

From Stabilisation to Growth?

Jamaica: 2011/12 Budget

Introduction

The Hon. Audley Shaw, Minister of Finance and the Public Service delivered the 2011/12 Budget in Parliament today and explained how the Government of Jamaica (GoJ) intends to finance projected expenditure of J\$544.7 billion (see Appendix A for expenditure details).

The context within which this year's Budget has been framed is worth noting:

1. Jamaica's 27-month Stand-By Arrangement (SBA) with the International Monetary Fund (IMF) is scheduled to end in May 2012.
2. The SBA supports the GoJ's Macroeconomic Programme which sets out a series of commitments and quarterly fiscal targets over the life of the SBA.
3. As part of this programme the GoJ has committed to undertake extensive tax policy and administrative reforms.

Key points

Transfer of securities now exempt from transfer tax and stamp duty

Refinancing and transfer of mortgages now subject to nominal stamp duty

Reduction in composite import duty (up to 92%) on motor vehicles

Transfer tax reduced from 4% to 1.5% and nominal stamp duty on estates

Extensive administrative reform measures implemented

The Call for Tax Reform

Over the years there have been many calls for comprehensive tax reform. In his Throne Speech to Parliament on 14 April 2011, the Governor General, His Excellency the Most Hon. Sir Patrick Allen noted that “ *the reform of our tax system has been the subject of considerable study over many years to find ways to make it more efficient, more equitable and more conducive to investment and growth. It is now time for implementation and the details and timetable will be outlined in the Budget Debate.*”

4. With elections constitutionally due in 2012, there has been speculation as to whether the GoJ is in a position at this time to address the range of reform issues committed to in its Macroeconomic Programme (such as those reflected in the table opposite) having been pressured recently by both the Opposition and the general public to reduce tax on gasoline.

Tax Policy	Tax Administration
Scale back of tax incentives and exemptions	Unify tax administration
Broadening of the tax base	Streamline compliance procedures
Reduction of distortions in system	Interface / information exchange between domestic tax and customs IT systems
Phased reduction of corporate tax rate	Expansion of Large Taxpayer Office (LTO)
Freezing of discretionary waivers	

2011/12 Budget – A Commentary

In framing his presentation, Minister Shaw enumerated a number of indicators that signal economic stability. Chief amongst these are:

1. significantly reduced interest rates as reflected by a reduction in 30-day Bank of Jamaica (BoJ) Certificate of Deposit (CD) Rates to 6.75% per annum while 90 day & 180 day GoJ Treasury Bill yields declined to 6.46% and 6.63% respectively at the end of March 2011.
2. the lowering by the BoJ of its Cash Reserve Requirement (CRR) and Liquid Asset Requirement (LAR).
3. A reduction by one of our largest commercial banks of its Base Lending Rate to 15.75% (the lowest in over 27 years) with concessionary lending rates offered under their Productive Sector Growth Loan Fund reduced to 8.95%.
4. An appreciation of 4.4% in the value of the Jamaican dollar vis-à-vis the US dollar in FY 2010/11.
5. The highest level of Net International Reserves (NIR) in Jamaica's history of US\$2.5 billion, with an increase of US\$801 million over the prior year.
6. Notwithstanding adverse weather conditions (which would have impacted local food prices) as well as rising international commodity prices, inflation was moderate at 7.8% in FY 2010/11 (within target range)

These indicators are undoubtedly positive and are to be welcomed.

We are concerned however at the continued deterioration in the country's balance of payments which reflected a current account deficit of nearly US\$950m for the nine months to December 2010. And this we submit highlights the crux of our economic predicament.

Our Urgent Need to Grow

Jamaica currently enjoys the support of the IMF under the SBA as well as other funding from the multilaterals whilst operating within the IMF framework. In his Budget presentation, Minister Shaw indicated that he has been authorised by Cabinet to seek a 24 month extension of the present 27- month SBA (which expires in May 2012).

In spite of our worsening trading deficit (which will undoubtedly be compounded by volatility in international oil prices) we still have been able to achieve meaningful improvement in the indicators previously noted. We need to focus on life after these IMF/multilateral arrangements come to an end. How will we then finance the disparity between what we consume and what we produce?

Against the background of the significant pressures on foreign exchange reserves that in time will result from increasing oil prices, the announcement of a dramatic reduction in taxation

on motor cars is puzzling. This will not only stimulate demand for foreign exchange to import the cars but create concomitant demand for fuel to operate them. While buses and taxi cabs will benefit from the tax reductions announced, we would have expected greater focus in providing a stimulus to the mass transportation sector in addition to other non-tax measures to make this sector more efficient.

While we have a healthy NIR at the moment, we are unable to discern the economic drivers that will enable the country to maintain these reserves once the IMF programme comes to an end.

The annual projection of tax revenues also presents a challenge as this has frequently been over-estimated. In 2010/11 for example, tax revenues of J\$287.2 billion were projected, whereas the outturn was J\$280 billion.

General Policy Reform Direction

Although a relatively minor shortfall (of 3%) when compared to previous years, the 2011/12 Budget projects a 10.2% increase over 2010/11. Despite the generally accepted assertion that there is significant tax evasion, we have rarely been able to meet our targeted tax revenues. The GoJ will be relying on the administrative reform measures announced to yield a sufficient compliance dividend to achieve a 10.2% growth in tax revenues in 2011/12.

General Policy Reform Direction

Minister Shaw indicated that the GoJ has committed to implementing tax reform in an incremental way to achieve the objectives of *“simplicity, equity and broadening the taxpayer base, improved compliance, growth and competitiveness arising from policy certainty and confidence in the economy”*. It was further noted that the GoJ proposes to implement its tax

reform programme in three stages:

1. the reform of taxes on international trade, special consumption tax and general consumption tax.
2. the reform of corporate and personal income taxes.
3. the reform of payroll taxes.

The Minister and the GoJ have engaged in extensive consultation with various stakeholders and indicated that this is set to continue. This is to be commended.

In this regard, a rolling medium term tax policy framework has been proposed whereby significant changes will be implemented over a three-year period. This will include consultation, development of specific timetables as well as taxpayer education and public awareness programmes.

Policy Reform Measures

Reduction in Stamp Duty on the Refinancing & Transfer of Mortgages

In the event that a borrower wishes to re-finance his existing loan (which is secured by mortgage), he must currently incur significant upfront switching costs in order to discharge/de-register his existing mortgage and register the new mortgage in the name of the re-financing institution. These costs include stamp duty on the discharge of the existing mortgage and creation of the new mortgage, fees charged by the Registration of Titles Office, legal and valuation fees etc.

These high switching costs act as a disincentive to both borrowers (to shop around for re-financing opportunities) as well as lenders (to identify and compete for such re-financing opportunities).

With a view to reducing this disincentive, the Minister announced that, effective 16 May 2011,

stamp duty imposed on instruments effecting a refinancing of an existing mortgage shall be subject to a nominal rate of stamp duty of \$100. Where however the mortgage is increased, the normal stamp duty rates shall apply to the amount by which the mortgage is increased. The Ministry estimates that this measure will yield **J\$75m** in additional taxes as a result of further financing activities stimulated by this measure.

Removal of Transfer Tax & Stamp Duty on Securities

At present our tax regime makes it impractical for Jamaican incorporated companies to directly issue bonds to investors (which would be transferable and tradable on the JSE or other regional exchanges). On the occasion of each transfer of local corporate bonds, transfer tax (at the rate of 4%) and stamp duty (at the rate 3%) would be chargeable.

Policy Reform Measures

This has rendered such transactions uneconomic and has adversely impacted Jamaican companies in issuing such bonds in an effort to raise debt capital.

In an effort to stimulate the development of a local corporate bond market and to provide Jamaican companies with another mechanism to raise debt finance, the Minister has announced the following:

- (a) With effect from 16 May 2011, the trading of registered corporate bonds (securities) will be exempt from stamp duty and transfer tax;
- (b) This exemption will extend to all companies whether or not they are registered on the Stock Exchange.

The Ministry estimates that this measure will yield **J\$50m** in additional taxes as a result of further financing activities stimulated by this measure.

Reduction in Stamp Duty on Probate and Letters of Administration and Transfer Tax imposed on Death

The Minister noted that there is significant number of deceased estates (in excess of 5,000) which have not fully probated/administered and that the reason in many instances is the level of taxation faced in order to complete the process. As a result he observed that assets (both tangible and monetary) have remain tied up that could otherwise be put into productive use.

In light of the above, the following is to take effect from 16 May 2011:

In respect of Letters of Probate and Letters of Administration filed on or before 27 April 2011

- (a) these shall be subject to stamp duty at a flat rate of J\$5,000. Any payment already made on the old basis shall not be refundable.

Policy Reform Measures

- (b) Transfer tax on death will be chargeable on such estates at the rate of 1.5% (down from 4%). Any deposit made against liabilities computed prior to the rate reduction will not be refundable.

This measure is estimated to cost **J\$300m**.

In respect of Letters of Probate and Letters of Administration filed after 27 April 2011

- (a) In lieu of the existing stamp duty structure, the following stamp duty shall apply:

Estates with Net Value	Duty
Less than J\$10m	J\$5,000
J\$10.0m – J\$19.99m	J\$10,000
J\$20.0m – J\$29.99m	J\$15,000
J\$30.0m – J\$39.99m	J\$20,000
J\$40m and above	J\$25,000

- (b) Transfer tax on death will be chargeable on such estates at 1.5% (down from 4%).

This measure is estimated to yield additional taxes of **J\$220m** as a result of increased activities.

Recovery of GCT on Capital Equipment

At present where a GCT registered taxpayer incurs GCT on the acquisition (for the purpose of his taxable activity) of machinery or equipment costing more than J\$100,000, he is required to claim this GCT by way of input credit over a twenty-four month period. This restriction has placed both a cash flow and administrative burden on taxpayers.

In recognition of this, the Minister announced that with effect from 2 May 2011, GCT incurred on the purchase of machinery and equipment may be claimed over three months (instead of two years).

The Ministry estimates that this measure will cost **J\$30m**.

Policy Reform Measures

Carry Forward of Contractors Levy

At present, contractors (including sub-contractors) who suffer this 2% levy on receipts may claim a credit against their income tax liability in the year of assessment in which the levy is deducted.

Where the levy suffered exceeds the contractor's income tax liability, there is currently no provision to carry forward any levy credit not utilised to a subsequent year of assessment.

As of the financial year 2011/12, where the 2% contractor's levy has been deducted from the contract sum and was paid to the Collector of Taxes, then any amount not utilised as a credit against income tax for that year of assessment may be carried forward to subsequent years of assessment not exceeding five years. It is estimated that this measure shall not be a cost to the Consolidated Fund.

Revision of Import Duty Structure on Motor Vehicles

The following is proposed with effect from 2 May 2011:

- (a) the Common External Tariff (CET) applicable to motor cars (including SUVs) is to be reduced from 40% to 20%;
- (b) the CET on vehicles commonly referred to as pickups is to be increased from 10% to 20%;
- (c) the CET on motorcycles with engine sizes below 300 cc and 600 cc is to be reduced to 10% and 20%, respectively;
- (d) the CET on all-terrain vehicles (ATVs) is to be reduced to 20%;
- (e) the CIF value to which the current 20% duty concession is applicable is to be increased from US\$25,000 to US\$35,000 (J\$3M).

Policy Reform Measures

The aggregate duty rates applicable to both individual and dealer importers are set out below:

Aggregate Import Duties - Individual Imports							
		Current		Proposed		pp Change	
Type	Class	Petrol	Diesel	Petrol	Diesel	Petrol	Diesel
Car	0.0<1.0 cc (engine size)	65%	65%	55%	41%	-9	-24
& SUV	1.0<2.0 (up to 2.2 Diesel	83%	65%	69%	55%	-14	-9
	2.0<3.5	130%	112%	83%	69%	-47	-43
	> 3.5	194%	176%	97%	83%	-97	-93
Pick-Up	Under 1850Kg	44%	29%	48%	41%	4	12
	1850Kg<2200Kg	95%	81%	69%	55%	-26	-26
	2200Kg>	190%	175%	97%	83%	-92	-92
Truck	Less than 2 ton	66%	51%	42%	36%	-24	-16
	2 ton and above	44%	29%	36%	36%	-8	6
Van	less than 2032 kg	66%	51%	62%	49%	-5	-3
	2032 kg and above	44%	29%	36%	36%	-8	6
Bus	all seats	81%	66%	62%	49%	-19	-17

Aggregate Import Duties -Dealers							
		Current		Proposed		pp Change	
Type	Class	Petrol	Diesel	Petrol	Diesel	Petrol	Diesel
Car	0.0<1.0 cc (engine size)	72%	72%	47%	47%	-25	-25
& SUV	1.0<2.0 (or up to 2.2 Diesel)	89%	72%	62%	51%	-27	-20
	2.0<3.5	132%	114%	76%	66%	-55	-48
	3.5>	192%	174%	91%	81%	-100	-94
Pick-Up	Under 1850Kg	48%	35%	47%	47%	-1	12
	1850Kg<2200Kg	95%	82%	62%	51%	-34	-31
	2200Kg>	183%	170%	91%	81%	-92	-89
Truck	Less than 2 ton	68%	55%	48%	48%	-20	-7
	2. ton and above	48%	35%	35%	35%	-13	0
Van	less than 2032 kg	68%	55%	55%	44%	-13	-11
	2032 kg and above	48%	35%	35%	35%	-13	0
Bus	all seats	81%	66%	52%	41%	-29	-25

Policy Reform Measures

Rates for Agriculture, Public Sector & Energy Efficient Vehicles

Vehicles	Petrol or Diesel			
	CET	SCT	GCT	Tax
Agriculture -pickup	20%	0%	0.0%	20.00%
Agriculture -Truck	10%	9%	0.0%	20.00%
Duty concession	20%	0%	0.0%	20.00%
Hybrid	20%	0%	17.5%	41.00%
Electric vehicle	20%	0%	0%	20.00%

Rates for the U-Drive Industry

U Drive		Petrol			Diesel		
Type	Class	CET	SCT	Total	CET	SCT	Total
Car	0.0<1.0 -cc	20%	0%	20%	20%	0%	20%
& SUV	1.0<2.0 (or up to 2.2 Diesel)	20%	10%	32%	20%	3%	24%
	2.0<3.5	20%	20%	44%	20%	13%	36%
	3.5>>>>	20%	30%	56%	20%	23%	48%

Approved U-Drive Operators will pay 0% GCT on vehicles below 2,000 cc (Diesel 2,200 cc).

Increase in Motor Vehicle Licensing Fees

With effect from 2 May 2011, it is proposed to increase annual motor vehicle (including motor bike) licensing fees by \$1,000 to the extent that these fees are currently below \$12,000.

GCT on Second Sale of Motor Vehicles

With effect from 2 May 2011, GCT payable on the second sale of vehicles shall be charged as follows:

		Current	Proposed
		GCT	GCT
Motor cars			
CC	<= 2,000	\$2,000	\$10,000
	<= 3,000	\$4,000	\$15,000
	> 3,000	\$6,000	\$20,000
Trucks/bus			
Kg.	<= 1,524	\$2,000	\$10,000
	1,525-3,048	\$4,000	\$10,000
	>= 3,049	\$6,000	\$15,000

The total revenue yield is estimated at **\$180m**.

Administrative Reform Measures

The Minister announced a series of tax administrative reforms with a view to enhancing the efficiency and effectiveness of Jamaica's tax regime both from the perspective of tax administrator and taxpayer.

Consolidation of Tax Departments

With effect from 1 May 2011, the Inland Revenue Department (IRD), the Taxpayer Audit & Assessment Department (TAAD) and the Tax Administration Services Department (TASD) will be merged into a single department to be called Tax Administration Jamaica (TAJ). It is further proposed that by May 2012, the TAJ will be transitioned into a Revenue Authority with an independent Board of Directors.

Customs to become an Executive Agency

Jamaica Customs will be separated from TAJ and will be transitioned into an Executive Agency with effect from 1 May 2011.

New Revenue Appeals Division

In May 2011 the Taxpayer Appeals Department will become a Revenue Appeals Division (RAD) of the Ministry of Finance with a view to ensuring that the reporting structure in relation to assessments and appeals are separated.

Reforming Jamaica's Tax Administration Structure

Increased Flexibility for TAJ

As a new administrative agency, the Minister noted that the TAJ will have greater flexibility in terms of human resource management including hiring and terminating personnel, implementing systems of accountability and incentivisation, setting quantitative and qualitative performance targets etc.

Administrative Reform Measures

Amalgamated Annual Payroll Return

Further to the recent amalgamation of the reporting of payroll taxes on a monthly basis, the Minister indicated that it is intended to further simplify the process by creating a single annual return to capture information relating to PAYE, Education Tax, National insurance (NIS), National Housing Trust (NHT) and HEART contributions.

It is proposed that this new annual form will be rolled out later this year for full implementation by the January 2012 filing deadline.

The Minister further noted that other changes in relation to payroll deductions are also being considered but did not elaborate on this. We would expect however that this includes a review of how (and to what extent) the payroll taxes themselves may be amalgamated.

Enhanced Customer Service

The Minister noted that a programme is currently underway to implement the following enhanced customer service measures:

- same-day processing of Taxpayer Registration Number (TRN) Cards, Tax Compliance Certificates (TCC), GCT Registration Certificates and Motor Vehicle Titles
- The creation of three new Revenue Services Centres in downtown Kingston (King Street), Mandeville and Saint Ann.
- 22 tax offices (including existing offices) will be established for the collection of tax revenue.

National Compliance Programme (NCP)

In an effort to increase tax compliance levels, the Tax Administration Jamaica (TAJ) intends to introduce a National Compliance Programme

Administrative Reform Measures

in the 2011/12 financial year. Amongst other matters, this NCP will make it mandatory for individuals in certain sectors/groups to file an annual income tax return.

Mandatory filing of Tax Returns by Professionals

For example, the Minister indicated that professionals such as doctors, lawyers, accountants, engineers etc. will be required (irrespective of whether they are employed or self-employed) to declare their annual income by filing tax returns.

He further noted that studies have shown that an unacceptable percentage of individuals within certain professional groups are either grossly underreporting or not reporting their income.

Tightening the Net

It is recognised that many individuals/enterprises are failing to pay their fair share of taxes as a result of operating on a cash basis and in the informal economy. The Minister noted that additional resources will be put in place so that Tax Inspectors will visit these establishments unannounced to carry out audit spot-checks.

GCT Cash Basis - Deadline

Under the GCT Act, certain taxpayers are permitted to account for GCT on a cash basis (instead of an invoice basis). Although the law requires GCT Returns and remittances to be made by the 15th of the following month, in practice we understand that this has not been strictly enforced across the board. The Minister has now instructed that the GCT collected in each month must be paid over by the 15th of the following month.

Future Reform & Conclusion

Tax Cheat: Toll-Free Line

With effect from 1 May 2011, Tax Administration Jamaica (TAJ) will establish a mechanism whereby persons may call or mail in information on persons suspected of cheating on their taxes. This will include a toll-free phone line (1-888-292-4328) which the Minister noted will operate in a similar manner to the Crime Stop Programme in that reports will be confidentially received and discreetly investigated by senior TAJ officers.

It was not specifically indicated however as to whether the Tax Cheat Programme will be similarly incentivised (i.e. like Crime Stop). We would suggest that caution be exercised in implementing such a scheme (and in particular any incentivised scheme) as it will be important to ensure that appropriate safeguards are built in to protect compliant taxpayers and mitigate the risk of persons being maliciously targeted.

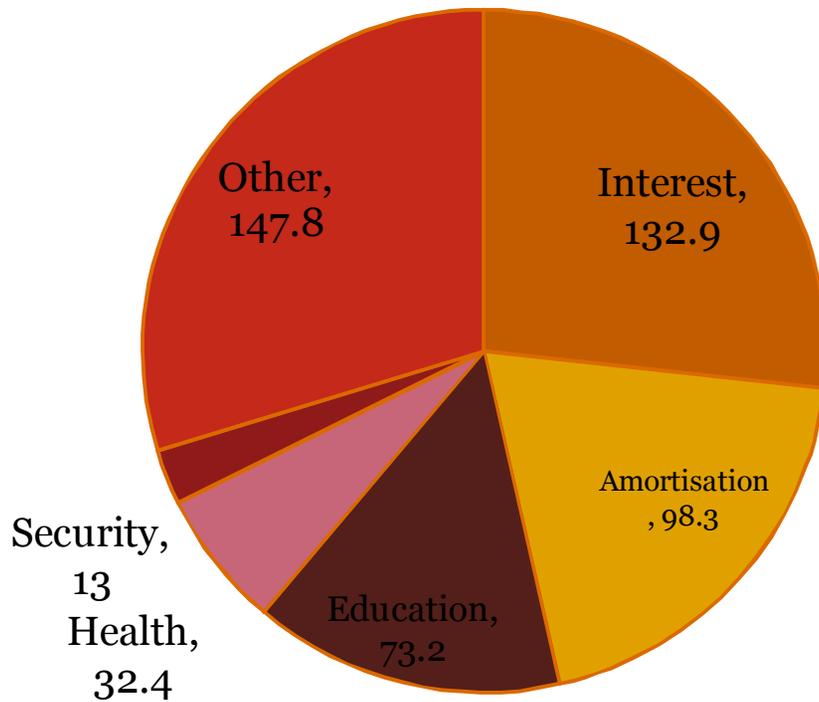
Future Reform

Finally the Minister also flagged a number of future reforms which are under consideration including:

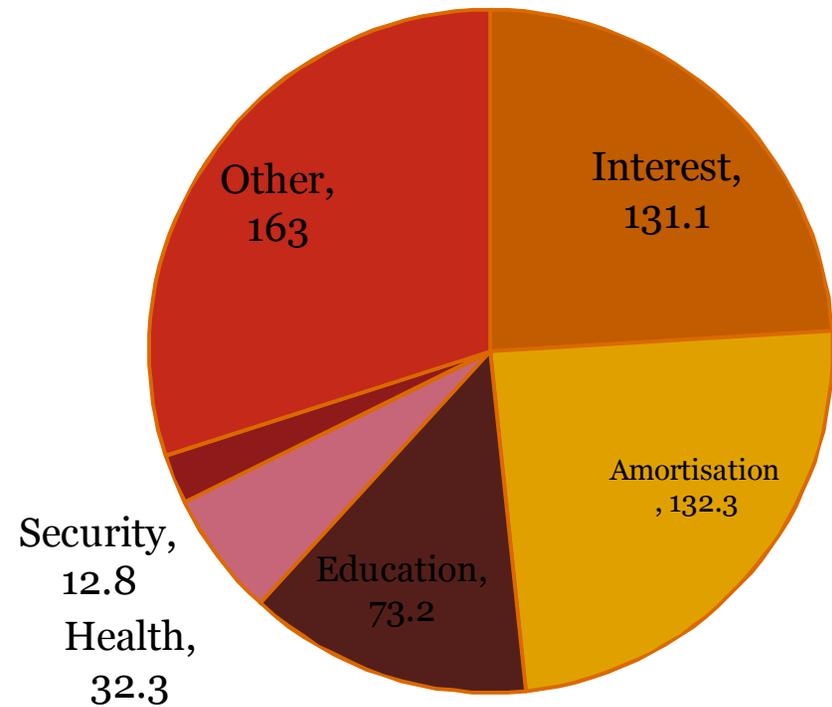
- compulsory filing of third party information;
- further reduction in the claim period for GCT on machinery;
- GCT input credits on start-up activities;
- set-off of credits against any tax type;
- tax credits to small and medium enterprises who employ previously employed persons; and
- alternative energy incentives.

Appendix A - How is our money being spent?

2010/11 – Actual (revised)
J\$ 497.6 billion



2011/12 – Budget
J\$544.7 billion



Source: Ministry of Finance

If you have any further questions in connection with this publication or would like to explore further how the 2011/12 Budget pronouncements may impact your business or personal tax affairs, please feel free to contact any member of our specialist tax team listed or your usual PwC contact.

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And let us all challenge ourselves to think big again ... let us work together to kick-start growth in a big way, and to get this train called Jamaica rolling again

The Hon. Audley Shaw
Minister of Finance & the Public Service
2011/12 Budget Presentation

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