax regime by shifting the burden of this tax from production of the products to their consumption.

Petrojam has agreed to lower its prices on these products simultaneously with the imposition of the tax. It should be noted in particular that the imposition of a Special Consumption Tax on Heavy Fuel Oil should not result in increased costs to Jamaica Public Service because of this arrangement.

The items to be affected and the quantum of tax imposed are shown below:

Product	Special Consumption Tax Recovery Per Litre
Motor Spirit (Leaded)	\$0.3144
Motor Spirit (Unleaded)	\$0.3283
Automotive Diesel Oil	\$0.2952
Heavy Fuel Oil	\$0.1512
Asphalt	\$0.3703
Turbo (Domestic Kerosene)	\$0.3129

In addition, it is also proposed to reduce the CET on the following Finished Petroleum Products from 15% to 10%. This is being done to maintain the margin of 10% which previously existed between the duty on Crude Oil and relevant Finished Products:

Motor Spirit (Gasolene)
 Vapourising Oil or white spirit
 Diesel Oil
 Other Gas Oils
 Bunker "C" Grade Fuel Oil
 Other Fuel Oils
 Petroleum Bitumen
 [Other Residues of Petroleum Oils or Oils
 Obtained from Bituminous minerals]
 Bituminous or oil
 Shale and Tar Sands
 Natural Bitumen
 Asphalts and Asphaltic rocks
 Cut-backs
 Other bituminous mixtures
 Illuminating Kerosene

This measure is also scheduled to take effect on the 17th April, 1998 and is expected to be revenue neutral.

Impact of the increase in Price of Petroleum Products on the Consumer Price Index

The estimated impact of the increase in prices of petroleum products on the Consumer Price Index is slightly in excess of 2.0 percentage points over a year. Additional increases will take place but these will be spread over time.

V. Increase in the Special Consumption Tax on Cigarettes

It is proposed to increase the Special Consumption Tax on Cigarettes by 11.6%. It is also proposed to retain the structure of the tax which is similar to that applied to Petroleum Products. However, in order to safeguard the revenue, it is proposed to apply all of the existing tax, plus the anticipated increase, to the specific segment of the tax. The floor price for the ad valorem tax will also be increased.

The specific tax is to be increased to \$1130.34 per thousand cigarettes and the ad valorem rate of 39.9% will be applied to the excess over the floor price of \$2.133.60. This increase in the tax is expected to result in an increase in the per stick price of \$1 each.

The measure is estimated to yield \$127M in Special Consumption Tax and a resulting increase in General Consumption Tax of \$75M. The date of effect will be 17th April, 1998.

VI. Increase in CET applicable to Motor Cars and Similar Vehicles

Motor Vehicles are included on List C of the Common External Tariff. This means that Member States of CARICOM are allowed to treat these items as revenue earning items and are therefore able to apply rates of duties in excess of the regional rates.

It is therefore proposed to increase the CET rates of duty applicable to Motor Cars and similar type vehicles by ten percentage points to 40%. This will result in the categories of vehicles as shown in **Appendix II** having estimated increases in the effective rates of duties applied to the C.I.F. value of the vehicles of 12 to 28 percentage points.

This measure is expected to yield approximately \$600M for 1998/99.

VII. Taxation of the Benefit Arising from Concessionary Rates of Interest Applicable to Loans Granted to Employees in the Financial Sector

It is proposed to tax the benefit arising from concessionary rates of interest granted to employees/directors in the Financial Sector. The benefit will be estimated as being the difference between 18% and the Building Society Rate of Interest and the rate charged to employees which is sometimes as low as 3%.

It will be recalled that in 1991 the decision was taken to implement the provisions of the Income Tax Act and to tax this benefit. After prolonged discussions with the unions, the decision was not implemented. However, arising out of the discussions was a commitment given by the Minister of Finance that:

- i. Loans for education or training of employees and their children would be exempt

from tax;

- ii. Loans for the purpose of purchasing a house and suitable furnishings for owner occupation would be favourably considered for relief from tax. These would however need precise definition and the establishment of acceptable limits.
- iii. Guidelines and ceilings were to be established for compassionate loans, emergency needs and the purchase of a single motor vehicle for private as distinct from commercial use.

The final position agreed with the unions was:

- a. That a loan by employers at concessionary rates to their employees would not be deemed beneficial income for purposes of Income Tax up to an aggregate amount of \$1.5M to cover are as indicated above.
- b. The purchase of land for construction would be included in benefits relating to concessions.
- c. Individual employers would establish their own guidelines and the arrangements would therefore be expected to vary from company to company.
- d. The threshold rate for concessionary loans as agreed would be equivalent to the lending rate of Building Societies.

It is now proposed to revisit this issue and to collect tax on the benefits arising from concessionary loans made to employees and directors of institutions in the Financial Sector at concessionary rates of interest of less than 18%. This is being done because of the abuse of these benefits which have become apparent because of Government's intervention in the sector, and secondly because of the inequity in benefits available to employees/directors in the sector and those elsewhere.

The Financial Sector will be determined as including Development Banks and similar Institutions and the terms as agreed with the Unions will, of course, be honoured.

This measure is estimated to yield \$28M for 1998/99 and will take effect on the 1st January, 1999.

VIII. Proposed Amendments to the Income Tax Act as it relates to the deduction of Tax from Interest Payments

It is proposed to make amendments to the Income Tax Act in order to add Stockbrokers, Dealers and other persons registered under the Securities Act to the list of Prescribed

Persons. This will result in these persons being required to deduct tax on behalf of Government from all interest payments made to investors.

It is also proposed to add Industrial and Provident Societies to the list of Prescribed Persons. Provisions will, however, be made to exempt Provident Societies such as those registered with PRIDE and Benevolent Societies from the requirement.

These amendments together with other amendments already approved to deal with anti-avoidance measures are expected to improve compliance. By requiring that tax be withheld at source there should be an increase in tax intake as well as improvement in the timeliness with which it is received.

This measure along with the amendments already being undertaken is expected to yield an additional \$200M for 1998/99.

IX. Increase in Travel Tax for Non-Cruise Passengers

It is proposed to amend the Travel Tax Act to allow the Departure Tax payable by Non-Cruise Passengers to be increased to \$750.

This increase will take effect on the 1st June, 1998 and is estimated to yield \$230M.

X. Increase in Motor Vehicle Licences

It is proposed to increase the amount payable for Drivers' Licences - Motor Vehicle Licences, etc. as shown in **Appendix III** by between 50% and 100% with effect from 1st June, 1998.

This measure is estimated to yield \$240M in 1998/99.

XI. Implementation of Outstanding Tax Measures

There are outstanding tax measures which are scheduled for implementation by June 1998. These include amendments to:

1. Tax Collection Act.
2. Customs Act and Regulations.
3. Licences on Trades and Business Act.
4. Stamp Duty Act.
5. Road Traffic Act Regulations.

It is estimated that these measures will yield approximately \$60M in 1998/99.

XII. Amendment to the Betting and Gaming Act

It is proposed to restructure the licensing regime for gaming machines and their owners and to increase the fees payable.

This measure is estimated to yield \$20M in 1998/99.

Summary of Proposals

Tax Measures	Yield JSM
Specified Petroleum Products	2,368.0
Cigarettes - SCT	127.0
Cigarettes - GCT	75.0
Employee/Director Benefits in the Financial Sector	28.0
CET on Motor Vehicles	600.0
Travel Tax (Departure - Non-Cruise Passengers)	230.0
Income Tax - Prescribed Persons Connected Persons, etc.	200.0
Motor Vehicle Licences	240.0
Outstanding Legislation	60.0
Betting and Gaming (Machines)	20.0
Sub-Total	3,948.0
Less:	
Increase in Personal Income Tax Threshold to \$100,464	263.0
Total	3,685.0

USER FEES

An exercise was undertaken to identify User Fees which could be increased over a three year period in order to recover the associated costs of the provision of services by the Government. Increases proposed for 1998/99 are as follows:

I. Post and Telecommunications

The Post and Telecommunications Department is responsible for the provision of postal services and the regulation of radio operations in Jamaica. The services offered are:

- Processing, transportation and delivery of local and overseas mail;
- Ensuring proper conduct of sale of postage stamps and other postal stationery as well as other services offered at Post office counters.
- Ensuring that the postal operations concerned with the encashment of NIS Pension

cheques island-wide are in accordance with prescribed requirements.

Based on information provided by the Post Office to the consultants who conducted the study, the cost of mailing a local letter in 1996/97 is estimated at approximately \$60 per 15 gram, and the cost for mailing an overseas letter approximately \$70 per 15 gram. However, these figures include all the inefficiencies of the current operations of the Postal Department.

Currently, the revenue earned by the Post Office for mailing a 15 gram (local) is \$2.50 and overseas letters to Region 1 - \$10.0, Region 2 - \$12.50 and Region 3 - \$18.00.

The weights of the letters delivered in 1997 are as follows:

Overseas	42,450 kilogram
Local	66,118 kilogram

The proposal is to double the cost per 15 gram for overseas letters.

Consequently, a 15 gram letter to Region 1 which now costs \$10 is estimated to cost \$20, for Region 1 now at \$12.50 estimated to cost \$25, and for Region 3 which is now \$18 estimated to cost \$36.

The estimated incremental revenue from this exercise is \$30M per 15 gram.

Work is ongoing to complete proper costings for the Post Office in order that the necessary adjustments can be made in the next Budget in order to allow the Post Office to break even.

II. Customs Department

It is proposed to introduce a processing fee of \$100 each for the following documents with effect from the 1st June, 1998:

C78 and C79	-	Customs Entry
C82	-	Export Entry
C25	-	Request to Import Goods for Temporary Use

This measure is estimated to yield \$47.13M for 1998/99.

III. Police - Criminal Investigation Bureau

The main sources of revenue of the Criminal Investigation Bureau are:

- a. Police certificates for immigration purposes.

- b. Researching of fingerprints for private security companies.
- c. Researching of fingerprints for applicants of firearm licenses and road licenses (i.e. drivers of public passenger vehicles).
- d. Checking names/fingerprints of prospective employees for various employers.

An express service is to be established where the required service is to be delivered within a three day time span for the payment of an additional fee of \$1,000.

This measure is estimated to yield \$2.7M in 1998/99.

IV. Police - Immigration and Passport Office

The division is responsible for:

- a. The processing of arrivals at the international airports and seaports.
- b. The issuing of passports, re-entry visas and other travel-related documents.

It is proposed to increase the existing fees as shown below:

Type of Charge	Existing \$	Proposal \$
Issue of new passport	400	1,000
Issue of new passport (express)	900	1,800
Replacement of passport	2,400	4,800
Extension of replaced passport	200	400
Visa	1,700	3,400
Alien Registration	1,000	2,000
Travel permits	800	1,600
Seaman's Certificate	550	1,100
Additions	200	400
Emergency Certificate	400	800
Amendments	200	400

These increases are expected to yield an additional \$51.4M in 1998/99.

V. Electricity Division

The Electricity Division of the Ministry of Mining and Energy is responsible for undertaking inspection of all electrical installations throughout Jamaica to ensure that all safety standards are met and the granting of licences to qualified persons to enable them to operate as electricians.

It is proposed to impose a minimum fee for inspection of \$1,000. This is estimated to yield an additional \$14.5M in 1998/99.

VI. Island Traffic Authority

The Island Traffic Authority is responsible for:

- a. The examination/testing of motor vehicles for roadworthiness.
- b. The conduct of examinations and road tests for individuals applying for driving licences.

It is proposed to increase the following fees charged by the Authority:

Type of Fee	Existing \$	Proposed \$
Certificate of Fitness for Public Carriers	100	1,000
Certificate of Fitness for Private Carriers	100	1,000
Certificate of Fitness - Public Passenger Vehicle (To include Stage, Hackney Contract and Special)	100	1,000
Special Permits	Variable	2,000
L Forms	Free	500
Re-certification of Defective Vehicles	Free	1,000
Recertification of motor vehicles involved in major accidents, i.e. repairs of \$50,000 and over	Free	1,000
Certificate of Fitness for Private Motor Cars	100	750
Examination Fees for Driver's Licence	100	500
Valuation of Vehicles	Free	1,000

These changes are expected to yield \$357.50M in 1998/99.

Summary of User Fees

	J\$M
Post and Telecommunications	30.0
Customs Department	47.1
Criminal Investigation Bureau	2.7
Immigration and Passport Office	51.4
Electricity Division	14.5
Island Traffic Authority	<u>347.5</u>
Total	493.2

Omar Davies, MP
Minister of Finance & Planning
April 8, 1998

PROPOSED AMENDMENT TO INCREASE TAX ON MOTOR SPIRITS FOR 1998/99					APPENDIX I
AVERAGE PRICE STRUCTURE FOR THE YEAR					
	PREMIUM GAS	UNLEADED GAS	AUTO DIESEL	KEROSENE	
Factory Price (per litre)	5.9737	6.1523	5.8092	5.9458	
Present Tax	2.2387	2.3705	1.9594	1.2958	
Additional Tax	2.8271	2.6919	2.3901	2.3901	
Recovery of CET	0.3144	0.3238	0.2952	0.3129	
Total Tax	5.3802	5.3862	4.6447	3.9988	
Factory Price With Tax	11.3539	11.5385	10.2539	9.9446	
Margin - 30%	3.4062	3.4616	3.0762	2.9834	
Price to Consumers	14.7601	15.0001	13.3301	12.9280	
Current Price (Average)	11.5650	11.8975	10.1775	11.5000	
Increase in Price	3.1951	3.1026	3.1526	1.4280	
Percentage Increase in Price	27.6	26.1	31.0	12.4	
Present Tax as a % of Current Price	19.4	19.9	19.3	11.3	
New Tax as a % of New Price	36.5	35.9	34.8	30.9	
Volume (Million Litres)	258	279	356	16	
Increase in Revenue (J\$'million)	728	751	851	38	
TOTAL ADDITIONAL REVENUES	2,368				

										APPENDIX 1A
PROPOSED AMENDMENT TO INCREASE TAX ON MOTOR SPIRITS FOR 1998/99										
ANTICIPATED PRICE STRUCTURE ON APRIL 17, 1998										
		PREMIUM		UNLEADED		AUTO		KEROSENE		
		GAS		GAS		DIESEL				
Factory Price (per litre)		5.8410		6.0873		5.3152		5.6730		
Present Tax	2.2387			2.3705		1.9594		1.2958		
Additional Tax	2.8271			2.6919		2.3901		2.3901		
Recovery of CET	0.3144			0.3238		0.2952		0.3129		
Total Tax		5.3802		5.3862		4.6447		3.9988		
Factory Price With Tax		11.2212		11.4735		9.9599		9.6718		
Margin - 30%		3.3664		3.4421		2.9880		2.9015		
Price to Consumers		14.5876		14.9156		12.9479		12.5733		
Current Price (Average)		11.5650		11.8975		10.1775		11.5000		
Increase in Price		3.0226		3.0181		2.7704		1.0733		
Percentage Increase in Price		26.1		25.4		27.2		9.3		
Present Tax as a % of Current Price		19.4		19.9		19.3		11.3		
New Tax as a % of New Price		36.9		36.1		35.9		31.8		
Volume (Million Litres)		258		279		356		16		

**PROPOSED CHANGE IN CET APPLICABLE TO
MOTOR CARS AND SIMILAR TYPE VEHICLES**

1

**MOTOR CARS AND SIMILAR TYPE VEHICLES
UTILISING PETROL IMPORTED BY INDIVIDUALS**

ENGINE SIZE OF	AVERAGE EFFECTIVE TAX RATE		
	EXISTING	PROPOSED	VARIANCE
UNDER 1000 CC	55	67	12
1000 CC - UNDER 1500 CC	70	83	13
1500 CC - UNDER 2000 CC	79	94	15
2000 CC - UNDER 3000 CC	105	121	16
3000 CC AND MORE	260	288	28

2

**MOTOR CARS AND SIMILAR TYPE VEHICLES
UTILISING PETROL IMPORTED BY DEALERS**

ENGINE SIZE OF	AVERAGE EFFECTIVE TAX RATE		
	EXISTING	PROPOSED	VARIANCE
UNDER 1000 CC	55	67	12
1000 CC - UNDER 1500 CC	70	83	13
1500 CC - UNDER 2000 CC	80	94	14
2000 CC - UNDER 3000 CC	105	121	16
3000 CC AND MORE	260	288	28

APPENDIX III

Proposed Rates for Specified Licences and Fees

Types of Licence or Fee	Existing	Proposed
Private Driver's Licence	500	1,000
General Driver's Licence	750	1,500
Motor Cycle Driver's Licence	500	750
Substitute Driver's Licence	125	250
Provisional Driver's Licence (Learners) for one year	100	300
Charge for Laminate	25	50
Certificate of Title	200	500
Substitute	400	600

Trucks and Tractors (Petrol/Diesel)

Type of Vehicle	Existing	Proposed
Trucks and Tractors not exceeding 20cwt/1016.46 kgs	1,500	2,250
Trucks and Tractors exceeding 20cwt/1016.46 kgs, but not exceeding 30cwt/1524.069 kgs	1,500	2,250
Trucks and Tractors exceeding 30cwt/1524.069 kgs, but not exceeding 40cwt/2032.092 kgs	1,500	2,250
Trucks and Tractors exceeding 40cwt/2032.092 kgs, but not exceeding 50 cwt/2540.115 kgs	1,500	2,250
Trucks and Tractors exceeding 50cwt/2540.115 kgs, but not exceeding 60 cwt/3048.138 kgs, but not exceeding 120 cwt/6109.09 kgs	3,000	4,500
Trucks and Tractors exceeding 120cwt/6109.09 kgs	3,000 plus \$100 per cwt over 120 cwt or 3,000 plus \$100 per 50.91 kgs over 6109 kgs	4,500 plus \$100 per cwt over 120 or 3,000 plus \$100 per 50.91 kgs over 6109 kgs

Trailers

Licence: Trailers \$25 pr cwt/50.91 kgs \$50 per cwt/50.91 kgs

Annual Motor Vehicle Licence Fees

Type of Vehicle	Existing	Proposed
Motor Cycles	\$	\$
Motor Cycles not exceeding 125 cc	250	375
Motor Cycles exceeding 125 cc but not exceeding 500 cc	500	750
Motor Cycles exceeding 500 cc	750	1,125
Motor Cars		
Motor Cars (Taxis)	1,000	1,500
Motor Cars not deriving motive power from an internal combustion engine worked by cylinder(s)	1,000	1,500
Motor Cars (other than Taxis)	1,000	1,500
Motor Cars (not exceeding 1199 cc)	1,000	1,500
Motor Cars exceeding 1199 cc but not exceeding 2999cc	1,500	2,250
Motor Cars exceeding 2999cc, but not exceeding 3999cc	3,000	4,500
Motor Cars exceeding 3999cc	5,000	7,500