2014/15 Budget – plotting a steady course through rough seas

Most vitals moving in the right direction but persistent under-performance of tax revenue

Introduction:

The Honourable Dr. Peter Phillips, Minister of Finance and Planning, opened the debate on the 2014/2015 Budget in a presentation made to the House of Representatives on 17 April 2014.

The Minister catalogued a number of vital indices which together tell a story of stabilisation and consolidation of the Jamaican economy. These support the assessment last week of Mr Richard Byles, co-chairman of the Economic Programme Oversight Committee (EPOC) that *"...Jamaica is in a better place than it was 12 months ago....".*

There are positives...

The Minister is obviously proud of the outturn for the last fiscal year of several of the key indicators of the performance of the Jamaican economy, chief of which are:

- There are signs of a consolidated pattern of economic growth with a reversal of the decline that had dogged us for a protracted period up to mid 2013.

New Tax Measures at a Glance:	J$Mn
Standardisation of SCT rate on alcohol of J$1,120 per litreof pure alcohol	844
Increase in the age-limit of motor vehicles (up to ten years old) whose second sale is liable to GCT	26
Levy on withdrawals from deposit-taking institutions and encashments from securities dealers	2,250
Premium tax on all life assurance companies increased to 5.5%	276
Investment tax on life assurance companies increased from 15% to 20%	701
Increase in Asset Tax	1,788
Reduced customs duty/SCT on certain motor vehicles	250
Redirection of SCT from the Road Maintenance Fund to Central Govt.	1,200
Increase in Annual Income Tax Threshold	(650)
TOTAL	6,685

- Since July 2013, the country has experienced modest, even if anaemic growth, with performance in agriculture, mining & quarrying, and tourism recording encouraging outturns.

- Three quarterly reviews under the IMF Extended Facility programme have been successfully navigated to date. Both the Minister and the co-chairman of EPOC feel that this will serve as a fillip to the confidence of the business sector and should also bode well for consolidation of the growth that has been emerging.

- Interest rates have been held at modest levels. The weighted average lending rate at the end of the last calendar year was 17.9%. This compares with 19.42% at the end of 2011.

- Inflation for 2013/14 is estimated to be 8.3% which was less than the projection for the year as well as the outturn for 2012/13.

- The gap in the balance of payments has narrowed this year by about US$461 million. The Minister attributed this positive largely to what many consider to be a negative – the devaluation of the Jamaican dollar, which has lost almost 11% of its value during the fiscal year 2013/14.

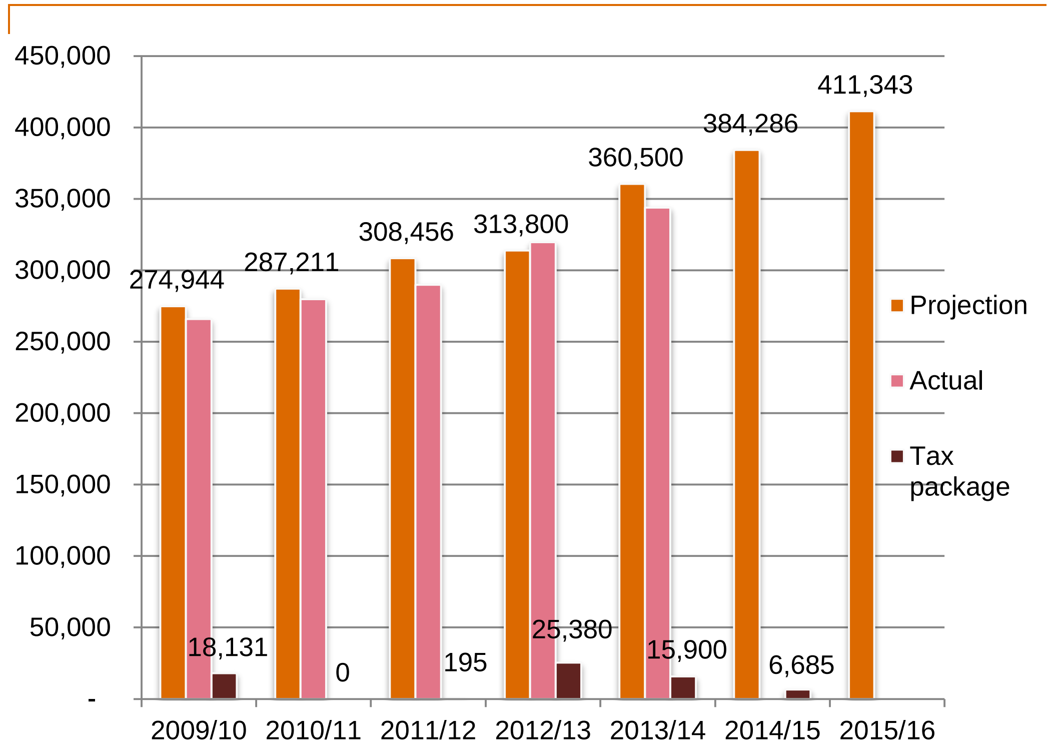
  He defended the maintenance of a "*flexible market-determined exchange rate*" as a positive which has contributed to the displacement of imported goods with local production in that *"it allows relative prices to change in ways that alter the choices we make, as to what we produce, where we sell, and how much income we make as a result…"*.

- The country produced a primary surplus (the difference between revenues and non-debt expenditure) of 7.5%, allowing for a reduction in the national debt which now stands at approx. 132% of GDP down from 148% a year ago, based on data published in the Fiscal Policy Paper for 2014/15.

But the 600lb gorilla remains….

Little has been made of the failure of the Jamaican tax system year after year to produce the level of taxes projected. Is this due to the planners being overly ambitious as to the level of taxes that the economy can produce or is it that the legislative and administrative infrastructure is inadequate to secure these requirements?

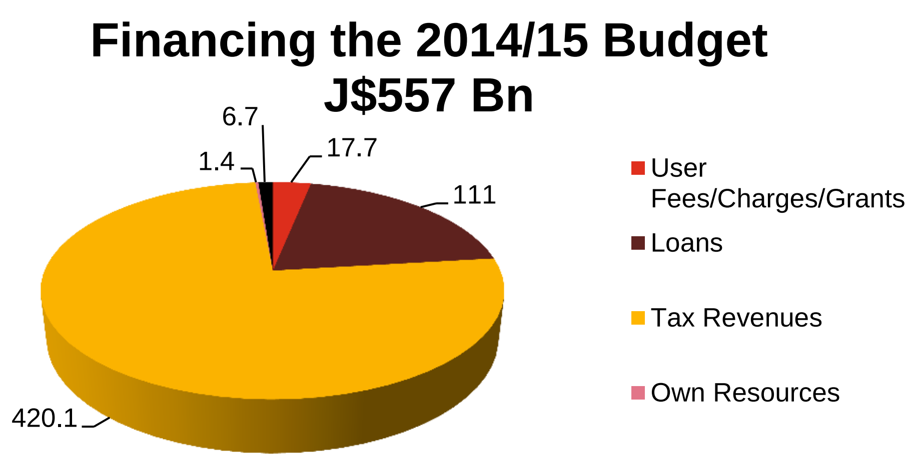
A summary of the tax projections, tax packages and outcomes over the past five years is instructive:



It was only in 2012/13 that the revenues have performed at the level expected. It is clear that this has become a major area of risk to the economic reform programme and the area that is apparently the most difficult to manage. Hence, renewed emphasis needs to be focussed on not just the collection efforts, but also a re-evaluation as to whether the targets are realistic.

Financing the Budget:

Central Government's Expenditure Budget for 2014/15 is estimated to be J$557.7 billion. It is estimated that debt servicing shall consume 42%(J$233 billion) of this budget with the balance of J$324 billion (58%) to cover everything else (wages & salaries, recurrent programmes and capital projects).



Overview of New Tax Measures

Standardisation of SCT Rate on Alcoholic Beverages

With effect from **22 April 2014** it is proposed to standardise the rate of special consumption tax (SCT) on alcoholic beverages imported or manufactured in Jamaica as follows:

Alcohol Type	Current J$*	Proposed J$*
Beers & Stouts	1,120	1,120
All other Alcoholic Beverages	960	1,120
Alcohol imported etc. by tourism sector	700	1,120

* rate chargeable per litre of pure alcohol (LPA)

We understand that the various rates currently imposed are perceived by the tax authorities to facilitate evasion by unscrupulous taxpayers and are administratively burdensome.

Increase in age-limit of vehicles which are subject to GCT on their second sale

With effect from **1 April 2014** it is proposed to charge GCT on the second sale within Jamaica of motor vehicles up to ten years old. Previously the age limit was eight years old.

A second sale of such motor vehicles by a GCT-registered taxpayer is liable to GCT at the rate of 16.5%.

In contrast where the second sale is made by a person who is not a GCT registered taxpayer, the following rates of GCT apply:

Motor Cars – rating	J$		Trucks (cwt)	J$
0 – 1999 cc	10,000		0 – 30 cwt	10,000
2000 – 2999 cc	15,000		31 – 60 cwt	10,000
3000 cc +	20,000		61 + cwt	15,000

Levy on withdrawals from deposit-taking institutions and encashments from securities dealers

With effect from **1 June 2014** it is proposed to introduce a levy on withdrawals from deposit-taking institutions and encashments from securities dealers.

The levy shall be chargeable on all withdrawals from deposit-taking institutions by means of:

(i) Electronic banking (e-banking);

(ii) Point of Sales (PoS);

(iii) Cheques;

(iv) ABM/ATM/ETM and over the counter withdrawals

(v) Internet transfers (with the exception of transfers between accounts of the same person in the same financial institution).

The Minister also announced that stamp duty on cheques would be abolished.

The levy shall also be imposed on all encashments (whether full or partial) from securities dealers. An encashment shall be defined as each payment made by a licensed securities dealer to, or on the instruction of, any of its account holders arising from the full or partial encashment of (or other withdrawal of funds from) the account holders' account with the licensed securities dealers.

It is proposed that the following levy rates shall apply to chargeable withdrawals/ encashments:

Value of Transaction	Levy %
Less than J$1m	0.1%
J$1m – J$5m	0.09%
>J$5m+ - <J$20m	0.075%
J$20m+	0.05%

It is intended that the levy shall be collected by the financial institutions and securities dealers and remitted to Tax Administration Jamaica (TAJ) on a monthly basis. It is also envisaged that there will be a reporting requirement to the Bank of Jamaica (BoJ) or Financial Services Commission (FSC) as appropriate.

Increase in premium tax and investment income tax imposed on life assurance companies.

Major rate increases have been proposed for the life assurance industry. When combined, these increases are expected to yield almost $1 billion ($0.997 billion) in additional taxes.

The life assurance industry, which is currently subjected to income tax on a dual basis, has seen an upward shift in its tax rates, since first negotiating tax reductions under a special regime during the early 1980's. It last suffered its most significant rate increase in 2003.

Life assurance companies pay tax on two sources of income, namely premium income derived from life assurance, pension and annuity business (i.e. long-term business) and "investment income", the latter comprising all remaining taxable sources of income other than premium income.

Whereas premium tax is imposed directly on gross premiums received, investment income is taxable after deduction of "management expenses", that is expenses incurred in earning that income.

The table below compares the current rates with the proposed rates for life assurance companies operating in Jamaica.

	Current %	Proposed %	Change %
Premium Tax			
Regionalised (CARICOM) Companies	3%	5.5%	**83.3%**
Non-Regionalised Companies	4%	5.5%	**37.5%**
Investment Income Tax			
Tax on Investment Income	15%	20%	**33.3%**

These tax increases will undoubtedly impact the profitability of the companies and it is uncertain how much of the proposed additional taxes can be passed on to policyholders. We expect that this development will cause some re-evaluation of the pricing structure of their products.

The table below gives a comparison of Jamaica's proposed rate structure with two of our CARICOM neighbours:

	Premium Tax %	Investment Income Tax %
Jamaica	5.5%	20%
Barbados	New Business – 6% Renewals- 3% (resident) 5% (Non-resident)	5% of gross investment income
Trinidad	0.075%	15% of taxable income

It is proposed that these rate increases shall take effect from **1 May 2014**. A life assurance company will be required to apportion its taxable income for the year of assessment 2014 as follows: (1) four months at the current tax rates and (2) eight months at the new rates.

Increase in Asset Tax

Specified Regulated Entities

With effect from 31 December 2012, a modified Asset Tax regime was introduced for "*specified regulated entities*" – deposit-taking entities regulated by the Bank of Jamaica (BoJ) and securities dealers and insurance companies regulated by the Financial Services Commission (FSC). An ad valorem Asset Tax at the rate of 0.14% was imposed on the "taxable value" of their assets as determined by the Asset Tax (Specified Bodies) Act. This modification resulted in significant increases in the amount of Asset Tax payable by these entities.

Less than 18 months since the introduction of this modified regime, it is now being proposed that the rate at which the ad valorem Asset Tax is imposed on specified regulated entities be increased from 0.14% to 0.25%, **an increase of approximately 80%**.

The taxable value of assets is broadly determined as the value of assets on the balance sheet, less withholding tax recoverable from the Government of Jamaica on interest income, less capital required to be maintained by regulators.

Deposit-taking institutions should add any acceptances guarantees and letters of credit carried as off-balance sheet items and such other contingencies as the Bank of Jamaica (BoJ) may by notice specify and deduct 'Loan Loss Reserves'.

General insurance companies should deduct 'Reinsurance Recoverable for Unpaid Claims and Adjustment Expenses and for Unearned Premiums'. Life insurance companies should deduct 'Assets Supporting Annuity Liabilities'.

Other Entities

In addition, the following modifications were made to the Asset Tax regime applicable to other entities falling within the scope of the Act:

Asset Value	Proposed Rate J$	Current Rate J$
Less than J$50,000	5,000	5,000
J$50,000 – < J$500,000	25,000	25,000
J$500,000 – < J$5m	100,000	50,000
J$5m - < J$50m	150,000	75,000
J$50m+	200,000	100,000

The due date for filing Asset Tax Returns is 15 March (this due date coincides with that for Income Tax Returns). It is understood that these changes shall take effect from **15 March 2015** (being the filing date for the 2014 Year of Assessment).

Reduction in Customs Duty/SCT imposed on certain motor vehicles

In the 2012/13 Budget, customs duty rates were increased by 10% on a variety of 'luxury' goods including certain motor vehicles. It has been asserted that these rate increases have adversely impacted the local automotive sector.

In an effort to reduce this burden (with a view to stimulating the local automotive trade), the following rate modifications have been proposed with effect from **1 May 2014**:

Motor Vehicle cc rating	Current Rate J$	Proposed Rate J$
Customs Duty:		
2000 cc or above	30%	20%

Motor Vehicle cc rating	Current Rate J$	Proposed Rate J$
Special Consumption Tax:		
Dealer Rates:		
Exceeding 3500 cc (Diesel or Petrol)	30% (petrol) 23% (diesel)	20% (petrol) 13% (diesel)
Hybrid	0%	10%
Individual Rates:		
Exceeding 3500 cc (Diesel or Petrol)	40% (petrol) 30% (diesel)	30% (petrol) 20% (diesel)
Hybrid	0%	10%

Redirection of SCT from Road Maintenance Fund to Central Government

When a fixed-rate of Special Consumption Tax (SCT) was imposed on automotive fuels in 2009/10, it was indicated that a portion of the tax collected would be diverted to a Road Maintenance Fund in an effort to fund the rehabilitation of the country's road network. These monies have been directed towards the servicing of a US$340m guaranteed debt from China EXIM Bank.

In an effort to facilitate consolidated debt servicing through the Central Government budget, it is proposed to redirect J$1.2 billion of the SCT previously earmarked for the Road Maintenance Fund (RMF) to Central Government.

Increase in the Annual Personal Income Tax (PIT) Threshold:

It is proposed that the annual Personal Income Tax (PIT) Threshold – the annual amount of an individual's income that is tax-free – be increased to J$557,232 with effect from **1 January 2015**. This represents an increase of J$49,920 or just under 10% over the J$507,312 that was set with effect from 1 January 2013.

The Ministry of Finance has estimated that the increase in the threshold will result in approximately 12,823 individuals falling outside of the income tax base.

Other Initiatives Announced

In addition to the new tax measures announced, the Minister outlined a number of additional initiatives being pursued as part of the Government's ongoing efforts at tax reform.

Custom Duty Relief for U-Drive, Contract carriage and Tour Operators

In his Budget Presentation, Minister Phillips indicated that the current Productive Inputs Relief (PIR) regime does not offer relief from customs duty for vehicles used by the U-Drive, Contract Carriage or Tour Operators. The Government proposes to develop an appropriate mechanism to grant the sector relief from customs duty on motor vehicles purchased for use in the sector.

Modification of Duty Classification for 'Phablets'

The Minister indicated that it is intended to modify the customs tariff with effect from **1 May 2014** to treat 'phablets' (i.e. tablet devices with phone functionality) in the same manner as tablets without such functionality. At present, these devices are treated in the same manner as mobile phones for customs duty purposes. It is therefore intended to insert a new classification in the national customs tariff which will bring the rate of applicable duty thereon from 20% to 0%.

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Implementation of a new Minimum Business Tax (MBT) Regime

The Minister noted that the Minimum Business Tax (MBT) regime which was announced in last year's budget has been implemented. We understand that the Minister recently signed The Provisional Collection of Tax (Minimum Business Tax) Order, 2014 and we await publication of same in the *Jamaica Gazette*. We understand that this will be effective for the 2014 year of assessment.

It is our preliminary understanding that the Minimum Business Tax regime will operate along the following lines:

(i) A minimum business tax (MBT) of J$60,000 per annum shall be levied on all bodies corporate incorporated under the Companies Act, the Building Societies Act, the Friendly Societies Act or the Industrial & Provident Societies Act.

(ii) The MBT shall also be levied on individuals carrying on a trade, profession or business whose chargeable income (less emoluments and an amount equivalent to the annual tax-free threshold) exceeds J$3m per annum.

(iii) The MBT shall be payable in two tranches – J$30,000 on 15 June and 15 September of the year of assessment to which it relates.

(iv) The MBT shall be creditable against the taxpayer's income tax liability for the year of assessment. In the case of an individual taxpayer, any excess MBT credit may be refunded or carried forward. Companies shall not however be entitled to a refund or carry forward of excess MBT.

If you have any further questions in connection with the above or would like to explore further how the above proposed tax measures may impact your business or personal arrangements, please feel free to contact any member of our specialist tax team listed below or your usual PricewaterhouseCoopers Jamaica contact.

Office Locations

Kingston
Scotiabank Centre
Corner of Port Royal
& Duke Streets
Kingston
Tel: 1 876 922 6230
Fax: 1 876 922 7581

Montego Bay
Suite 10, Fairview Office Park
Alice Eldemire Drive
Montego Bay
St. James
Tel: 1 876 952 5065
Fax: 1 876 952 1273

Your PwC Jamaica Tax Team

Eric A. Crawford, Head of Tax Services
Direct Line: 1 876 932 8323
Email: eric.crawford@jm.pwc.com

Brian J. Denning, Partner
Direct Line: 1 876 932 8423
Email: brian.denning@jm.pwc.com

Viveen A. Morrison, Director
Direct Line: 1 876 932 8336
Email: viveen.morrison@jm.pwc.com

Damion D. Dodd, Director
Direct Line: 1 876 932 8439
Email: damion.dodd@jm.pwc.com

Paul A. Cobourne, Director
Direct Line: 1 876 932 8350
Email: paul.cobourne@jm.pwc.com

Kimblian T. Batson, Senior Manager
Direct Line: 1 876 932 8378
Email: kimblian.t.batson@jm.pwc.com

Sylvia A. Awori, Senior Manager
Direct Line: 1 876 922 6230 ext. 6019
Email: sylvia.a.awori@jm.pwc.com