

Ministry Paper No. 11

Taxation Measures, 1995/96

Summary

Imposition of Taxes

1.	Modification in the GCT Rate	1,962.00
2.	Increase in SCT:	
	Spirits	93.34
	Beer	33.61
	Cigarettes	41.02
3.	Increase of 5 percentage points in aggregate duties on Motor Cars which currently attract an aggregate duty of less than 260%	190.98
4.	Special Levy on Winnings of \$100,000 or more in Lotto Games	43.20
5.	Amendments to the Income Tax Act:	
	(a) Employment Contracts	35.00
	(b) Service Companies	35.00
	(c) Accommodation for Principal Members	15.00
6.	Increase in Departure Tax for Non Cruise Passengers	110.00
Less:		
7.	Increase of the threshold to which the nil rate of tax is applicable under the Personal Income Tax	(251.43)

TOTAL	2,233.00
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Members of this Honourable House are invited to take note of the summary of the New Taxation Measures being proposed for FY 95/96.

I. Modification of the Rate of General Consumption Tax

1. Members are aware that the General Consumption Tax which was introduced in 1991 has performed well. This tax has maintained its buoyancy yielding in 1994/95 **\$11,420.2M** with **\$6,386.8M** being derived from Domestic Sources and **\$5,033.4M** from Imports.
2. Members will recall that with the introduction of the tax, the Government took the decision to focus the burden of taxation on consumption rather than on production. This policy has been maintained to the extent that it was feasible and to the extent that it did not become burdensome to the consumer. In keeping with this policy direction, the Government proposes to modify the existing GCT regime.
3. It is proposed to increase with effect from **Monday, 24th April, 1995**, the rate of GCT from **12½% to 15%**. This increase will not affect the special regimes applicable to the Tourism Sector or to Motor Vehicles.

Relief from GCT

4. The Government being cognizant of the sensitivity of some areas of consumer expenditure is proposing to grant relief in the following areas:
 - (a) **Over the Counter Drugs:** In addition to the relief currently granted to drugs requiring prescription, it is proposed to zero-rate the over-the-counter drugs which are shown in **Appendix I**. This will mean that no GCT will now be applied to drugs. It is estimated that the revenue foregone for FY 95/96 of **\$83.0M**.
 - (b) **Grocery Items:** It is proposed that the additional grocery items listed in **Appendix II** be exempt from GCT. It is estimated that the revenue foregone for FY 95/96 would be **\$590.0M**.

- (c) **Construction:** It is also proposed that in order to contain the cost of construction, the following major inputs into construction will **continue to attract the existing rate of 12½%**:

- (i) Building Cement (Portland)
- (ii) Pre-mix concrete
- (iii) Cement Blocks
- (iv) Re-enforcing steel bars

It is estimated that the revenue foregone for FY 95/96 would be **\$225.0M**.

- (d). **Education Supplies:** Currently, the relief provision applicable to educational institutions is relatively narrow. This area of relief has been further restricted due to the closure of the Department of Supply, which served as channel for purchases which were then certified by the Ministry of Education.

It is now proposed that all supplies excluding motor vehicles, alcoholic beverages, motor gasoline, kerosene and diesel oil, as well as supplies for fund-raising events, paid for with the funds of an educational institution approved by the Minister of Education and used by the institution, be zero-rated.

The net effect of the modification to the GCT rate is projected to yield **\$1,962.0M** in FY 95/96.

II. Increase in the Special Consumption Tax

General

1. The Special Consumption Tax (SCT) component of the General Consumption Tax Act imposes levies on alcoholic beverages, cigarettes and petroleum products, excluding lubricating oils and grease. The revenue derived from these levies in FY 94/95 was **\$2,223 million** or **16.3%** of total revenue collected under the General Consumption Tax Act. It should be noted that alcoholic beverages are subject to GCT in addition to SCT and the SCT is calculated in the manufacturer's price exclusive of GCT.

2. It is proposed to increase SCT rates and modify the **imposition mechanism** for a number of products as listed below.
3. The proposals with the exception of those relating to beer exceeding **6%** alcohol by volume, have been structured to result in an increase of prices from manufacturers of approximately **5%**. The effect on each item is described below.

(a) Spirits

- (i) In respect of spirits of a strength exceeding **57.1%** alcohol by volume, e.g. Overproof Rum, it is proposed to increase the rate from **22.2% to 24.3%**. Revenue gain for FY 95/96 is projected to be **\$22.93M**.
- (ii) In respect of spirits of a strength exceeding **31.5%** but not exceeding **57.1%**, e.g. Red Rum, the rate would be increased from **13.8% to 16.1%**. Revenue gain for FY 95/96 is projected to be **\$7.39M**.
- (iii) In respect of spirits of a strength not exceeding **31.5%** e.g. Rum Cream the rate would be increased from **5% to 7.51%**. Revenue gain for FY 95/96 is projected to be **\$3.31M**.
- (iv) In summary, the revenue gain from increasing the SCT rates on spirits is estimated to be **\$33.61M** for FY 95/96.

(b) Beer

- (i) Beer is subject to SCT at two rates depending on its alcoholic strength. Where the alcoholic strength does not exceed **6%** of alcohol by volume, the rate is 13.6% of the manufacturer's tax inclusive price. Where the alcoholic strength exceeds **6%** the SCT rate is **5%**. This does not usually occur in other tax administrations and it does not occur in the case of spirits. It is an accepted principle of taxation of alcoholic beverages that the greater the alcoholic strength of a product, the higher the tax rate. It is proposed as indicated below to take a first step towards the correction of this anomaly.
- (ii) In respect of beer **not** exceeding **6%** alcoholic strength, e.g. **Red Stripe**, it is proposed to increase the rate from **13.6% to 15.9%**. The revenue gain for FY 95/96 is projected to be **\$18.71M**.

- (iii) In respect of Beer exceeding **6%** alcoholic strength, e.g. **Dragon Stout**, it is proposed to increase the rate from **5% to 10%**, an increase of **100%**. This substantial rate increase is necessary to correct the anomaly described above and that has existed for a number of years due to special circumstances which no longer exist. While the **100%** increase does not fully correct the disparity outlined above, it goes a long way in reducing it. The projected increase in the manufacturer's price to traders is **7.9%**.

(c). Wines, Cordials and Liqueurs

- (i) Wines, cordials and liqueurs are presently subject to SCT at the rate of **12%** of the price, including SCT charged by the manufacturer. It is now proposed to increase the rate of **12% to 14.5%**.

The revenue gain for FY 95/96 is estimated to be **\$2.95M**.

- (ii) Section 13 (2) of the GCT Act provides that the value of beer, cigarettes and spirits shall be the price (inclusive of Special Consumption Tax) payable by a person who is not a connected person. As a result of such provision, importers of beer, cigarettes and spirits pay tax at Customs on their selling price of the goods. **Wines, Cordials and Liqueurs** are not subject to this provision. It is proposed that wines, cordials and liqueurs being alcoholic beverages, should be subject to the same treatment as other alcoholic beverages and should be added to the products listed in Section 13 (2).

The price effect as a result of this amendment is estimated to be less than **9%** at the distributor's level. The revenue yield for FY 95/96 is estimated to be **\$7.72M**.

(d). Cigarettes

- (i) The methodology for the calculation of the tax payable on cigarettes will be modified. It is proposed to introduce a **specific tax** and an **ad-valorem** tax. The total of the two elements would raise the same revenue as is the case under the approach. To date, the new method is similar to that used for the calculation of tax on petroleum products. The specific tax component would be equal to the SCT payable on a case of cigarettes by the manufacturer in Jamaica on **April 19, 1995**. The price of a case of cigarettes on that date would become the base value for the calculation of the **ad-valorem**

element. Any increase from the base would be subject to an **ad-valorem** tax of **39.9%**.

The revenue gain from cigarettes for 1995/96 is estimated to be **\$41.02M**.

(e). Revision of determination of Value under Section 13 (2) of the GCT Act

(i) It is also proposed in the near future to further amend Section 13 (2) of the General Consumption Tax Act to bring it into line with the original policy intentions as follows:

1. Section 13(2) will be amended to specify that the price on which SCT will apply is the price payable on a sale value by the manufacturer or importer to a non-connected person in Jamaica.
2. In the case of the items covered in the revised Section 13 (2) namely, beer, spirits, wines, liqueurs and cordials, the future amendment will of necessity designate this price to be a notional price (since this price would have to be determined at customs entry point as if at that point the sale in the local market at a distribution point had actually taken place), and accordingly required administrative measures will be introduced.

III. AMENDMENT IN THE AGGREGATE CUSTOMS AND GCT RATES OF DUTY ON MOTOR CARS

1. In February 1993 the aggregate rates of duty on most motor vehicles were reduced from a range of **260% to 87%** to a range of **100% to 50%** with only vehicles of over 3000 cc attracting a rate of **260%**.
2. Since that time many persons have been able to purchase a motor vehicle but the added numbers have increased the wear and tear on the roads and contributed to traffic congestion.
3. It is therefore proposed to increase the aggregate duties on all motor cars by five (5) percentage points except for those cars which currently attract an aggregate rate of duty of 260%. The proposed rates are shown in **Appendix III**.

4. In response to representation from the Tourism Sector, the following amendments to the taxation of vehicles will now apply.
- (i) Jeeps with an engine capacity of less than 2000 cc will attract the aggregate duties applicable to cars shown in **Appendix III**. This will replace the aggregate rate of **100%** currently charged.
 - (ii) Limousines for use in the Tourism Sector will attract a rate of **105% instead of the existing 260%**.
 - (iii) Buses seating 7 - 14 persons to be utilized by the Tourism and U-Drive Industry will now attract a standard rate of **55%**. The existing regime will continue to apply to vehicles which are not imported for these approved activities, i.e. those seating 7 - 9 persons to attract the rate of duty applicable to cars, and buses seating 10 - 14 persons an aggregate duty of **105%**.

IV. Imposition of a Special Levy on the winnings from "Lotto" games.

- 1. The numbers game known as the "Lotto" currently offer prizes varying from a few hundred dollars to millions of dollars and under existing tax laws are not subject to tax.
- 2. The "Lotto" currently has a minimum average weekly sales of **\$15M** out of which **48%** of sales go towards prizes. It is now proposed to impose a special levy of **25%** on all prizes in the "Lotto" of a value of **\$100,000** or more.
- 3. This levy should be withheld by the company operating the "Lotto" and be paid over to the Commissioner of Inland Revenue within seven days and will be monitored by the Commissioner of GCT.
- 4. This measure is estimated to yield for FY 1995/96 **\$43.2M**.

V. Departure Tax

- 1. It is proposed to amend the Travel Tax Act to allow the Departure Tax payable by Non-Cruise Passengers to be increased to **\$500**. This increase will take effect from **June 1995 and is expected to yield \$110m in FY95/96**.

VI. Amendments to the Income Tax Act

1. Treatment of Employment Contracts

- (a) With the increasing number of contracts for service, there is a contraction in the yield from the withholding method of collecting taxes and statutory contributions. This has resulted from the practice of persons who would normally be treated as employees opting for contracts instead.
- (b). The practical effects of these contracts for service are:
 - (i) The persons contracted are treated as self-employed persons for payment of Income Tax, Education Tax, NHT and NIS contributions. These taxes and contributions are not withheld from payments made but have to be collected by assessment.
 - (ii) Revenue from statutory contributions and Education Tax is lost as follows:
 - a. Employers are not required to pay employees wage-related contributions and Education Tax on payments made to the contracted persons.
 - b. The payments made to the contracted persons are not emoluments to be used in the determination of the base for calculating HEART contributions by the agency making these payments.
- (c). It is therefore proposed to amend the Income Tax Act **with effect from the 1st January, 1996.**
- (d). Deem all contracts to perform services by persons other than bodies corporate in a manner similar to services carried out by employees as employer/employee contracts subject to withholding provisions.
- (e). This measure is expected to yield in FY 95/96 an amount of **\$35M.**

2. Treatment of Service Companies

- (a). A Service Company is essentially a company which provides a service for another company or a partnership.

- (b). In Jamaica such companies are usually incorporated by an individual who works for another company in a managerial post or by an insurance salesman or by a partnership. The effect of this activity is to considerably lower the percentage of gross earnings subject to Income Tax, Education Tax and other statutory contributions.
- (c). It is therefore proposed to amend the Income Tax Act with effect from the **1st July, 1995** to incorporate provisions under the Finance Act 1975 of the United Kingdom. These provisions would allow the Commissioner of Income Tax to disregard the operation of the Service Company and to assess the income as being the income of the employee or the partners in the case of a partnership. This measure is expected to yield for FY 95/96 an amount of **\$35M**.

3. Provision of Accommodation for Principal Member

- (a). At present the Income Tax Act allows an employer to provide accommodation for an employee. In such cases the employee is deemed to be in receipt of a benefit which is taxable on the basis of:
 - (i). The annual value of the accommodation; or
 - (ii). 15% of the value of the total emoluments (other than the value of the quarters or residence) paid or payable for the year of assessment to such person;

whichever is the lower.
- (b). It has been observed that where an employee usually a principal member, has other income, e.g. dividends, interest, income from other companies, it is possible for such a person to receive no emoluments or low emoluments from the company providing the accommodation. In the circumstances, there is a small amount of taxable benefit or no benefit at all.
- (c). In cases where the value of the accommodation is greater than the total emoluments, it is proposed to apply the **15%** provision to the average of the sum of the value of the accommodation plus the total emoluments.

(d). The effect of the proposal is demonstrated below:

Example:

<u>Current</u>	<u>Taxpayer A</u>	<u>Taxpayer B</u>
1. Value of accommodation	\$360,000	\$360,000
2. Total Emoluments	Nil	40,000
3. Benefit 15% of Emol.	Nil	6,000
4. Tax @ 25%	Nil	1,500
 <u>Proposal</u>		
1. Value of Accommodation	\$360,000	360,000
2. Total Emoluments	<u>Nil</u>	<u>40,000</u>
3. Sum of (1) and (2)	360,000	400,000
4. Benefits	15% of (360,000) 27,000 2	15% of (400,000) 30,000 2
5. Tax @ 25%	6,750	7,500

(e). It is proposed to implement this measure with effect from the **1st January, 1996** and is expected to yield \$15m in FY95/96.

6. Increase in the Personal Income Tax Threshold

- (a). Since 1986, the threshold to which a nil rate of Personal Income Tax is applicable has moved from **\$8,580** to the existing level of **\$35,568 per annum**.
- (b). It is now proposed that in keeping with the Government's policy of granting continuous relief to the taxpayer within affordable limits to increase the Personal Income Tax threshold to **\$50,544** as from **January 1996**. This will cost the revenue an estimated **\$251.43M** for the period January to March 1996.

- (c). This is expected to result in approximately **27,019** taxpayers being relieved of paying tax.

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20th April, 1995

Appendix I
List of Over-the-Counter Drugs

1. Cough and cold preparations
2. Antacids
3. Analgesics
4. Anti-Histamines
5. Preparations for acne and eczema
6. Vaso constrictors and other drugs used to loosen congestions of the nostrils
7. Ophthalmic drops/washes
8. Antiseptics and Disinfectants
9. Simple single constituents medicine used for first aid that are packaged in small containers, such as camphor, olive oil, winter green etc.
10. Rubbing Alcohol
11. Bay Rum

Appendix II
Additional Exemption for Basic Groceries

1. Cooking Oil - Presently soya oil (pure or mixed) and coconut oil are exempt. The revised wording would exempt all cooking oil. The main product which will now be relieved of tax is maize/corn oil.
2. Biscuits and Crackers, salted and unsalted.
3. Black Pepper
4. Instant coffee
5. Tea
6. Chocolate flavoured drink mix
7. Syrup
8. Fish, Cock and Noodle Soup packaged in aluminum sachets
9. Matches (wood)
10. Toilet Paper
11. Soaps including medicated soaps
12. Organic surface acting agents (e.g. soap powder and detergents)
13. Laundry bleach
14. Floor polish
15. Tomato Ketchup
16. Mosquito Destroyer
17. Insect Sprays

Additional Items which are not Classified as Groceries

1. Oral/dental preparations, including tooth paste, denture fixation paste and powder;
2. Disposable protective bed pads
3. School Uniforms
4. School Bags

Appendix III

Increase in the Aggregate Rate of Duty Payable on Specified Motor Vehicles

Aggregate Duty Rates

	<u>Up to Jan. 1993</u>	<u>Current</u>	<u>Proposed</u>
Motor Cars			
Less than 1,000 cc	87.5	50.0	55.0
Exceeding 1000 but less than 1,500 cc	123.5/128.5	65.0	70.0
Exceeding 1500 but less than 2,200 cc (Diesel)	128.5/133.5	75.0	80.0
Exceeding 2000cc but less than 3,000 cc (Diesel 3,200 cc)	204.0/260.0	100.0	105.0
Over 3,000 cc (Diesel 3,200 cc)	260.0	260.0	260.0
Range Rovers etc.			
Exceeding 2,000 cc (Diesel 2,200 cc)	123.5	100.0	105.0
Range Rovers etc.			
Exceeding 2000cc but less than 3,000 cc (Diesel)	160.0	100.0	105.0
Range Rovers etc.			
Exceeding 3,000 cc	160.0	260.0	260.0

1. Jeeps not exceeding 2,000 cc (Diesel 2200 cc) will be treated as cars.
2. Buses with 10-14 seats imported by the U-Drive Industry and for use in the Tourist Industry to attract 55% duty.
3. Limousines will attract a duty of 105%.