

2012/13 Post-Budget Forum

A review of GCT & SCT Measures

Brian J. Denning, Partner

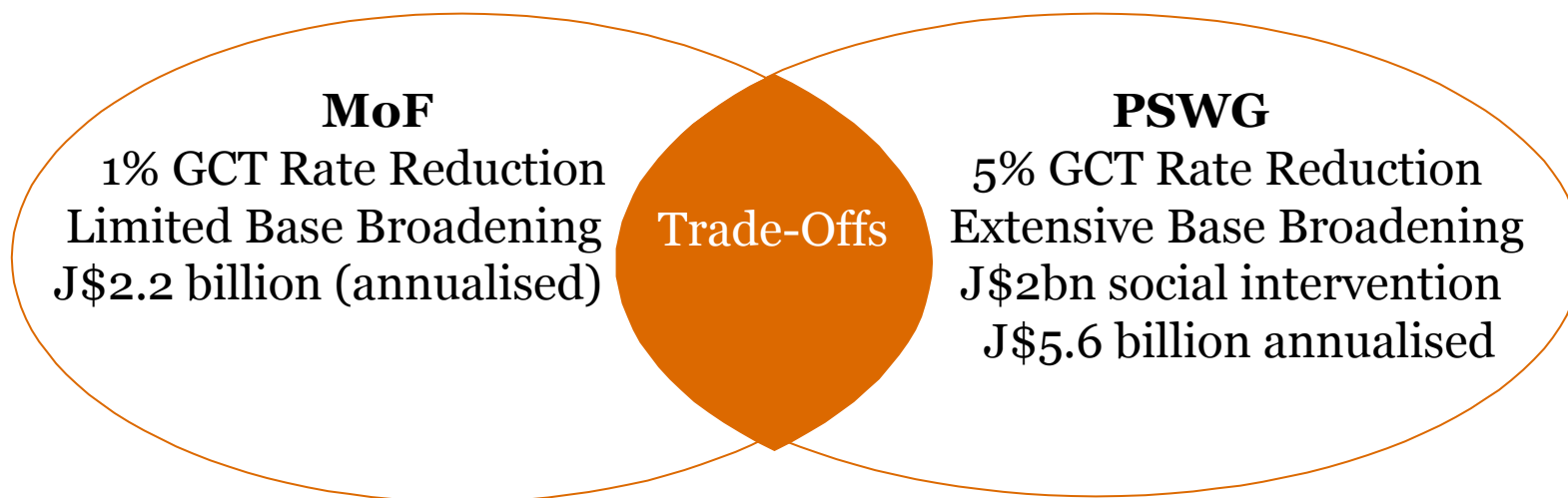
2012/13 Post-Budget Forum

A review of GCT & SCT Measures

Post-Budget Forum: GCT & SCT Measures

Introduction

- Government targets a **6% primary surplus** for 2012/13
- New Tax Package presented of **J\$19.4 billion** for 2012/13
- Tax Reform - Three-Year Implementation Programme
- Trade-Off between GCT Rate Reduction & Base Broadening:



Post-Budget Forum: GCT & SCT Measures

GCT Regime: Some Relevant Features

- GCT is a tax on consumption
- Applies equally to imports and locally supplied goods
- Imports also benefit from GCT exemptions
- Exemptions should be precisely defined
- GCT exemptions create irrecoverable GCT
- Irrecoverable GCT adds to cost structure of doing business
- Multiplier effect through supply chain
- GCT exemptions impact competitiveness of local manufacturers

Post-Budget Forum: GCT & SCT Measures

GCT Regime: The Hidden Cost of GCT Exemptions



Assumption (ignoring GCT): Landed Import Cost = Manufacturers Sales Price = J\$1,000

Assumed Mark-Up: Manufacturer (25%), Distributor (15%), Retailer (10%).

Other Operating Costs: Incurred at each stage - subject to GCT / not subject to GCT (e.g. labour)

	Ignore GCT	Exempt	Std (16.5%)	Reduced (8.5%)
<u>Imported</u>				
Final Consumer Price	1,674.75	1,722.85	1,951.08	1,817.10
GCT Collected	n/a	41.25	276.33	142.35
<u>Local Product:</u>				
Final Consumer Price	1,674.75	1,879.39	1,951.08	1,817.10
GCT Collected	n/a	140.25	276.33	142.35

General Consumption Tax Measures

GCT

2012/13 Post-Budget Forum: GCT

GCT Rates: What has changed

Standard Rate

-J\$2.40 billion

Reduced from **17.5%** to **16.5%** with effect from **1 June 2012**.

Electricity Rate

-J\$0.45 billion

Residential: threshold of **200 Kwh** removed – all supplies to residential customers will be zero-rated from **1 July 2012**.

Commercial/Industrial: GCT rate to be increased from **10%** to **16.5%** with effect from **1 July 2012**.

Telecoms / Tourism Rates

No change – telecoms - **25%** /tourism **10%** (other modifications though)

2012/13 Post-Budget Forum: GCT

Broadening the GCT Base

With effect from **1 June 2012**, the following goods are subject to GCT at the standard rate (now **16.5%**):

Items subject to GCT	
Imported raw foodstuff including fresh fruit and vegetables, ground provisions, legumes, onions, garlic, meat, poultry, fish, crustacean or mollusk	Any live bird, fish, crustacean, mollusc or any other animal of a kind generally used as or yielding or producing food for human consumption and draught animals
Pickled mackerel, herring, shad and dried salted fish	Unprocessed agricultural produce, including produce from stock farming, fresh water fish farming, forestry cultivation and horticulture supplied directly at the farm gate.
Corned Beef, Eggs, Rolled Oats, Condensed Milk	Planting material including cereal and seeds in their natural state, dormant flower bulbs, corns, roots and tubers and nursery stock, vegetable plants and live trees.
Beef and Vegetable Patties (i.e. all patties are now taxable)	Surgical gloves, including disposable, sterile and those made of latex rubber
Syrup (ex. Tariff Heading 21.06)	Printed matter, articles and materials classified under Tariff Heading Nos. 49.01 to 49.05 <u>other than textbooks listed by the Ministry of Education</u>
Buns, Biscuits, Crackers (except water crackers)	
Olive oil, all cooking oil sprays	

2012/13 Budget: General Consumption Tax

GCT Exemptions – Contentious Areas

Raw Foodstuffs: Domestic versus Imported

Animal Feeds: Zero-rated versus exempt

Other Agricultural Inputs: Creating Irrecoverable GCT

Bakery Products: Require precise definitions

Textbooks: Lists are impractical

2012/13 Post-Budget Forum: GCT

Overhaul of Tourism GCT Regime

Accommodation Tax:

To be imposed with effect from **1 September 2012** in addition to the 10% GCT rate. Based on the size of the hotel etc.:

Accommodation Category	Accommodation Tax Rate
Up to 50 rooms	US\$1.00 per night
51-100 rooms	US\$2.00 per night
101+ rooms	US\$4.00 per night

Also US\$20 fee on airline tickets (where flight originates overseas)

Permitted Exclusions from Tourism Revenue:

From **1 September 2012** (i) commissions to overseas tour operators
(ii) airport transfers may no longer be excluded from tourism revenues.
Employee gratuities remain deductible.

Special Consumption Tax Measures

SCT

2012/13 Post-Budget Forum: SCT

Modification of Alcohol Tax Regime

+J\$0.75billion

Increase rate of SCT on Over Proof Rum with effect from **1 June 2012**

Alcohol Type	Current J\$	Proposed J\$
Beer & Stouts	1,120	1,120
Wines, Sparkling Wines, Vermouth and Other Fermented Beverage	960	960
Brandy, Whiskey, Vodka, Rum(< 57.1% by vol.), Other Spirits & Liqueurs	960	960
Over-proof Rum (>57.1% by vol.)	450	960

Rates are applied per Litre of Pure Alcohol (LPA):

750 ml bottle of wine (12% vol.) = J\$960 x 12% x 750/1000 = J\$86.40

2012/13 Post-Budget Forum: SCT

Alcohol Tax Regime for Tourism

+J\$0.53billion

Revision of Concessionary Regime with effect from **1 June 2012**

Alcohol Type	Current J\$	Proposed J\$
Beer & Stouts	1,120 (pla)	1,120 per PLA
Wines, Sparkling Wines (Order needs corection)	US\$0.40 per litre	J\$700 per PLA
Vermouth and other wine flavoured with plants etc.	25%	J\$700 per PLA
Brandy, Whiskey, Vodka, Rum (< 57.1% by vol.), Other Spirits & Liqueurs	25%	J\$700 per PLA
Over-proof Rum (>57.1% by vol.)	30%	J\$700 per PLA

2012/13 Post-Budget Forum: SCT

Modification of Tobacco Tax Regime

+J\$0.38billion

SCT is currently imposed at the rate of J\$10,500 per 1,000 sticks of:

- Cigarettes containing tobacco
- Cigarettes containing tobacco substitutes

Other tobacco products on the market (formal and informal)

With effect from **1 June 2012**, SCT will be imposed at the rate of J\$10.50 per 0.7 grams of “unmanufactured tobacco or refuse tobacco”.

Need to modify the term “*manufacture*”.

2012/13 Post-Budget Forum: SCT

Imposition of SCT on Denatured Ethanol

+J\$0.54billion

Ethanol is pure ethyl alcohol

Denatured ethanol involves adding gasoline to make non-potable

Derived from fermentation of sugars – i.e. a biological product.

Primarily used as fuel additive – blends with mogas

Attracts GCT at the standard rate – now 16.5%

MoF perceives that SCT regime affords competitive advantage to petroleum marketing companies over Petrojam

With effect from **1 June 2012** - imposition of SCT on importation or manufacture of denatured ethanol at the rate of J\$16.32 per litre

Additional cost likely to be absorbed by marketing companies

www.pwc.com/jm

Questions?

2012/13 Post Budget Forum

Viveen A. Morrison

Income Tax

Corporate Income Tax

2012/13 Budget: Income Tax

Corporate Income Tax

Revenue Loss
J\$0.43billion

With effect from 1 January 2013 tax will be paid on statutory income as follows:

- Regulated companies – 33⅓%
- Other companies – 25%
- No word on other persons

Regulated companies are companies regulated by

- Financial Services Commission
- Office of Utilities Regulation
- Bank of Jamaica
- Ministry of Finance, Planning & the Public Service

Income Tax

Minimum Tax

2012/13 Budget: Income Tax

Minimum Tax Regime

Revenue Gain
J\$0.66billion

Flat rate tax of \$60,000 per annum

Effective 1 January 2013 – Y/A 2013

To be imposed on:

- Registered companies except charities, Section 12 ITA, company in its first year.
- Companies benefitting from income tax relief
- Self employed professionals (including doctors, lawyers, consultants)

2012/13 Budget: Income Tax

Minimum Tax Regime

Revenue Gain
J\$0.66billion

Will apply whether company is

- Dormant
- Generating losses
- Has calculated a tax charge of <\$60,000

Treated as a final tax

- Creditable against estimated tax
- Not refundable if in excess
- Declaration of Estimated Tax – to be paid quarterly?
- All companies to file Returns

Income Tax

Dividend Tax

2012/13 Budget: Income Tax

Dividend Tax

Revenue Gain
J\$0.30billion

Change in taxation regime as of 1 June 2012

Residents of Jamaica

- To be taxed at 5% on income from resident companies
- No withholding for corporate shareholders with >25% voting power
- Franked income provisions
- Special exemptions - incentives

Non Residents – no change

- Withholding requirements
- Effect of Tax Treaties

Other tax

Asset Tax

2012/13 Budget: Other Tax

Asset Tax

Revenue Gain
J\$1.95billion

Levied under - The Assets Tax (Specified Bodies) Act

New regime will set two distinct bases of taxing

- Institutions regulated by BOJ and FSC – 0.2% of “assets”
- Other companies – fixed rate

Tax was previously \$1,000 to \$35,000

Filing date will be 15 March – similar to income tax

Implementation date of 1 June postponed

2012/13 Budget: Other Tax

Revenue Gain
J\$1.95billion

Asset Tax – other companies

Asset Value	Annual Asset Tax
At least J\$50 mil	J\$100,000
At least J\$5 mil but less than \$50 mil	J\$75,000
At least J\$500,000 but less than J\$5 mil	J\$50,000
At least J\$50,000 but less than J\$500,000	J\$25,000
Less than \$50,000	J\$5000

2012/13 Budget: Other Tax

Asset Tax – Financial Sector

Revenue Gain
J\$1.95billion

Tax to be based on total assets incl. guarantees and letters of credit but net of IFRS and prudential loan loss provisions.

Should this include

- Assets valued for IFRS compliant F/S
- Assets under management – e.g. with Security Dealers
- Policyholders funds – Life Ins. Co's.
- Outstanding tax refunds

Waivers & Incentives

Waivers and Incentives

Reform commencing 2012/13 financial year

Revenue Gain
J\$1.88billion

Overhaul of the system will take place over the current to medium term
Incentives that have not been in use for years will be repealed

2012/13 Budget: Waivers and Incentives

Policy revision starting with 2012/13 financial year

Revisions – current through to medium term

Cancel or abolish: all blanket, discretionary waivers	Introduce Omnibus Legislation for waivers and incentives	Waiver Policy and Procedures to include
GCT waivers for public entities	Reform and Coordinating Unit to oversee process for incentives and concessions	Standard application form Electronic tracking system Elicit standard form responses in keeping with the procedures
Waivers on horse importation	Waiver Committee to be guided by legislation – members from Tax Policy MoF, TAJ and a representative from civil society	
Discretionary waivers under the Modernisation of Industry Programme	Waivers over a certain threshold to be gazetted Appeals may be made to the Minister	

www.pwc.com/jm

Questions?



2012/13 Post Budget Forum

A review of Tax Measures

Venneshia Sinanan-Forde - Manager

2012/13 Budget

A review of Tax Measures

- Telephone calls
- Motor Vehicle Fees
- Personal Income Tax Threshold
- Tax on Winnings
- Additional Stamp Duty (ASD)
- Common External Tariff (CET)

Review of Tax Measures

Telephone Calls

2012/13 Budget: Tax on Telephone Calls

- Calls originating & terminating on fixed networks in Jamaica **JA\$0.05 / minute**
- Other calls originating in Jamaica (domestic & international) **JA\$0.40 / minute**
- International calls terminating on a mobile network in Jamaica **US\$0.075 / minute**

2012/13 Budget: Tax on Telephone Calls

Exemptions

- Free minutes offered by service providers – 30% of total call time
- Domestic calls, as follows:
 - Numbers used to access emergency & special services, e.g. Police, fire, etc

2012/13 Budget: Tax on Telephone Calls

Exemptions (continued)

- Domestic calls, as follows:
 - Numbers to activate and deactivate services
 - Calls to access voicemail
 - Calls to voicemail
 - Calls to add or determine available credit
 - Calls to on-net customer care

2012/13 Budget: Tax on Telephone Calls

- **Implementation Date**

15 July 2012

- **Estimated Revenue Yield**

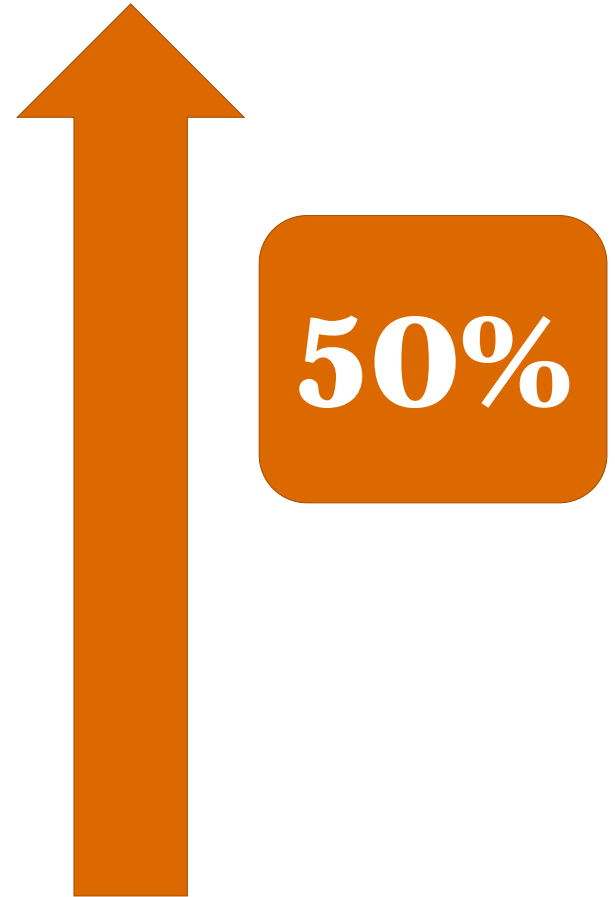
JA\$5.25 billion

Review of Tax Measures

Motor Vehicle Fees

2012/13 Budget: Motor Vehicle Fees

- Motor Vehicle Licence Fees
- Motor Vehicle Fitness Fees
- Motor Vehicle Registration Fees
- Licence Plates
- Licence Fees



2012/13 Budget: Motor Vehicle Fees

- **Implementation Date**

1 June 2012

- **Estimated Revenue Yield**

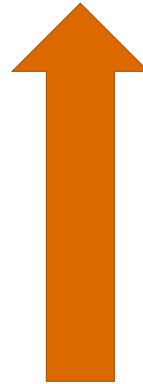
JA\$0.60 billion

Review of Tax Measures

Personal Income Tax Threshold

2012/13 Budget: Personal Income Tax Threshold

\$507,312 p.a.



\$441,168 p.a.

2012/13 Budget: Personal Income Tax Threshold

Implications

- Additional \$5,512 per month in tax free allowance
- Tax free benefit enjoyed by hotel workers will no longer be applicable
- Result in the removal of an estimated 2,981 people from the income tax net

2012/13 Budget: Personal Income Tax Threshold

- Proposed Implementation Date

1 January 2013

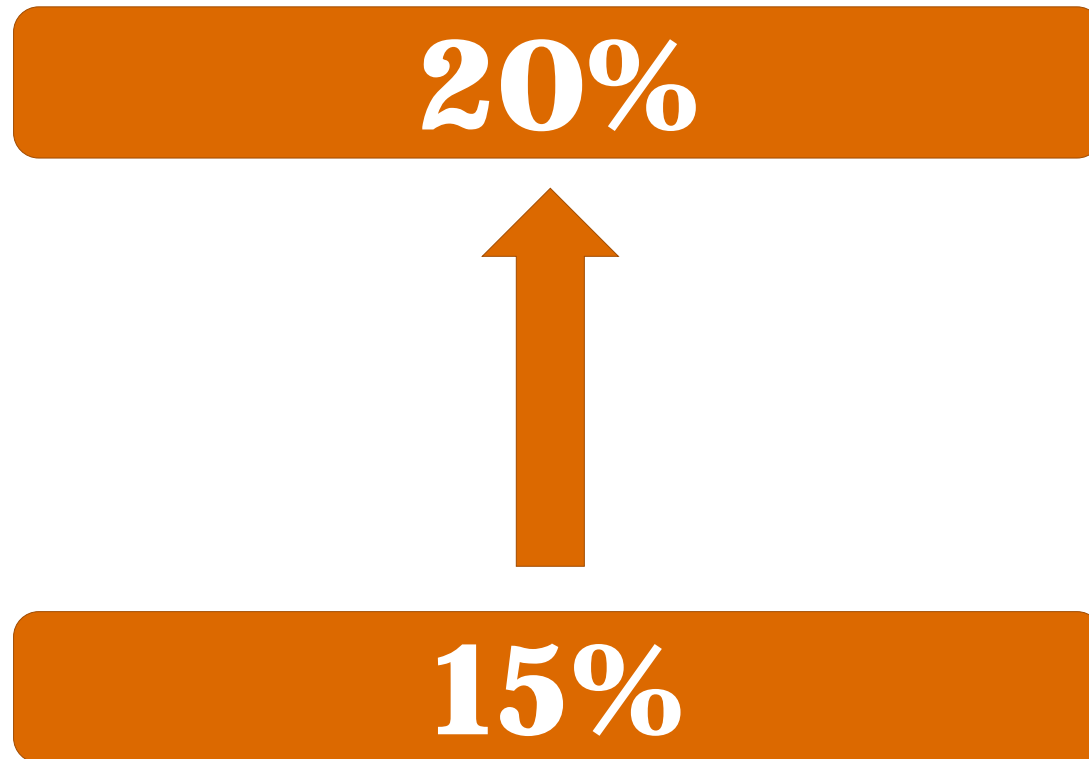
- Estimated Revenue Loss

JA\$0.10 billion

Review of Tax Measures

Tax on Winnings

2012/13 Budget: Tax on Winnings



2012/13 Budget: Tax on Winnings

- Implementation Date

1 June 2012

- Estimated Revenue Yield

JA\$0.38 billion

Review of Tax Measures

Additional Stamp Duty

2012/13 Budget: Additional Stamp Duty (ASD)

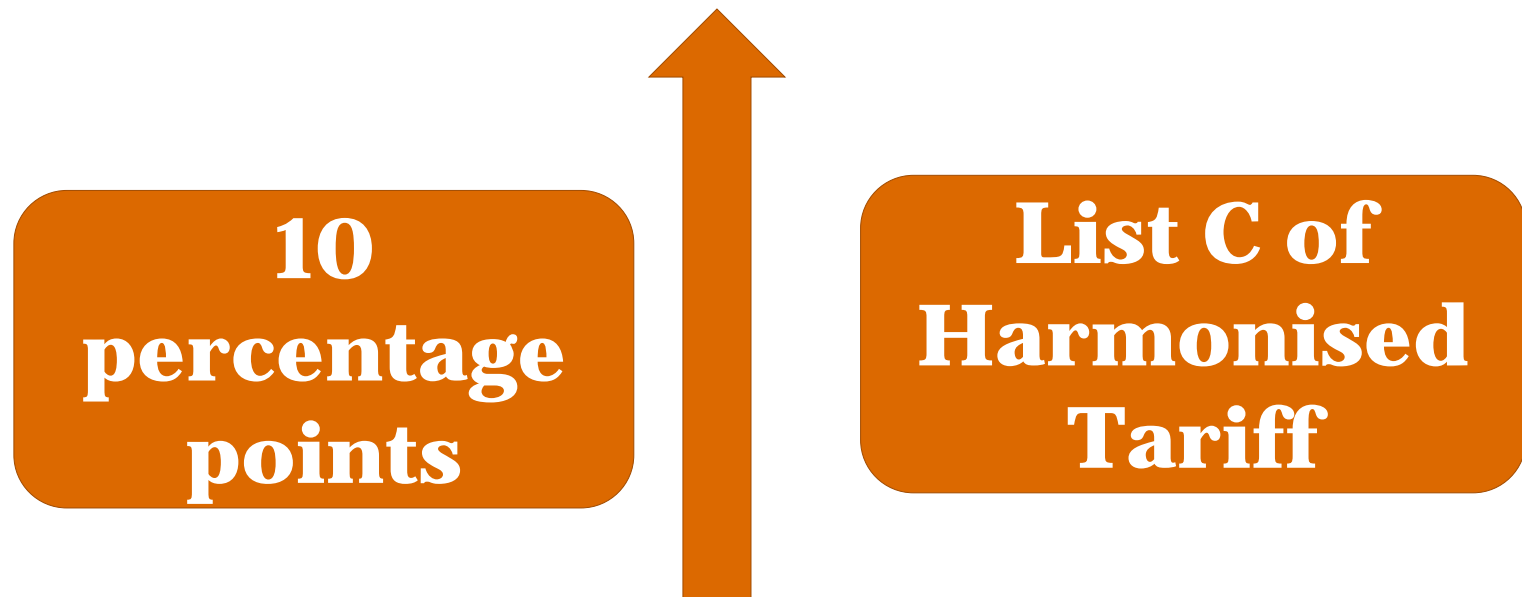
With effect from **1 July 2012**, the following goods are to be subject to Additional Stamp Duty (ASD) at a rate of 15%:

Items subject to ASD	
Tariff Heading	Description of Goods
02.04	Meat of sheep or goats, fresh, chilled or frozen
0210.11.00	Hams, shoulders, and cuts thereof, with bone in
0210.12.10	Bacon
0403.10	Yogurt

Review of Tax Measures

Common External Tariff (CET)

2012/13 Budget: Common External Tariff



2012/13 Budget: Common External Tariff (CET)

List C of the Harmonised Tariff include items such as:

List C (Excerpt)	
Tariff Heading	Description of Goods
22.03	Beer, stout and ale
22.07	High strength alcohol including denatured spirits
2710.30	Gas oils (including diesel oil)
71.13	Articles of jewellery and parts thereof, of precious metal or of metal clad with precious metal
7117.00	Imitation jewellery
91.01	All watches

2012/13 Budget: Common External Tariff

- Implementation Date

1 June 2012

- Estimated Revenue Yield

JA\$1.95 billion

www.pwc.com/jm

THANK YOU