
2005-2006 JAMAICA BUDGET
MINISTRY PAPER NO.:
REVENUE MEASURES

Members of the Honourable House will recall that a copy of the report by the Tax Review Committee was tabled earlier this year. The comprehensive proposals put forward by the Committee were intended to:

- (i) improve the tax system by improving revenue elasticity;
- (ii) reduce the system's complexity and so improve *compliance*;
- (iii) improve the competitiveness of the Jamaican economy and so foster economic development.

2. The first phase of the reform, which will be implemented this year, should result in a simpler tax system and so enhance compliance.

Income Tax Threshold

3. The Income Tax threshold will be raised in 2005/06. There will be two adjustments in this fiscal year:

- a. Effective July 1, 2005, the threshold will be lifted to \$169,104.
- b. Effective January 1, 2006, the threshold will be raised to \$193,440.

This will cost \$1.4B.

4. This Honourable House will recall that pensioners under 65 years are eligible for \$45,000 in tax-free income over and above the threshold. Pensioners over 65 years are eligible for an additional \$45,000.

5. Consequently, as of July 1, pensioners under 65 years will be eligible for tax free income of \$214,104 and pensioners over 65 years will be eligible for \$259,104. As of January 1, 2005, pensioners under 65 years will be eligible for tax-free income of \$238,440 while those over 65 years will be eligible for \$283,440.

6. Improving the threshold will enhance the income and payroll system and reduce the complexity for an additional group of taxpayers. The movement in July will benefit 54,600 taxpayers whilst the move in January will benefit 66,700 taxpayers.

Transfer Tax and Stamp Duties

7. The transfer tax payable at death will be simplified and the rate reduced. Currently, the present transfer tax payable on estates at death is structured as follows:

- (1) The first \$10,000 of value is exempt.
- (2) The second \$10,000 attracts a tax of 7.5%.
- (3) The next \$40,000 attracts a tax of 10%.
- (4) The next \$50,000 attracts a tax of 12.5%.
- (5) Over \$110,000 would attract a tax of 15%.

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The rates will be simplified as follows:

- | | | | |
|------|---|---|--------|
| (i) | The first \$100,000 value of the estate | - | no tax |
| (ii) | Balance over \$100,000 | - | 7.5% |

8. This modification to the transfer tax payable is likely to result in settlement of estates which had hitherto remained unsettled due to the complexity of the tax and the high tax rates.

It is estimated that this will result in additional revenue of \$300M.

The effective date for the implementation of this measure is June 1, 2005.

Property Tax

9. The property tax was last adjusted three years ago when property values were set in bands with associated caps and the tax rate applied. The system will be simplified by:

- (i) the removal of the bands and caps.
- (ii) the introduction of a threshold of \$300,000.
- (iii) a flat rate of \$600 will be paid on values up to this threshold.
- (iv) a rate of 0.5% on the amount in excess of \$300,000.

10. Currently, property tax has a compliance rate of 40%. This simplification is expected to lead to increased compliance. These taxes will accrue to the Parochial Revenue Fund and is therefore not included in the revenue flowing to the Consolidated Fund.

This is expected to yield an incremental amount of \$280M to the parochial revenue fund.

The effective date for implementation is April 1, 2005.

General Consumption Tax

11. The following will be implemented:

1. Increase the standard GCT rate to 16.5%. This would result in an incremental yield of **\$5.364B**.
2. Transfer zero-rated items to exempt, with the exception of exports, diplomats, international agencies and government. This would result in an increase of **\$3.6B**.
3. Maintain the 20% GCT rate on telephone services.
5. The GCT on building materials will be brought up to the standard rate of 16.5%. This would yield an additional amount of **\$384M** in revenue.
6. Increase the GCT threshold to \$1M turnover per annum.

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12. Increasing the threshold from a turnover of \$300,000 to \$1M per annum would benefit approximately 6,900 taxpayers at a cost of \$20M.

The effective date for implementation of this measure is May 1, 2005.

Taxation on Tourism Sector

13. The regime set out below will be implemented for the Tourism Sector:

1. GCT rate for the sector be increased to 50% of the standard rate, i.e. 8.25% and remove the formula from Regulation 12. By so doing, if the GCT rate is increased automatically the tourism rate is also increased.
2. The applicable GCT rate be included in the First Schedule of the Act.
3. Commissions will be capped at 15% of gross income.
4. With respect to the gratuity, this will also be capped at 5% of gross income.
5. Deduction for ground transportation will be abolished.
6. The Special alcoholic beverages credit (SABC) will be abolished, given the new regime instituted this year for Wines, Spirits to the hotel sector.

This is expected to yield \$607M.

The implementation date is May 1, 2005.

Gross Profit Tax for the Gaming Industry

14. The existing tax structure in the gaming industry will be replaced by a Gross Profit Tax. The Gross Profits Tax is a tax on net sales which is the gross sales minus the payout to punters on all gaming activities.

15. The Gross Profit Tax rates which will replace the existing rates are as follows:

| <u>Sector</u> | <u>GPT Rate</u> |
|-------------------------------------|-------------------------|
| Racing Promotion | 5% |
| Bookmakers | 20% |
| Lotteries | 29% |
| Gaming machines – Up to 20 machines | \$10,000 each per annum |
| 20 – 150 machines | 15% |
| Racinos | 8% |

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It is expected that the revised tax structure will result in a revenue gain of \$300M.

The effective date for the implementation of this measure is June 1, 2005.
Special Consumption Tax on Cigarettes

16. The imposition of an excise duty of 23% was imposed in 2003 but the specific special consumption tax rate remained unchanged. The Special Consumption Tax rate will be increased by 49.3% and the current structure of the tax retained. The specific tax is to be increased to **\$1,920** per thousand cigarettes and the ad valorem rate of 39.9% will be applied to the excess over the floor price of **\$4,338.13**.

The measure is estimated to yield \$320M.

The effective date for implementation of this measure is April 15, 2005

Corporate Income Tax

17. The Corporate Income Tax structure will be rationalized through the following measures:

- (i) Simplify the capital allowance by reducing the number of asset types to approximately 5 and eliminate the special treatment for Basic industries etc.
- (ii) Reduce the number of years losses that can be carried forward from perpetuity to 5 years.
- (iii) Allow for the LIFO method of inventory valuation.
- (iv) Expand the definition of intellectual property for depreciation purpose.

The effective date for implementation of this measure is January 1, 2006.

Omar Davies, MP
Minister of Finance and Planning
April 13, 2005

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Appendix

SUMMARY OF REVENUE MEASURES FY 2005/06

| | <u>\$B</u> |
|--|---------------------|
| 1. Increase Income Tax Threshold | - 1.500 |
| 2. Increase standard GCT rate to 16.5% | |
| - Existing standard GCT | 5.364 |
| - Building Supplies | 0.384 |
| 3. GCT - transfer zero-rated to exempt | 3.600 |
| 4. Increase GCT Threshold | - 0.020 |
| 5. Increase SCT on Cigarettes | 0.320 |
| 6. Decrease Property Transfer Tax on Death | 0.300 |
| 7. Tax from Tourism Sector | 0.607 |
| 8. Gross Profit Tax on gaming | 0.300 |
| Total | <u>9.355</u> |