Submission of

The Private Sector Working Group on Tax Reform

to the

Taxation Committee of Parliament

15 February 2012

Section	Contents	Page

Appendices

1. Introduction

This document reflects a comprehensive suite of proposed tax reform measures developed by a Private Sector Working Group on Tax Reform ('the Working Group') in response to the Government of Jamaica's recently published Green Paper on Tax Reform. The working group consists of a broad cross section of business associations including the PSOJ (representing some 21 business associations), JMA, JEA, JCC, JAPA, JBA, IAJ and the MSME Alliance (representing some 35 business associations). We also wish to acknowledge the participation and contribution of representatives of the JHTA and the JAS, and while we regret in the final analysis they were unable to join in endorsing the recommendations in this submission, constructive dialogue continues and we remain hopeful that any residual concerns of the tourism and agricultural sectors can be addressed on a timely basis.

In formulating this proposal for comprehensive tax reform, there has also been unprecedented collaboration between the private and public sectors. The Working Group wishes to place on record its appreciation for the extensive cooperation and feedback received from public sector representatives including senior officials from the Ministry of Finance, the Ministry of Local Government, the Planning Institute of Jamaica (PIOJ), Tax Administration Jamaica (TAJ), Jamaica Customs and the Ministry of Labour and Social Security. This consultation was critical so that the Working Group could recommend a suite of reforms that are feasible in terms of implementation by the administration having regard to the limited resources available.

The Working Group also wishes to place on record its appreciation for the support of the Inter-American Development Bank, who contracted the services of economist Dr Miles Light on our behalf to perform technical analyses and economic modelling of the various reform options reviewed.

In a spirit of partnership and cooperation, the Working Group has come together in the national interest in an effort to reconcile the various interests of the private sector and present a unified position on the way forward for our tax system. It is hoped that this unprecedented unity will contribute to the successful implementation of a revised taxation regime that is transformational, comprehensive, equitable, socially responsible and geared towards the removal of one of the most significant binding constraints to high and sustained rates of growth in our economy.

We have been here on many occasions before. So what is different this time?

Firstly, Jamaica finds itself at a major economic crossroads. Unless decisive action is taken to implement promised economic reforms on a timely basis, and our position with the IMF regularised to ensure continued support, then Jamaica will face a major and far-reaching economic crisis with the potential to put our social and economic development back by several decades. The timely implementation of tax reform in particular, has been clearly and repeatedly flagged as one of the key commitments given by the GoJ to the International Monetary Fund (IMF) as a condition of its continued support, as well as to the Inter-American Development Bank (IDB) for its policy based loan support.

Compromise and burden sharing is necessary to facilitate the creation of a transition path from the current cumbersome tax system to a streamlined competitive general tax regime that does not depend on the granting of arbitrary, discretionary and non-transparent tax preferences. The demonstrated willingness of private sector stakeholders on this occasion to subordinate their sectoral interests in an effort to pursue broader national objectives serves to significantly increase our chances of achieving the type of tax reform that Jamaica needs and deserves. This unity strengthens the resolve of the private sector that the proposed tax reform package must be implemented in its entirety.

While this tax reform proposal emanates from the Jamaican private sector, it should be clearly understood that this proposal has been designed with a view to ensuring that Jamaica implements a tax regime which is more equitable, transparent and accessible to all Jamaicans and in particular that greater resources be made available to serve to protect the most vulnerable in our society. It also requires that all Jamaican citizens play their part as responsible tax-paying citizens and shoulder their fair share of taxes. The over-burdened community of compliant taxpayers cannot be expected to continue to pay for the public services etc. from which everyone benefits.

1. Introduction

Any major and comprehensive programme of tax reform (and particularly, as is the case here, one that is significantly revenue positive) will not gain societal acceptance unless government simultaneously demonstrates that taxpayers will receive value for their money. The reform should therefore be accompanied by a series of corollary measures that will provide the assurance that:

- All public expenditures are subject to transparent processes of prioritization and justification;
- Public goods and services are delivered in ways that maximize efficiency and minimize waste;
- Corruption in the public and private sectors is effectively combated with appropriate sanctions imposed on guilty parties irrespective of their status in society.

Previous attempts at tax reform have failed in part because successive governments have not seen the need to "sell" such proposals to the general public and interested stakeholders. The Working Group believes that the selling of these proposals is as important as their initial formulation, and recommends, in the strongest possible terms, the implementation of an extensive programme of public education and sensitisation, including:

- An explanatory advertising campaign;
- Island wide "town-hall" meetings and stakeholder consultations to explain the benefits of reform;
- An interactive web site, dealing with the reforms generally, but which also allows taxpayers to input their specific circumstances and view results modelled under the new regime.

This proposal, which is divided into first tier, second tier and third tier measures, represents a balanced symphony of reforms encompassing both tax policy and administration. The first tier measures represent critical macro policy adjustments (most of which are proposed to be implemented with effect from **1 April 2012**). These first tier measures are strategically linked to a further series of detailed policy (second tier) and administrative (third tier) reforms which must also be implemented over the short and medium term (6-12 months) in order to realise the full potential of this fundamental reform of our tax system.

The value of the whole reform package is much greater than the sum of its individual parts. It is therefore presented as a complete suite and not as a menu of discrete reform options. Past attempts at comprehensive tax reform have failed in part as a result of the political "cherry-picking" of discrete revenue measures in an effort to address issues of the day at the expense of implementing more holistic and lasting reform. It is critical to again note that the agreement reached by the multiple business associations (highlighted above) to support this proposed reform package is conditional on the package being implemented <u>in its entirety</u>.

Finally, the Working Group wishes to emphasize that the administrative reform measures presented herein are at least as important as the headline policy reform measures. For many years, Jamaica's tax administration has struggled to tighten the tax net and ensure that all citizens meet their lawful tax obligations. Jamaica's tax administration has had to contend with a culture of non-compliance, corruption as well as limited resources (which has been compounded by resources being diverted to police the myriad of incentives, concessions and waivers introduced over the years). It is also widely perceived by taxpayers that the same groups (the PAYE worker, employers, withholding tax from financial institutions and a small number of firms) have been continually targeted over the years and that not enough attention has been paid to those operating outside the system or otherwise in a non-compliant manner. This situation gives rise to horizontal inequities, revenue loss and an erosion of confidence in the fairness of the system. We therefore believe that the highest priority, including the allocation of required resources, must be placed on those reforms, largely administrative, that will serve to effectively target the non-compliant, who evade their fair share of the tax burden to the detriment of those citizens who dutifully comply with the law.

2. Key Considerations for Jamaica's Tax Reform

Overall Goal:

The overall goal of the proposed tax reform is for Jamaica to have a tax system which:

- Promotes economic growth and acts as a catalyst for development
- Is characterised by simplicity, equity and competitive rates
- Is administered in an efficient and effective manner.

Strategic Objectives:

The Working Group has identified a series of strategic objectives which need to be pursued and achieved in order to reach the overall goal noted above. The following table summarises these strategic objectives under two broad categories:

PROMOTION OF ECONOMIC GROWTH & BUSINESS DEVELOPMENT	SHIFTING & SHARING THE TAX BURDEN
1. Stimulating the Jamaican economy and creating jobs	10. Reducing the current burden of compliance for taxpayers
2. Implementing a competitive general tax regime	11. Modernising the tax system and simplifying the overall tax structure
3. Enhancing overall cost competitiveness	12. Enhancing Tax Administration
4. Implementing performance-based incentives	13. Strengthening tax collection at our ports
5. Supporting the micro and small business sector	14. Pursuing everyone to pay their fair share of tax
6. Enhancing linkages with and protection for local agriculture and manufacturing	15. Reducing scope for tax evasion
7. Maintaining compliance with international obligations	16. Strengthening welfare support for the poor
8. Promoting environmentally sustainable initiatives	17. Increasing the take-home pay of the lower paid
9. Facilitating land titling reform	18. Eliminating poorly targeted expensive social taxation measures

The proposed tax reform involves a suite of tax policy and administrative measures which are specifically designed to support the pursuit of each of these strategic objectives in order to achieve the overall goal of tax reform. A brief overview of each strategic objective as well as specific reform measures proposed to support the pursuit of same is set out in the section - Pursuing Strategic Objectives of Tax Reform.

Details of each of the specific proposed first, second and third tier reform measures are set out and numbered sequentially in Appendices I, II and III respectively. Each reform measure mentioned herein is individually numbered **(in parentheses)** to act as a roadmap to facilitate referral to the Appendices	Appendix I (First Tier) – **(1)** to **(29)**
	Appendix II (Second Tier) – **(30)** to **(83)**
	Appendix III (Third Tier) – **(84)** to **(145)**

3. Summary of First Tier Policy Reforms

The following represents a summary of the first tier reform proposals (i.e. critical macro policy adjustments) together with an estimate of their revenue impact and a high level assessment of those principally affected by the proposed measures. It is proposed that these first tier reform proposals be implemented with effect from **1 April 2012** unless otherwise stated**.**

Table 2: Summary of First-Tier Reform Proposals

Proposed Policy Measure	Anticipated Winners / Losers	Revenue Impact Estimate [1]
General Consumption Tax:		
Reduction of the standard rate from 17.5% to 12.5% **(1)** Increase goods turnover threshold to J$5m per annum **(2)** Removal of GCT exemption on certain goods and services (will primarily affect basic foods and imported agricultural produce) - see list of goods and services that will remain exempt in Appendix V and VI respectively. (note: zero-rating of exports would be unaffected) **(3)**	**Winners:** All consumers of standard rated goods and services. **Losers:** Consumers of goods that are currently exempt from GCT.	Revenue gain of $7.6 Billion
Removal of Modernization of Industry (MOI) and GCT Deferral Schemes **(3)**	**Losers:** Manufacturers.	
Funding of an expenditure programme which provides direct financial support to our most needy in society – amount set aside by reference to PIOJ's estimate of the effect of the removal of GCT exemptions on the poor. **(4)**	**Winners:** Society's most needy who will obtain more effective social welfare support.	Additional budgeted expenditure of $2.0 Billion
Increase in the rate of GCT from 10% to 12.5% (the new standard rate) on tourism activities (with continued exclusion of the cost of gratuities, airport transfers and overseas commissions from chargeable revenues). **(5)**	**Losers:** Consumers of tourism services.	Revenue gain of $1.5 Billion
Reduction in the rate of GCT from 10% to zero percent (0%) on the first 300KwH per month of residential electricity consumption (currently 200KwH per month). **(6)** Increase in the rate of GCT on electricity from 10% to 12.5% (the new standard rate) for residential consumption in excess of 300 KwH per month and in respect of industrial/ commercial consumption. **(6)**	**Winners:** All residential users of electricity who currently consume over the current threshold of 200 KwH per month. (95% of residential consumers will not pay any GCT on their electricity bills) **Losers:** Residential consumers with high consumption (approximately 5% of residential consumers) and commercial consumers who either: (a) are not registered/tax compliant; or (b) engage in GCT-exempt activities.	Revenue Neutral

[1] **Important Note:** Revenue estimates are conservatively determined in that they do not include any estimated revenues gains from economic growth stimulated or any compliance "dividend" derived from the proposed reform.

3. Summary of First Tier Policy Reforms

Proposed Policy Measure	Anticipated Winners / Losers	Revenue Impact Estimate
Customs Duty & ASD: In lieu of sectoral incentives and waivers, removal of customs duty and additional stamp duty (ASD)[2] on all non-consumer goods (NCG)(primarily capital equipment) used as inputs in the production of goods or supply of services. **(7)**	**Winners:** All businesses engaged in production of goods or supply of services. Improves cost competitiveness.	Revenue Neutral
Relief from customs duty and additional stamp duty (ASD) (subject to prescribed terms/conditions) on a specific listing of consumer goods (CG) used as critical productive inputs by the manufacturing, agriculture, tourism and service sectors. CG listing to be determined (and reviewed periodically) by the Ministry of Finance (in consultation with the Linkages Committee – see below) **(8)**	**Winners:** Businesses engaged in agriculture, manufacturing, tourism and services. No longer confined to businesses under a 'time-bound' incentive.	Revenue Neutral
Withdrawal of 20% duty concession and zero-rating (for GCT purposes) of motor vehicles imported or purchased by specified groups of individuals (e.g. certain public sector workers, members of statutory boards, Members of Parliament etc.). Where the GoJ is contractually obligated to provide this benefit as part of a remuneration package then it should be appropriately monetised and paid as an allowance and subjected to payroll taxes in the normal manner.[3] **(8)**	**Losers:** Persons who currently enjoy the 20% duty concession otherwise than as a part of their contractual terms of employment.	Revenue Gain - TBD
Establishment of a Linkages Committee to provide recommendations to the Ministry of Finance on the implementation and operation of the above customs duty/ASD reliefs and to provide a forum for the strengthening of linkages among Jamaica's various industries. **(9)**		
Review of customs duty rates in excess of 20% in order to assess whether these can be reduced to 20% (IDB recommendation). Retention of aggregate duty/ASD levels as a means of trade protection for the local agricultural sector – rates of ASD to be reviewed periodically by the Ministry of Finance (in consultation with the Linkages Committee). **(10)**	**Winners:** Local agricultural sector	Revenue Neutral

[2] Subject to certain exceptions.

[3] No revenue estimate has yet been made in respect of this proposal. It is anticipated to be revenue positive as a result of withdrawing the duty concession (net of costs incurred in monetising contractual obligations).

3. Summary of First Tier Policy Reforms

Proposed Policy Measure	Anticipated Winners /	Revenue Impact Estimate
Other Import Levies and Charges Abolition of the Advanced GCT, the Customs User Fee (CUF), the Environmental Levy (which accrue to the Consolidated Fund) and the Standards Compliance Fee (SCF) (which accrues to the Bureau of Standards). **(11)** Imposition of an Advance Tax Payment (ATP) on the CIF value of all imports (excluding petroleum products and with limited other exceptions) at the rate of: ➢ 3% on all imports by Authorised Economic Operators (AEOs) certified and monitored by Jamaica Customs ➢ 7.5% in any other instance. ATP (in excess of a *de minimis* equivalent of US$250 ATP per import entry) shall be creditable against the importer's corporate/personal income tax and GCT liabilities and any excess shall be refundable. **(12)**	**Winners:** All importers of goods - these levies and fees impair the cost competitiveness of Jamaican businesses. **Winners:** All tax compliant importers of goods. **Losers:** All non-tax compliant importers of goods. This measure incentivises persons to become tax compliant and be	Revenue Gain of $1.8 Billion
Special Consumption Tax: Increase in the ad valorem rate of SCT from 10% to 15% on the importation or manufacture of automotive fuels - in lieu of the CUF (of 5%) and Environmental Levy (of 0.5%) **(13)** Increase in applicable rate of SCT imposed on motor vehicles generally by such rate in order to maintain the current aggregate duty structure on motor vehicles as a result of the proposal to reduce the standard rate of GCT from 17.5% to 12.5% and to eliminate the CUF and EL. **(14)** Reform of the SCT regime as follows: (a) Increase in the rate of SCT imposed on the importation of large/luxury motor cars, SUVs and trucks **(14)**. (b) Application of a single reduced uniform specific rate of SCT to alcoholic beverages (i.e. computed at a prescribed dollar value per litre of pure alcohol content). This amount should be indexed for inflation. (c) Withdrawal of the special concession currently afforded to the tourism sector on the importation/purchase of alcohol (i.e. alcohol would be subject to a standard form of taxation across the board irrespective of who purchases it). **(15)** (d) Increase in the rates of Customs Duty (CD) and/or Additional Stamp Duty (ASD) with a view to enhancing trade protection particularly in relation to cheap alcohol imports. **(15)** It is proposed that the adjustments highlighted in (a) to (d) above should be effected at rates such as to yield an additional J$1 billion to the Consolidated Fund. The applicable rates to yield such revenue are currently in the process of being determined. **(15)** It is proposed to modify the tax regime in relation to tobacco products in order to ensure that the tax burden imposed on cigarettes etc. is also appropriately applied to other tobacco/nicotine-based products. **(15A)**.	**Neutral:** Designed to offset the proposed abolition of CUF/EL on petroleum products. **Neutral:** Designed to offset the proposed reduction in GCT and abolition of CUF/EL and SCF. **Losers:** Purchasers of luxury motor cars, SUVs and trucks **Losers:** Consumers of alcohol **Losers:** Consumers of imported alcohol **Losers:** Consumers of certain tobacco/ nicotine products	Revenue Neutral Revenue Neutral Revenue Gain of $1 billion Revenue Gain - TBD

3. Summary of First Tier Policy Reform Proposals

<table>
<tr><th>Proposed Policy Measure</th><th>Anticipated Winners / Losers</th><th>Revenue Impact Estimate</th></tr>
<tr>
<td>

Personal Income Tax (PIT):

With effect from **1 January 2013** (or such earlier date as the Government may determine):

Introduction of a reduced rate of PIT of 15% imposed on the first J$1,123,200 of income per annum (i.e. the first J$21,600 per week or J$93,600 per month) with the balance of income continuing to be liable to income tax at the rate of 25%. **(16)**

Abolition of the current tax-free threshold of J$441,168 and replacement with an annual income exemption limit of J$499,200 per annum (J$9,600 per week or J$41,600 per month) whereby individuals whose income does not exceed this limit shall not be liable to any income tax. For individuals whose income marginally exceeds this exemption limit, a marginal relief tax rate of 25% applies. **(16)**

<table>
<tr><th>Chargeable Income:</th><th>Liability to Income Tax</th></tr>
<tr><td>Not exceeding J$499,200 p.a.</td><td>No Liability</td></tr>
<tr><td>Greater than J$499,200 up to J$1,123,200 p.a.</td><td>The lower of: Income x 15%; or
[Income – J$499,200] x 25%</td></tr>
<tr><td>Exceeds J$1,123,200 p.a.</td><td>The first J$1,123,200 x 15%
Balance x 25%</td></tr>
</table>

</td>
<td>

Winners: PAYE workers and the tax compliant self-employed.

Results in a reduction of income tax borne by taxpayers at all income levels with the greatest giveback at lower income levels.

</td>
<td>

Revenue Loss of J$2 billion

</td>
</tr>
<tr>
<td>

Payroll Taxes - Statutory Deductions:

With effect from **1 January 2013** (or such earlier date as the Government may determine): -

Removal of the J$1,000,000 per annum salary/income cap on which NIS is imposed and reduction of NIS rates as follows: **(17)**

<table>
<tr><th>NIS Contributor</th><th>Current</th><th>Proposed</th></tr>
<tr><td>Employer</td><td>2.5%</td><td>1.5%</td></tr>
<tr><td>Employee</td><td>2.5%</td><td>1.5%</td></tr>
<tr><td>Self-Employed</td><td>5%</td><td>3%</td></tr>
</table>

Amendment to Education Tax Act to ensure that Education Tax (EDT) is computed on the same base as NIS/NHT and HEART contributions. This facilitates consolidation of the computation, reporting and payment of statutory deductions (i.e. EDT/NIS/NHT/HEART). **(18)**

</td>
<td>

Winners: Lower income PAYE workers, their employers and lower income self-employed persons.

Employers – whose administrative burden in complying with payroll tax obligations should be significantly reduced

Losers: Higher income PAYE workers, their employers and the higher income self-employed.

</td>
<td>

Revenue Gain of $240 Million

</td>
</tr>
</table>

3. Summary of First Tier Policy Reform Proposals

Proposed Policy Measure	Anticipated Winners / Losers	Revenue Impact Estimate
Corporate Income Tax (CIT) (including taxation of dividends): Reduction in the corporate income tax (CIT) rate from 33⅓% to 15%. Initial retention of the current 33⅓% CIT rate for entities engaged in 'specified categories' of activities. Phased reduction of the CIT rate for these entities over a five year period subject to achieving sufficient fiscal space / demonstrated revenue performance to enable same. **(19)** Determination of 'specified categories' needs to be appropriately defined but in broad terms will include certain highly regulated/licensed activities and those conducted in a monopolistic or near monopolistic environment. In the short-term, no adjustment is proposed to the Building Societies tax regime (30% CIT rate) or the life assurance tax regime (15% tax on investment income plus 3% gross premium tax). **(19)** Imposition of a minimum income tax (MIT) payable by locally registered companies (both locally incorporated companies and overseas companies with locally registered branches) of the higher of: (i) 0.5% of gross turnover/revenues (as defined); or (ii) J$100,000. in the event that income tax otherwise payable on chargeable income reported by the company does not exceed the above MIT amount. MIT shall not be imposed on entities engaged in "specified categories" which initially continue to be subject to income tax at a CIT rate of 33⅓%. **(19A)** Imposition of a dividend withholding tax (DWT) of **10%** (which shall represent the final tax) upon the payment of dividends to both Jamaican tax resident and non-resident shareholders (subject to any tax treaty protection). The following dividends shall not be liable to income tax: (a) dividends paid by one Jamaican tax resident company to another; (b) dividends paid to Jamaican tax resident shareholders which have been subject to CIT (i) at the rate of 33⅓% (or other applicable CIT rate in excess of 25%) or (ii) the special building society or life assurance tax regimes. **(20)**	**Winners:** All incorporated businesses other than entities engaged in 'specified categories' of activities. **Losers:** Companies which currently pay less income tax than the proposed level of MIT payable. **Winners:** Non-resident shareholders who currently suffer DWT in excess of 10% (i.e. which currently impairs Jamaica's competitiveness). **Losers:** Jamaican resident individual shareholders currently taxed on dividends at the rate of 0% - it should be noted however that the simultaneous reduction in the CIT rate to 15% results in a significantly reduced overall effective tax rate on distributed profits.	Revenue Loss of $5.5 Billion (in the short-term) – Projected to be Significantly revenue positive in medium term) Revenue Gain - J$2 billion Revenue Gain – TBD

3. Summary of First Tier Policy Reform Proposals

Proposed Policy Measure	Anticipated Winners / Losers	Revenue Impact Estimate
Phase-out of Sectoral Incentives and Withdrawal of Waivers Replacement of sectoral based incentives with a competitive general tax regime that supports/stimulates the production of goods and supply of services **(21)** Discontinuation of approval of new incentives under: (a) the Hotel/Resort Cottage/Approved Farmer incentive regimes; (b) the Free Zone/EIEA regimes in respect of goods producing activities. Existing incentives should continue until expiry subject to appropriate monitoring and enforcement. Free Zone/EIEA incentives for service activities (primarily ICT/BPO) should continue subject to appropriate oversight and pending implementation of an Omnibus Incentives Act. Reduce the income tax relief offered to new listings on the Jamaica Junior Stock Exchange (JJSS) to 5 years (full relief). **(21)** Supplement general regime with tax credit incentive mechanism where needed (based on specific deliverables) to attract pioneer projects etc. **(22)**, other performance-based incentives to support pursuit of certain national goals **(23)** and an incentive credit specifically targeted at stimulating new job creation **(24)** Discontinuation of discretionary waivers etc. with limited exceptions **(25)**	**Winners**: Businesses engaged in the production of goods or supply of services (particularly those which did not previously benefit from sectoral incentives) **Losers**: Taxpayers who will no longer benefit from discretionary waivers.	No impact pending expiry of existing incentive orders. Longer term revenue gain as incentives expire
Property Tax It is proposed that the rate at which property tax is charged be increased with effect from 1 April 2012 as follows: (a) from 0.75% to 2% of the unimproved land value as reflected on the current property roll. Upon completion of the comprehensive valuation exercise currently underway (last undertaken in 2002), this rate should revert to an equal yield rate; (b) from J$1,000 to J$2,000 in respect of land parcels whose value is less than J$400,000 (currently $300,000). **(26)**	**Losers:** Property Owners	Revenue Gain of $3.0 billion
Other: Increase of the annual motor vehicle license fees (excluding taxis) on higher end motor cars and SUVs by 50% from 1 April 2012 **(27)** Earmark funds (J$500m) to support capacity-building within the Micro and Small Businesses across all sectors of the economy, including allocation of funding to support land titling reform initiatives **(28)** Abolition of Asset Tax (nuisance tax) **(29)**	**Losers:** Drivers of higher end vehicles **Winners:** Micro & Small Businesses Companies – by reducing their compliance burden	Revenue Gain of $150m Additional budgeted expenditure of $500 million
Simultaneous with implementation of the reform package, the Government of Jamaica must take steps to allow for the immediate repayment and/or monetisation of outstanding arrears of refunds (primarily in relation to GCT and withholding tax on interest) and to firmly commit to the timely settlement of same (including set-off) going forward.		
REVENUE GAIN – TOTAL		**J$9.79 billion**
ADDITIONAL BUDGETED EXPENDITURE		**J$2.50 billion**

4. Pursuing Strategic Objectives of Tax Reform

The proposed tax reform involves a suite of policy and administrative measures designed to support the pursuit of a series of strategic objectives. This comprehensive and holistic approach is key to the proposed reform.

A summary of the anticipated effects of the reform proposals (revenue, tax burden, equity and administration) is set out below followed by a brief overview of each strategic objective (see Table 1- Key Considerations for Jamaica's Tax Reform) as well as specific reform measures proposed to support the pursuit of same.

Revenue

The reform package is revenue positive to the extent of approximately $9,790 million gross, as indicated in the table above; and $7,290 net of proposed additional proposed expenditures. In total there is a swing of about J$10.1 billion from income to consumption taxes. The thrust of the reform is to lower the tax burden on labour and in fact this reform would make Jamaica a country with relatively low taxes on labour.

The proposed CIT reform and rate reduction was subjected to analysis using a Computable General Equilibrium (CGE) model and yielded interesting results over the medium term (3-5 years) as compared to the short run revenue loss estimate included here ($5.5 Billion). A key distinction for capital taxation (i.e. Corporate Income Taxes) is the time-horizon. In the short-run, capital is considered to be "extant", and mostly a fixed factor of production. This implies that capital supply is highly inelastic in the short run – so that it can be taxed highly, and it won't change. Likewise, a reduction in corporate tax rates will not have a large impact upon the economy in the short run for the same reasons. However, in the *medium to long run*, (3-5 years in this case), capital supply is highly elastic. In other words, investors may be stuck with their current investments, but capital planning can easily move resources between countries and around the world. The CGE model results suggest, as capital stock expands and investment occurs, revenues from this reform actually *increase* rather than decrease: initial revenue losses of $5.5 Billion are reversed in the medium term to a revenue gain of $4.5 Billion, a swing of some $10 Billion.

Furthermore, lower rates of CIT, PIT, and GCT; lower compliance burdens across the system, and the broadening of the tax base of the GCT are very likely to produce "compliance dividends," which for the sake of conservatism we have not factored into revenue estimates in either the short or longer term.

The broadened GCT base and the indexed base of the property tax and specific SCT rates will enhance the future revenue-income elasticity of the system. Another consideration is the likelihood that the shift from income taxes, which the self-employed seem to be able to easily evade (at least in the short term), to consumption taxes where evasion is more difficult, should lead to further revenue enhancement.

It is the view of the Working Group that the full implementation of the proposed suite of reforms represents a critical step towards stimulating the Jamaican economy and placing the country on a sustainable path of economic growth. It is important therefore that the proposed suite of reforms is given sufficient breathing space to succeed. It would be fatal to the proposed reform if short-term fiscal pressures compel the Government of Jamaica to either reverse or abandon critical reform measures introduced shortly after implementation. The proposed reforms therefore stand a much greater likelihood of achieving the desired objectives if the IMF and IDB are prepared to provide an undertaking to make available additional financial support (if needed) within an eighteen month period after the reform is implemented so as to:

(a) Provide the Government of Jamaica with a measure of certainty in terms of its fiscal needs and a window of opportunity to commence realising the benefits from these reforms. Any unwinding of these reforms by the implementation of new revenue raising measures will seriously impair reform efforts; and

(b) Provide the private sector and the wider Jamaican public (who are making sacrifices as part of the proposed reform effort) with some comfort that their support for this reform will not be rewarded by subsequent new taxation measures or reversals of reforms implemented.

4. Pursuing Strategic Objectives of Tax Reform

Tax Burdens

Time has not allowed for a comprehensive review of the tax burden redistribution effects of the proposed reform package. However, with the help of the PIOJ, the Working Group was able to derive estimates of the impact of the proposed reform (specifically PIT and GCT) by income band, and this is reflected in the table below as the percentage change in the cost of the consumption basket of taxpayers at various income levels. For the purposes of this analysis, reductions in PAYE/Statutory Deductions are treated as reductions in the cost of the consumption basket and vice versa.

e Bands	Income Bands	Number of Taxpayers	NET IMPACT - INCOME TAX AND GCT REFORM (12.5%)
-	441,168	106,257	-0.3%
441,168	600,000	36,725	-3.2%
600,000	800,000	36,405	-3.9%
800,000	1,000,000	29,046	-2.8%
1,000,000	1,250,000	23,076	-3.7%
1,250,000	1,500,000	16,919	-0.6%
1,500,000	2,000,000	19,498	-0.5%
2,000,000	2,500,000	11,661	-1.2%
2,500,000	3,000,000	7,144	-0.9%
3,000,000	3,500,000	4,469	-0.7%
3,500,000	4,000,000	2,997	-0.6%
4,000,000	5,000,000	6,130	-0.4%
5,000,000	6,000,000	3,093	-0.3%
6,000,000	7,000,000	1,409	-0.2%
7,000,000	8,000,000	1,157	-0.1%
8,000,000	9,000,000	315	0.0%
9,000,000	10,000,000	289	0.0%
10,000,000	25,000,000	729	0.2%

The increased reliance on the GCT shifts tax burdens toward consumers, which viewed in isolation, would tend to reduce the progressivity of the tax system. However, the regressive effects of this reform are offset by the income tax reductions at lower income levels and the effect of the reforms to the system of statutory deductions (which reduce the effective rate of statutory deductions for lower income workers while increasing same for higher income workers). This is borne out by the table, which shows that all PAYE wage earners up to $8.0 million in income will enjoy effective reductions in the cost of their typical consumption basket ranging between 0.1% and 3.9%, with the greatest reductions enjoyed by taxpayers in the income range $441,000 up to $3,000,000.

On the other hand, persons who are unemployed (or earn income below the current tax-free threshold of J$441,168 per annum) will face a slightly increased cost to their consumption basket (via the GCT reform), but will not benefit from the above-mentioned givebacks under the income tax and statutory deduction reforms. However, the changes in question are very small and, as discussed elsewhere in this submission, the better way to subsidise the poorest households is on the expenditure side of the budget where they can be better targeted. In recognition of the marginally increased burden placed on unemployed/lower income households, significant monies have been earmarked for a "Social Fund" the magnitude of which is more than sufficient to offset the increased tax burden on those households (see 16 & 17 below).

Equity

This reform would produce a tax structure that is fairer than the present system. The system of personal income and payroll taxes is rendered significantly more progressive than is now the case. Preferential treatments under the GCT would be significantly lessened with a very limited exemption list and the restriction of zero rating to exports. The incidence of preferential waivers and incentives is drastically reduced. Another potential advantage is the possibility of capturing more of the taxable capacity of the self-employed sector in the tax net. The individual income tax structure has not made great inroads in expanding the tax base to include these individuals and businesses, but a consumption tax might do a better job of reaching them. This would tend to narrow the difference in the tax treatment of the self-employed vs. PAYE workers, as exists under the present tax regime.

Administration & Compliance

This reform would produce a system that is less complex than the present system, and likely one that would be less costly to administer. The number of taxpayers included under the individual income tax and the property tax would be reduced in significant numbers. The uniformity of application of GCT will also close avenues for evasion at the port, as the advantage to be gained by attempting to characterize a taxable good as exempt would disappear to a great extent. The uniformity of the GCT should also lead to greater compliance in-land as taxpayers will no longer have the

4. Pursuing Strategic Objectives of Tax Reform

opportunity to manipulate the pro-ration of standard-rated versus exempt sales in an attempt to maximize the recoverability of input taxes.

A major simplification is brought about by the imposition of a single "social security" statutory deduction (5.5% employee and 10.5% employer) on a uniform income base. Employers will now be able to submit a single return and make a single monthly payment of these amounts, with the added benefit as a country of significantly improving our standing in the World Bank's Doing Business Survey. Balanced against this, the introduction of a second rate of income tax (15% on income up to $1,123,200) introduces an element of complexity. However, we believe that the greater level of progressivity that this reform clearly produces more than compensates for this additional complexity.

Strategic Objectives

PROMOTION OF ECONOMIC GROWTH & BUSINESS DEVELOPMENT:

1. Stimulating the Jamaican economy and creating jobs

Given the country's limited capacity to provide fiscal stimulus to the economy, and the fact that we have correctly eschewed wide-scale monetary policy interventions as a means of achieving macroeconomic stability, it should be apparent that one of the few policy levers left open to us is a thorough reform of the tax system aimed at creating a general tax regime that is competitive and which promotes economic growth. Indeed, in its latest Country Memorandum, the World Bank suggests tax reform as a critical action to remove what they identify as one of the primary "binding constraints" to economic growth in Jamaica.

Specific measures which should have a significant stimulative effect on the economy and in turn support further job creation include:

- **Tax Rate Reductions:** A 28% reduction in the standard rate of GCT (i.e. from 17.5% to 12.5%) **(1)**, the introduction of a reduced PIT rate of 15% (i.e. 40% less than the current PIT rate) **(16)** and a 54% reduction in the standard CIT rate (from 33⅓% to 15%) **(19)** combined with a phase-out of sectoral incentives/ discontinuance of waivers (with very limited exceptions) **(21) (23)**

- **Making formal employment more affordable:** A give-back of J$3.84 billion to 268,000 PAYE workers (i.e. 87% of all PAYE workers) under the PIT/payroll tax reform **(16)**, a 2% reduction in statutory contributions payable (i.e. thereby making the formal employment of labour less expensive **(17)** and the implementation of a 25% PAYE tax credit incentive programme specifically designed to stimulate the creation of new jobs reported through the payroll tax system. **(24)**

- **Injection of stimulus monies into the economy:** Repayment/monetisation by the Government of Jamaica of the very significant withholding and other tax arrears as part of the reform effort. This will substantially stay in the economy and have a positive stimulus/multiplier effect. Allocation of J$2 billion of budgeted expenditure to a Social Fund to support society's most needy **(4)** and a further J$500m to support the growth of micro and small businesses through a capacity building fund **(28)** along with complementary land titling reform initiatives. **(28) (45)**

2. Implementing a competitive general tax regime

It is proposed that Jamaica should broaden its tax base as much as possible, with lower rates of tax uniformly applied across all goods and sectors of the economy, in tandem with the elimination of the existing bewildering web of incentives, concessions, waiver etc. targeted at one sector or another. Not only would such a policy direction reduce distortions in economic incentives and the consequent misallocation of resources that have almost certainly stunted our economic growth, but it would also provide a much simplified tax regime that is therefore easier to enforce and less prone to corruption. The old tax regime should be changed to one where a single, lower tax rate applies to all firms, without discrimination. It can do no worse than the old regime, and it has a better chance to foster small and medium size business on the Island – as there will be a level playing field in taxation.

4. Pursuing Strategic Objectives of Tax Reform

Specific measures which should support the pursuit of a more competitive broad based general tax regime include the series of tax rate reductions previously noted above (**(1)**, **(16),(19)**), the elimination of certain GCT exemptions **(3)** and a review and expansion of Jamaica's tax treaty network **(47)**.

3. Enhancing overall cost competitiveness

One of the key objectives of the proposed tax reform is to promote productive activity within Jamaica and in particular the production of goods and the supply of services. As a result one of the guiding principles has been that the reform should limit (where feasible) the extent to which taxation must be borne and absorbed upfront by businesses into their cost structures on the purchase of critical productive inputs (whether capital or operating). When this happens, taxes increase the cost of setting up productive activity (i.e. they increase the initial barriers to entry) and also impact the cost of undertaking business on a day-to-day basis. This in turn impacts the pricing of the outputs of a business (whether goods or services) and its associated competitiveness.

Specific measures which should enhance the overall cost competitiveness of Jamaican businesses include the abolition of Advanced GCT/customs user fee/ environmental levy/standards compliance fee (SCF) regimes **(11)** which are all non-recoverable and the replacement of same with the imposition of an Advanced Tax Payment (ATP) regime **(12)** which is fully recoverable by compliant registered taxpayers. Other measures include the removal of customs duty and ASD (i.e. significant non-recoverable taxes) from critical productive inputs (**(7) (8)**), and the reduction in employer contributions for lower paid workers **(17)**. The imposition of GCT on goods which are currently exempt **(3)** (see Appendix IV) enables local producers of these goods to fully recover GCT on their inputs (which currently must be absorbed and added to their cost structure). Finally the proposed reform also addresses and eliminates a number of anomalies and arbitrary measures in our present GCT regime which require registered GCT taxpayers to have to either absorb GCT on certain inputs permanently or recover over a period of time **(36),(37), (38), (39), (40)**.

4. Implementing performance-based incentives

It is recognised that the implementation of a competitive general tax regime may need to be supplemented by an incentive mechanism (based on specific deliverables) in order to allow Jamaica (e.g. through JAMPRO) to retain some flexibility to attract large-scale pioneer/nationally significant/strategic projects. In addition, it is further recognised that there is merit in maintaining (and creating) certain performance-based incentives to encourage economically and socially desirable behaviours.

Specific measures to support the above include a Tax Credit Scheme for Pioneer/Nationally Significant Projects **(22) (48)** as well as targeted incentives **(23)** addressing matters such as urban renewal and rural development **(49)** , public-private partnerships (e.g. to implement public infrastructural and other projects) **(50)** , investment in arts, entertainment, sports and cultural initiatives **(51)** , investment in original scientific research **(52)** , seed/venture capital investment **(53)** and shipping/aircraft registries **(77)**

5. Supporting the micro and small business sector

Micro, small and medium enterprises (MSME) in Jamaica have a critical role to play in the development of the economy and improvement of the living standards of all Jamaicans. This involves building vibrant well-run businesses with the ongoing capacity for growth and generation of meaningful employment. It has been widely perceived by the MSME sector that it has not been afforded the same benefits or access as larger businesses with greater resources and connections. With limited resources, many MSMEs have, without the benefit of incentives, struggled in a challenging business and taxation environment.

Specific measures which should support and strengthen this sector (especially micro and small businesses) include the allocation of J$500m of budgeted expenditure for the establishment of a Micro & Small Business Capacity Building Fund **(28)** as well as a proposed significant reduction in the number of GCT and payroll tax filings/payments required of small businesses **(110)** i.e. from monthly to quarterly. In addition, the MSME sector will stand to automatically benefit from the proposed tax rate reductions (**(1)**, **(16),(19)**), without the need to secure approvals or concessions as well as a wide range of measures designed to reduce the burden of complying with the tax system.

4. Pursuing Strategic Objectives of Tax Reform

6. Enhancing linkages with local agriculture and manufacturing

Jamaica has been successful over the years at attracting fairly significant levels of foreign direct investment (FDI) but this has not translated into the levels of economic growth desired. It widely accepted that Jamaica needs to strengthen linkages between its various industry sectors in an effort to achieve greater import substitution and enhance our international competitiveness. In doing this, it is further recognised that certain trade protections afforded to our local agricultural sector must be retained and enhanced where appropriate.

In this regard it is proposed to establish a Linkages Committee comprised of representatives from the various industry sectors which will provide a forum to strengthen linkages between each sector **(9)**. Consideration will also be given to developing a performance based-incentive to encourage local linkages (subject to Jamaica's international obligations) **(23)**. In terms of trade protection, it is proposed that the ASD regime be maintained and enhanced **(10)** subject to active monitoring by the Ministry of Finance in conjunction with the Linkages Committee. Finally the imposition of GCT on certain goods **(3)** (see Appendix IV) increases the taxation imposed at the port (in addition to customs duty etc.) on competing imports – this should assist local producers (in addition to securing GCT input credits).

7. Maintaining compliance with international obligations

Any tax reform undertaken must be cognisant of Jamaica's international treaty obligations such as with the World Trade Organisation (WTO) or the CARICOM Community. Jamaica has, for example, committed to disband its export-driven incentives in relation to "goods producing" activities by 2015. Jamaica also has certain obligations concerning the nature and extent it can impose levies and fees on imported goods.

In light of the above, a number of specific measures facilitate Jamaica's compliance with its international obligations including the abolition of the customs user fee, environmental levy and standards compliance fee regimes **(11)** and ceasing to grant export-driven incentive approvals in respect of goods-producing activities **(21)** – instead Jamaica will offer a competitive business-friendly general tax regime.

8. Promoting environmentally sustainable initiatives

The protection of our environment is critical part of any strategy for long-term growth and development of our nation. We must utilise innovative ways to protect and enhance our natural environment for the benefit of all Jamaicans. In addition, we must take steps to stimulate environmentally responsible behaviour including the adoption of energy efficient practices/technologies as well as alternative energy solutions.

This reform includes a number of proposals in support of this objective including the use of environmental taxation measures (applying the "polluter pays" principle) whereby revenue-generating opportunities are identified to discourage behaviour/practices that are detrimental to the environment – it is submitted that this be investigated further with relevant stakeholders in order to develop mechanisms suitable for implementation in Jamaica **(54)**. In conjunction with this, it is proposed that a direct tax incentive programme for renewable energy solutions be developed and implemented. **(46)** With a view to minimising tax leakage at the port (as well as to promote the local production of alternative energy solutions), it is proposed that this incentive be granted by way of an income tax write-off or credit (i.e. claimed on an income tax return) as opposed to granting a GCT exemption in respect of same.

9. Facilitating land titling reform

At present much real estate in Jamaica is unproductive and cannot be provided by way of security as a result of deficiencies in the underlying property title. This prevents owners and occupiers of such property from accessing credit on foot of providing the property by way of security and actively discourages persons from making investments or improvements in connection with the property in the absence of certainty of tenure. Regularising these property rights will assist in unlocking the inherent value and provide greater access to capital for micro and small businesses. It will also expand the base for the annual assessment of property tax.

Specific measures to support the pursuit of this objective include the design and implementation of a scheme to provide relief from transfer tax and stamp duty (subject to conditions and maximum amounts) in order to regularise property titles **(45)**. In addition, it is also proposed to earmark a portion of those expenditures provided for the establishment of a Micro & Small Business Capacity Building Fund towards initiatives to regularise deficient property

4. Pursuing Strategic Objectives of Tax Reform

rights in Jamaica. **(28)**

SHIFTING & SHARING THE TAX BURDEN

10. Reducing the current burden of compliance for taxpayers

One of the persistent criticisms of the current tax regime is the level of effort required in order to establish and maintain compliance. This consumes significant resources of taxpayers seeking to adhere to the rules and acts as a deterrent to compliance. It is also widely perceived that persons trying to operate within the tax net consume the primary focus of the tax authorities while others operate outside the net with impunity. If we want to encourage greater tax compliance then we need to make it easier to comply.

The reform proposals contain a comprehensive list of measures designed to achieve this, including in relation to registering for taxes **(87)**, issuing of tax compliance certificates **(90) (91)**, timely repayment or set-off of refunds **(95) (122)**, taxpayer education and awareness **(106)**. In addition the reform sets out a range of proposals to simplify the tax payment and filing process including the use of a Unified Tax Return (UTR) to facilitate monthly filing and payment of GCT data (including imported services), payroll data (for employers) and withholding tax data, consolidated filings for groups of companies and quarterly filings for small businesses **(88), (110)**. These initiatives will be further facilitated by the proposed consolidation and harmonization of payroll tax rules **(17) (18)**. Other proposals include an overhaul of current filing & payment deadlines **(111) (112)**, a detailed overhaul of the penal interest and penalties regime **(113)** as well as the audit, assessment, objections and appeals process **(119) (121)**

11. Modernising the tax system and simplifying the overall tax structure

Another criticism levelled at our current tax regime is that it is complex, outdated, anomalous and uncertain. This has arisen in part as a result of our tax system evolving relatively slowly on a piecemeal basis and failing to keep up with certain modern tax and business developments.

In an effort to address some specific immediate concerns, the proposed reform focuses on a number of areas such as the review and overhaul of the current capital allowances regime (including in respect of intellectual property and motor vehicles) **(27) (28) (29)**, the treatment of foreign exchange (FX) gains and losses for tax purposes **(31)**, tax losses (including group relief) **(56) (57)**, the facilitation of certain modern transactions including share buy-backs **(33)** and complex financial instruments **(59) (72).**

There are also a number of reforms concerning how tax laws are developed and promulgated **(84) (85) (88) (101)** Finally the proposals also recommend the implementation of best practice in relation transfer pricing rules **(61)** , the determination of what constitutes an exported service for VAT purposes **(35)** as well as specific transfer tax and stamp duty reforms. **(71) (72) (74) (75)**

12. Enhancing Tax Administration

It is recognised that a range of important reforms of Jamaica's Tax Administration have already been implemented by the Government of Jamaica.

This reform proposes a number of additional measures to further enhance the efficiency and effectiveness of the Jamaica Tax Administration (JTA). These include provision of unfettered access to critical data **(81)** , the ability to write-off pre-2001 tax balances brought over from the old system to ICTAS **(82)** , the authority to write off bad debts **(83)** , the strengthening of return processing and validation procedures **(93)**, a detailed review of the performance/capability of the current IT platform **(99) (100)** and forensic data centre **(118)**. There are also a number of measures designed to enhance the interaction between taxpayers and the Jamaica Tax Administration (JTA) including a proposal to simplify and publish requirements when transacting business with the JTA **(107)**, full online access to tax accounts **(125)**, the issue by JTA of formal binding rulings **(108)**, the staggering of certain deadlines to reduce administrative burdens and enhance customer service **(109)** and a review of current procedures for seizing property and using bailiffs etc. **(128)**

4. Pursuing Strategic Objectives of Tax Reform

13. Strengthening tax collection at our ports

Our tax authorities face tremendous challenges on a daily basis in assessing and collecting taxes. Given the level of imports into the Island, our ports therefore represent a tremendous opportunity to collect taxes from those businesses which do not otherwise properly declare their economic activities within Jamaica and pay their fair share of taxes.

It is recognised that Jamaica Customs has made significant efforts in tightening its assessment and collection efforts. It is the view of the Working Group that the port remains the most efficient and effective location from which to collect taxes from delinquent taxpayers (particularly persons engaged in commercial activity). A number of policy measures are proposed with this in mind. Firstly the imposition of ATP of up to 7.5% of the CIF value of imports **(12)** should further enhance tax collection at the ports without imposing a burden (other than in terms of cash flow) on compliant taxpayers. This should help to reduce the competitive disadvantage faced when competing against non-compliant businesses. Secondly the elimination of a wide range of GCT exemptions **(3)** significantly reduces the opportunity for importers to misclassify goods in an effort to avoid GCT.

The Working Group is acutely aware however that its prescriptions for tax policy reform will yield sub-optimal results in the absence of strong administrative reform. In particular, the ability to minimise tax leakage at the ports will be critical. As a result it is proposed that an evaluation be undertaken of current strategies to address a range of specific issues **(129)**. A series of recommendations are also made to enhance the operations of Jamaica Customs **(130) through to (137)**

14. Pursuing everyone to pay their fair share of tax

It is widely perceived that everyone is not paying their fair of the tax burden. Compliant taxpayers assert that it is always the same groups of taxpayers: PAYE taxpayers, employers and compliant companies who are repeatedly pursued for more taxes. In contrast it is perceived that there exists a sizeable group of delinquent taxpayers (e.g. amongst the self-employed (including professionals), businesses operating under the radar etc.) as well as those who have negotiated extensive incentives, concessions or waivers who do not contribute significant taxes. From this, it is argued that if these persons contributed in a similar manner to everyone else, then everyone's tax burden could be reduced.

The proposal to introduce a competitive general regime along with a phase out of sectoral incentives and waivers should significantly address some of these concerns. In terms of dealing with delinquent taxpayers, the reform outlines a number of proposals including the implementation of aggressive registration surveys/drives/links and cross-checks **(88)**, mandatory filing of a Return of Third Party Information (TPI) **(115)**, reporting of interest income (associated TRN and dollar amount) in filings by financial institutions etc. **(117)**, requiring a property tax roll number to be included in sale documentation to facilitate cross checking of property valuations etc. **(89)**, imposition of criminal penalties for tax offences **(126)** and the publication of tax offender lists **(124)**

Following implementation of the proposed reforms, it is anticipated that Jamaica should realise a sizeable compliance dividend as a result of more people paying their fair share. This should in turn provide further fiscal space for additional reforms which are not feasible at present including:

(a) further reductions in the income tax burden on PAYE workers by increasing the income level subject to the reduced personal income tax (PIT) rate of 15%; and

(b) further allocations of expenditure to the 'Social Fund' (see **16.** below) in order strengthen social welfare support for our poor and marginalised.

15. Reducing scope for tax evasion:

Any overhaul of our tax system must also involve reducing the scope for persons to evade their tax obligations.

The proposed reform also contains a number of specific measures targeted at achieving this objective. From a policy perspective, it is proposed to remove loopholes in the tobacco tax regime in an effort to ensure that a wider range of tobacco products are subjected to the same level of taxation as cigarettes etc. **(15A)** It is further proposed that a

4. Pursuing Strategic Objectives of Tax Reform

minimum income tax (MIT) payable by locally registered companies be imposed in an effort to reduce the opportunity for tax evasion through either material underreporting of net profits or through the formation of multiple companies in an effort to circumvent tax and customs laws. **(19A)** It is further proposed to abolish the contractors levy and to replace it with a broader based withholding of an Advance Tax Credit (of 2%) and extend this requirement to a wider range of payments by the Government of Jamaica etc. **(32)** From an administrative perspective, it is proposed that further controls be introduced to minimise: the abuse of TCC process **(92)**, the formation of multiple companies **(96)** and unregulated vending **(105)**. It is also proposed to expand use of the TRN, discontinue the use of a separate NIS number **(97)** and utilise innovative ways to collect information on tax evaders etc. **(104)**

16. Strengthening welfare support for the poor:

A central objective of the reform programme is to eliminate costly and poorly targeted exemptions which are aimed at protecting the poorest in society but which have clearly failed to have the desired impact (see below under item 18: "*Eliminating poorly targeted expensive social tax measures*"). In order to provide more targeted welfare support, the reform proposals provide for additional resources on the expenditure side of the budget amounting to $2.0 billion which we believe is sufficient to compensate the poorest 40% of the population for the combined net effect of (i) increases in the cost of those items in their consumption basket that were previously exempted but will now be subject to GCT at the proposed standard rate of 12.5%; and (ii) reductions in the cost of those items in their consumption basket arising from the reduction in the standard rate of GCT from 17.5% to 12.5% **(4)**

The appropriate sizing of the proposed social welfare fund was derived by reference to data supplied by the PIOJ which estimated the impact of removing exemptions on a wide range of goods for the four lowest income deciles (i.e. the poorest 40% of the population) as reflected in the table below:

DECILES	Increase in total purchases (All Jamaica) with GCT @ 12.5%
1	395,094,503
2	448,170,909
3	539,937,381
4	429,633,358
TOTAL	1,812,836,151

To the total of $1.8 billion reflected in the table above we add a 10% provision for administrative costs and round up the result to $2.0 billion. It should be noted that the estimates reflected in the table above consider the impact of the GCT reforms in isolation and do not therefore account for the off-setting impacts of the elimination of CUF/EL or the higher recovery of input taxes on inland GCT returns, both of which will serve to moderate the level of price increases occasioned by the removal of GCT exemptions. In the case of imported basic food items which are currently exempt, we estimate that the application of GCT at 12.5%, taking these other factors into consideration, will result in net increases in price levels of a significantly lower order in the region of 6-9%.

The manner in which monies allocated to the above 'Social Fund' can be best distributed to intended beneficiaries is currently being reviewed. It is clearly critical that the mechanisms utilised are efficient, transparent, equitable and non-partisan. Examples of such mechanisms include:

Further funding of the existing **Programme of Advancement Through Health and Education (PATH).** This is currently the centerpiece of the Social Safety Net Reform Programme under which three existing programmes (Poor Relief, Food Stamps and Public Assistance (Old Age and Incapacity)) were merged. In 2010 the PATH programme spent approximately $2.9 billion on cash transfers to its beneficiaries. See Appendix VII "Position Paper for GCT Tax Reform" issued by MLSS arising from consultations on transfer mechanisms.

Further subvention allocated to public transportation (i.e. JUTC) in order to reduce the cost to the public of such transportation by a commensurate amount.

Funding allocated to a School Feeding Programme to help our underprivileged children secure the necessary daily nutrition to support their attendance and participation at school.

4. Pursuing Strategic Objectives of Tax Reform

17. *Increasing the take-home pay of the lower paid*

A common criticism of the current tax regime is that it imposes a disproportionate share of the burden of taxation on PAYE wage earners and in particular those in the lower income deciles. The proposed reforms include a number of measures designed to redress this inequity while also simplifying the tax base and reducing the administrative burdens of compliance. In relation to Personal Income Tax **(16)**, the introduction of an income exemption limit of $499,200 (compared to the current threshold of $441,168) will serve to marginally reduce the number of taxpayers at lower income levels that are liable for income tax, while the introduction of a lower rate of 15% on income above the exemption limit up to $1,123,200 serves to reduce the burden of income taxes across all income bands, with a higher proportion of the benefit of such reductions accruing to the lower income bands.

In relation to Payroll taxes **(17)** the proposed expansion and restructuring of the base, combined with proposed reductions in contribution rates for NIS, provides further relief to taxpayers in the lower income bands while improving the overall progressivity of the system. In combination, the proposed PIT and Payroll Tax reforms will result in reduced income tax and payroll tax deductions amounting to $2.8 billion for some 267,926 PAYE wage earners, while the remaining PAYE population (39,394) will face marginal increases in their effective tax rates ranging from 0.18% (at an income level of $2.25 million per annum) up to 1.01% on incomes over $10 million per annum. The following table shows the impact of these combined reforms on tax payers and employers across various income bands.

Income Bands	Income Bands	Number of Taxpayers	Avg Proposed Employee Payroll Taxes(1)	Current Average Employee Payroll Taxes(1)	Employee Average Difference	Aggregate Employee Revenue Difference(2)	Aggregate Employer Statutory Deductions Difference(3)	*Reduction in lower income PAYE deductions of $3.8 Billion*
-	441,168	106,257	12,443	14,592	(2,149)	(228,375,017)	(222,365,148)	
441,168	600,000	36,725	29,528	47,622	(18,094)	(664,505,825)	(174,029,716)	
600,000	800,000	36,405	85,213	104,601	(19,388)	(705,814,790)	(234,757,656)	
800,000	1,000,000	29,046	141,859	162,563	(20,704)	(601,373,423)	(237,824,101)	
1,000,000	1,250,000	23,076	207,378	227,731	(20,353)	(469,670,683)	(177,918,003)	
1,250,000	1,500,000	16,919	291,709	296,899	(5,190)	(87,806,311)	(69,915,834)	(1,116,810,458)
1,500,000	2,000,000	19,498	399,048	400,230	(1,181)	(23,032,154)	23,637,879	
2,000,000	2,500,000	11,661	535,757	531,833	3,924	45,756,738	93,510,903	(2,780,578,204)
2,500,000	3,000,000	7,144	683,028	673,604	9,424	67,325,703	109,680,971	
3,000,000	3,500,000	4,469	828,655	813,793	14,862	66,426,056	101,026,013	Total "Giveback" (3,897,388,662)
3,500,000	4,000,000	2,997	988,507	967,675	20,832	62,428,920	91,591,700	
4,000,000	5,000,000	6,130	1,199,691	1,170,973	28,718	176,046,608	251,815,519	
5,000,000	6,000,000	3,093	1,483,674	1,444,350	39,323	121,622,919	170,784,799	
6,000,000	7,000,000	1,409	1,813,446	1,761,808	51,639	72,769,926	100,954,522	
7,000,000	8,000,000	1,157	2,114,727	2,051,837	62,890	72,780,511	100,266,383	
8,000,000	9,000,000	315	2,461,974	2,386,116	75,857	23,891,025	32,732,560	
9,000,000	10,000,000	289	2,762,072	2,675,007	87,064	25,158,504	34,350,111	
10,000,000	25,000,000	729	5,267,504	5,086,876	180,628	131,735,714	177,680,475	
	Grand Total	307,320				(1,914,635,581)	171,221,378	

(1) Represents the value of deductions for the average employee within each income band based upon the proposed and current regimes. Figures include both Personal Income Tax deductions and employee Payroll Tax deductions.

(2) Represents the difference in aggregate revenues to GOJ between the current and proposed regimes based upon employee deductions for both Personal Income Tax and Payroll Tax.

(3) Represents the differnce in aggregate revenues to GOJ between the current and proposed regimes based upon employer Payroll Tax deductions only.

18. *Eliminating poorly targeted expensive social tax measures*

General versus targeted subsidies, Jamaica, 1988
(percent)

Item	*General subsidy*	*Targeted subsidy (food stamps)*
Cost as share of government expenditure	3.0	1.6
Proportion of transfer going to		
Poorest quintile	14.00	31.00
Richest quintile	26.00	8.00
per recipient		
Poorest quintite	2.30	9.50
Richest quintile	0.10	1.00
Poorest quintile	100.00	51.00
Richest quintile	100.00	6.00

Source: Statistical Institute of Jamaica & World Bank 1988 & 1989

The present tax system makes provisions for the poor but empirical data show that these actually benefit the middle class and wealthy more. What we need are more directly targeted social safety net provisions, and one of the goals of the proposed tax reforms is to yield additional resources for this. Taxes are "non-targeted" instruments, which means that a tax exemption intended to help the poor, often is helping the rich instead. For example, a GCT exemption for basic foods may be intended to help the poor, but the fact is that such products are consumed by middle- and upper- income citizens also, and in greater volumes, so that the GCT exemption flows mostly to wealthier Jamaicans, and not the

4. Pursuing Strategic Objectives of Tax Reform

poor. Indeed this is a not a new phenomenon, as demonstrated by data from 1988 reflected in the table below, which suggests, by reference to the consumption patterns of these products across the various income classes, that for every $100 of revenue that the Government gives up by exempting basic foods from GCT, only approximately $14 actually benefits the poorest 20% of our population. In fact the same studies estimated that the benefit of these exemptions to the wealthiest 20% of the population amounts to $26 - Incredibly, almost twice the level of benefit enjoyed by the poorest 20% of the population.

Clearly these outcomes do not satisfy the objectives we set out to achieve when we put these policies in place.

The current reform proposals therefore include the elimination of a wide range of GCT exemptions **(3)** increasing the government's resources by the amount of revenue that is now given up, and diverting sufficient of that revenue to expand earmarked expenditure programmes that can be more accurately targeted (see above 16: "*Strengthening Welfare Support for the Poor*"). Not only will such a policy improve social outcomes, but it will also bring with it the benefits of uniformity and simplicity that will aid enforcement efforts and reduce opportunities for corruption.

5. Signature page

The undersigned, being members of the Private Sector Working Group on Tax Reform, recommend and endorse implementation of those reform proposals contained in this document. Our endorsement is conditional upon the implementation of these reform proposals in their entirety.

Private Sector Organisation of Jamaica

Jamaica Manufacturers Association

Jamaica Chamber of Commerce

Jamaica Exporters Association

MSME Alliance

Insurance Association of Jamaica

Jamaica Agro-Processors Association

Jamaica Bankers Association

Appendix I

Overview of First-Tier Policy Reform Proposal

The following represents a more detailed overview of the first tier policy reforms proposed. Unless otherwise stated, it is proposed that these reforms be implemented with effect from **1 April 2012**.

GENERAL CONSUMPTION TAX

1. *GCT Rates - General:*

It is proposed that the standard rate of General Consumption Tax (GCT) be reduced from 17.5% to 12.5%. The current zero-rated status of exports will be unaffected.

In the short-term, it is proposed to retain the 25% rate of GCT on the supply of telephone services, phone cards and handsets. As a matter of equity, it is recognised that this 25% rate of GCT should be reduced (towards the standard rate) as and when fiscal space permits. This is also particularly important as the distinction between voice and data services becomes increasingly blurred.

Given that much of our agricultural sector comprises of small and subsistence farmers who will continue to remain outside the GCT net, consideration may be given to imposing GCT at a special reduced rate (i.e. in lieu of the 12.5% proposed) on the principal agricultural inputs, namely animal feeds, fertilisers, herbicides, fungicides, plant growth regulators, nematicides, rodenticides, veterinary preparations and molluscides. It is the view of the Working Group that it if a special concession is to be made in respect of these products, then it is preferable to apply a reduced rate of GCT on these items (even if zero-rated) as opposed to exempting same from GCT (which disadvantages local manufacturers of these products).

2. *Increase in GCT Turnover Threshold for Goods:*

At present a taxpayer is required register and account for GCT to the extent that he supplies (or expects to supply) taxable goods or services in excess of J$3 million per annum.

It is proposed to increase this gross turnover threshold from J$3m to J$5m in respect of suppliers of goods. The current threshold of J$3m will continue to apply to the supply of services. Persons supplying both goods and services shall therefore be required to register and account for GCT where their supply of goods or services exceeds these respective thresholds or where in aggregate their total supplies exceed $5 million.

The following table summarises the turnover thresholds in a number of selected jurisdictions.

Barbados	Ireland	Trinidad	UK
Bd$60,000 *J$2,599,313*	€75,000 (goods) / €37,500 (services) *J$8,603,726 / J$4,301,863*	TT$200,000 *J$2,697,191*	Stg£73,000 *J$9,768,204*

The primary reason for increasing the goods turnover threshold is to ensure that small farmers and market vendors remain outside the scope of the GCT net as a result of the removal of the GCT exemption on basic foods and agricultural produce. The retention of the J$3m threshold for services takes into account the views of Tax Administration Jamaica (TAJ) and is designed to prevent tax avoidance opportunities which might be pursued in the event of increasing this threshold to $5 million per annum.

Where a taxpayer's actual or anticipated turnover does not exceed the applicable gross turnover threshold, he may nonetheless voluntarily apply to be registered for GCT purposes (in which case he will be required to charge GCT on his taxable supplies but may also recover GCT incurred on his inputs/costs). In the event that a registered taxpayer no longer exceeds the turnover threshold, then he will be offered the opportunity to remain registered or choose to become deregistered.

Appendix I

Overview of First-Tier Policy Reform Proposal

3. Removal of Exemption on certain Goods and Services

It is proposed that certain goods and services that are currently exempt from GCT should become liable to GCT at the standard rate. The specific goods affected are listed in Appendix IV. Goods that should continue to be exempt from GCT are listed in Appendix V. Finally Appendix VI sets out the list of services that continue to be exempt from GCT.

In addition it is proposed that Manufacturing Businesses should no longer benefit from the provisions of the Modernisation of Industry (MOI) programme and the deferral scheme under the GCT Act in respect of raw material imports.

The principal effects of these proposed measures are as follows:

- The major categories of goods affected are basic foods, agricultural inputs and raw foodstuffs such as agricultural produce which would become subject to GCT at the reduced rate of 12.5%. Given the proposed increased GCT turnover threshold (noted above) this should not impact small farmers or market vendors etc. on the sale of agricultural produce (as they should remain outside the scope of the GCT regime). The imposition of GCT on agricultural inputs will increase the operational costs for unregistered farmers. This should incentivise farmers to combine their efforts (e.g. in the form of co-operatives) in order to register for GCT in which case they will then be able to fully claim GCT input credits on their inputs. Registration can therefore reduce their cost of operation and enhance their competitiveness (particularly when supplying hotels, restaurants, registered supermarkets etc.)

- It is important to note that the imposition of GCT at the port on imported basic food and agricultural items provides a further element of trade protection for our local manufacturers and farmers. For example at present our domestic manufacturers of products which are classified as GCT-exempt cannot recover GCT on their inputs and so must absorb same as an additional operational cost. In contrast when their competitors (manufacturers overseas) export their products to Jamaica they would fully recover VAT on their inputs (as an export) but not be subject to Jamaican VAT (i.e. GCT) when their product reaches Jamaican shores. The reclassification of these goods as taxable addresses the competitive disadvantage currently being faced by domestic producers.

- The significant reduction in the list of goods which are exempt from GCT (including the removal of the MOI and GCT deferral schemes currently enjoyed by manufacturers) also further limits the opportunity for evasion of GCT at the port by importers misclassifying their goods as GCT-exempt.

- GCT registered taxpayers (e.g. supermarkets) selling these goods locally will be liable to account for GCT thereon. From a tax compliance perspective, the removal of these exemptions reduces the scope for manipulation within the retail trade in terms of the percentage of revenue reported as GCT-exempt versus taxable (i.e. liable to GCT), in an effort to maximise the recoverability of GCT input taxes.

- The imposition of GCT on these items (albeit at a reduced standard rate) enables tax to be collected from all persons who consume these items (particularly those who extensively consume same). This facilitates the funding of a significant expenditure-based social welfare programme which directly (and much more efficiently) targets the needy in our society. This is addressed further in **(4)** below.

- Where these goods are purchased as inputs by other GCT registered businesses (e.g. hotels, bars, restaurants), then any GCT chargeable thereon is fully recoverable by way of input credit by such businesses. This also allows suppliers of such goods (registered manufacturers /farmers) to pass on this GCT and therefore recover GCT on their own inputs. At present these suppliers suffer irrecoverable GCT on their inputs and are forced to either absorb it as part of their cost or recover it in the form of higher prices.

- The principal services affected by this proposal are:

Appendix I

Overview of First-Tier Policy Reform Proposal

(a) the provision of cold storage facilities for foodstuffs;
(b) the growing of crops or rearing of animals for reward;

The opportunities and benefits noted above similarly apply to these activities.

- At present the supply of prescribed petroleum products (such as automotive gasoline and diesel, aviation fuel, marine diesel oil, fuel oil, kerosene, cooking gas (butane and propane) are exempt from GCT. No change is proposed in this regard at this time (i.e. such products will continue to be subject to Special Consumption Tax – specific SCT amounts should be indexed to inflation).

- It is proposed that supplies of goods and services made to the Government of Jamaica (and any other state institution which can currently procure supplies on a zero-rated basis) be subject to GCT at the standard rate where appropriate. As recommended by the Inter-American Development Bank (IDB), this GCT would be withheld by Government upon payment and the supplier would claim credit in respect of same. This mechanism eliminates the need for administrative approvals to supply on a zero-rated basis in these circumstances and reduces the scope for misreporting zero-rated supplies.

4. Social Fund (targeted expenditure-based social welfare programme):

It is proposed that a significant portion of the additional tax collected at the ports from the imposition of GCT on basic foods and other sensitive items previously exempt be utilised to expand the funding of direct social welfare programs targeted at those most in need in our society. Based upon estimates supplied by PIOJ we believe that an additional $2.0 billion (inclusive of administrative costs) to be directed to such a program or programmes would be sufficient to compensate the poorest 40% of the population for the increased cost of their consumption basket arising from the removal of GCT exemptions. It is proposed that the allocated amount be earmarked by way of legislation so that Jamaica Customs can pass the amounts collected directly to the designated relief agency (or agencies).

The appropriate sizing of the proposed social welfare fund was derived by reference to data supplied by the PIOJ which estimated the impact of removing exemptions on a wide range of goods for the four lowest income deciles (i.e. the poorest 40% of the population) as reflected in the table below:

DECILES	Increase in total purchases (All Jamaica) with GCT @ 12.5%
1	395,094,503
2	448,170,909
3	539,937,381
4	429,633,358
TOTAL	1,812,836,151

To the total of $1.8 billion reflected in the table above we add a 10% provision for administrative costs and round up the result to $2.0 billion.

Appendix I

Overview of First-Tier Policy Reform Proposal

Protecting the poorest segments of Jamaica's population is a noble cause, but the tax-system is not the proper tool for doing so. Taxes are "non-targeted" instruments which means that a tax exemption intended to help the poor, often is helping the rich instead. For example, a GCT exemption for basic foods may be intended to help the poor, but the fact is that such products are consumed by middle- and upper- income citizens also, and in greater volumes, so that the GCT exemption flows mostly to wealthier Jamaicans, and not the poor. Indeed this is a not a new phenomenon, as demonstrated by data from 1988 reflected in the table below, which suggests, by reference to the consumption patterns of these products across the various income classes, that for every $100 of revenue that the Government gives up by exempting basic foods from GCT, only approximately $14 actually benefits the poorest 20% of our population. In fact the same studies estimated that the benefit of these exemptions to the wealthiest 20% of the population amounts to $26 – incredibly, almost twice the level of benefit enjoyed by the poorest 20% of the population.

General versus targeted subsidies, Jamaica, 1988
(percent)

Item	*General subsidy*	*Targeted subsidy (food stamps)*
Cost as share of government expenditure	3.0	1.6
Proportion of transfer going to		
Poorest quintile	14.00	31.00
Richest quintile	26.00	8.00
per recipient		
Poorest quintite	2.30	9.50
Richest quintile	0.10	1.00
Poorest quintile	100.00	51.00
Richest quintile	100.00	6.00

Clearly these outcomes do not satisfy the objectives we set out to achieve when we put these policies in place.

The manner in which monies allocated to the Social Fund can be best distributed to intended beneficiaries is currently being reviewed. It is clearly critical that the mechanisms utilised are efficient, transparent, equitable and non-partisan. Examples of such mechanisms include:

Further funding of the existing **Programme of Advancement Through Health and Education (PATH). This** is currently the centerpiece of the Social Safety Net Reform Programme under which three existing programmes (Poor Relief, Food Stamps and Public Assistance (Old Age and Incapacity)) were merged. In 2010 the PATH programme spent approximately $2.9 billion on cash transfers to its beneficiaries. See Appendix VII "Position Paper for GCT Tax Reform" issued by MLSS arising from consultations on transfer mechanisms.

Further subventions could also be allocated to public transportation (i.e. JUTC) in order to reduce the cost to the public of such transportation by a commensurate amount.

Increased funding may be allocated to a School Feeding Programme to help our underprivileged children secure the necessary daily nutrition to support their attendance and participation at school.

5. Application of GCT Regime to the Tourism Sector

It is proposed by the Working Group that the GCT regime applicable to tourism activities be amended as follows:

(a) the application of the proposed standard rate of GCT (of 12.5%) to tourism activities (i.e. instead of the current concessionary rate of 10%);

(b) in computing output tax assessable on specified tourism activities, the tourism sector should continue to be permitted to exclude from its chargeable revenues:

(i) commissions paid to overseas travel agents/tour operators (provided that they to not exceed arms-length amounts); and

Appendix I

Overview of First-Tier Policy Reform Proposal

(ii) amounts charged to recover airport transfers.

(iii) gratuities paid to employees (provided that these shall not exceed such rates as may be prescribed by the Commissioner General of Tax Administration Jamaica).

(c) The deductions specified in (b) above shall be conditional on the tourism operation reporting the full amount of revenues derived from its conduct of specified tourism activities. In the event that the Commissioner General of Tax Administration Jamaica determines that a taxpayer engaged in the provision of specified tourism activities fails to report the full amount of revenues derived therefrom, then the Commissioner General may withdraw the benefit of the above deductions in computing that taxpayer's GCT obligations for such a period as the Commissioner General may determine not exceeding a period of three years from the date the underreporting of revenues is identified by the Commissioner General.

6. Application of GCT Regime to the Supply of Electricity

It is proposed that the GCT regime applicable to the supply of electricity should be amended as follows:

(a) Increase the threshold of monthly residential consumption which attracts the concessional GCT rate of zero percent from 200 KwH per month to 300 KwH per month (i.e. a 50% increase in the threshold).

(b) Increase in the rate of GCT from 10% to 12.5% (the new proposed standard rate) on:

(i) residential consumption in excess of 300 KwH per month;
(ii) commercial and industrial consumption.

The principal effects of these measures may be summarised as follows:

- Based on current consumption patterns, it is estimated that this should result in full relief from GCT for 95% of residential consumers (i.e. only the highest 5% of consumers of electricity will pay GCT on their electricity bills).

- Residential consumers who consume the highest levels of electricity will pay additional GCT (at the standard rate) thereon. There is also a strong correlation between residential electricity consumption and income/wealth levels and this measure will assist in targeting this segment of the population (as opposed to imposing this tax through higher levels of taxation on the PAYE worker).

- Commercial and industrial concerns who are registered taxpayers for GCT purposes may fully recover GCT charged by way of input tax credit in respect of their taxable activities so this measure will not increase their electricity costs. Suppliers who remain exempt from GCT as well as non-compliant businesses will be required to absorb the additional GCT charged.

It is estimated that the overall effect of the above proposals should be approximately revenue neutral.

CUSTOMS DUTY & ADDITIONAL STAMP DUTY (ASD):

One of the objectives of the proposed tax reform is to promote productive activity within Jamaica and in particular the production of goods and the supply of services. As a result one of the guiding principles is that the tax reform should limit (where feasible) the extent to which taxation must be borne and absorbed upfront by businesses into their cost structure on the purchase of critical productive inputs (whether capital or operating).

In contrast one also needs to balance any such reform with the recognition that taxation should be appropriately borne

Appendix I

Overview of First-Tier Policy Reform Proposal

by the final consumer of products. Any proposal must protect the revenue base, minimise the scope for abuse and be actively monitored.

Customs duty and additional stamp duty (ASD) are the principal taxes which must be borne by a business upfront. Consequently these taxes in particular increase the cost of setting up productive activity (i.e. they increase the initial barriers to entry) and also impact the cost of undertaking business on a day-to-day basis. This in turn impacts the pricing of the productive outputs of a business (whether goods or services) and its associated competitiveness.

Customs duty and ASD are imposed on the importation of a wide variety of goods in accordance with the Customs Tariff and Stamp Duty Act respectively. Any reform proposal needs to be designed in such a manner to:

1. facilitate streamlined administration of same by Jamaica Customs; and
2. minimise the scope for abuse.

In terms of administration, it is preferable that the customs duty/ASD treatment should be determined where possible solely by reference to the specific character of the goods imported. The less preferable approach (which is open to greater scope for abuse) is one where the customs duty/ASD treatment is determined by reference to the manner in which the goods are to be used (e.g. whether utilised in the production of goods and services or in final consumption).

Non-Consumer versus Consumer Goods

Determining the customs duty /ASD treatment solely by reference to the character of goods can be most appropriately applied to non-consumer goods. In contrast, this approach presents significant challenges for consumer goods (as these can either be consumed by the final consumer or alternatively represent important capital or operating inputs for productive activity).

For this purpose, non-consumer goods and consumer goods are defined as follows:

Non-Consumer Goods:	*Goods which by their character or design are unsuited for final consumption and are instead solely suited for use or consumption in the production of goods or supply of services.*
Consumer Goods:	*Any goods which do not qualify as non-consumer goods*

Based on the above, consumer goods therefore include goods of a character or design:

(a) which are intended for final consumption and are normally sold by way of wholesale/retail to the mass market (e.g. furniture, lighting/bath fixtures, consumer wall/floor finishings, consumer electrical appliances etc. (other than those of a specialised industrial/commercial nature), other consumer items etc.; or

(b) that can be used (either in their current form or with minimal processing) for either final consumption or as inputs for productive activity - e.g. building materials and supplies, electrical /plumbing fixtures, consumable goods sold in bulk (e.g. sugar, flour, salt, cooking oil, paper etc.).

In light of the above the following customs duty/ASD regime is therefore proposed:

7. Relief from Customs Duty & ASD on Non-Consumer Goods

It is proposed that customs duty and additional stamp duty (ASD) should generally be relieved in full on non-consumer goods imported by registered tax compliant businesses engaged in the production of goods or the supply of services. A positive rate of customs duty and/or ASD may be required in very limited circumstances where it is determined by the Ministry of Finance (in consultation with the Linkages Committee) that a measure of trade protection is required in respect of specific goods (e.g. those which are on the current ASD goods list).

Appendix I

Overview of First-Tier Policy Reform Proposal

To facilitate both the implementation and administration of such a regime, a review of the Customs Tariff should be undertaken by the Ministry of Finance (in consultation with the Linkages Committee) in order to categorise goods (by tariff code) as either non-consumer goods or consumer goods for this purpose. In the event of any uncertainty or dispute regarding whether a specific category of goods should be classified as a non-consumer good or consumer good, a determination shall be made by the Ministry of Finance in consultation with a Linkages Committee (see **(9)** below) which would meet periodically (say on a quarterly basis).

A listing of all decisions by the Ministry should be published on the Ministry of Finance website. Once categorised appropriately by tariff code, non-consumer goods would not require specific Ministry approval in order for a tax compliant business to import same on a duty-free basis. Any reclassification of goods from non-consumer goods to consumer goods or vice versa should be determined by the Ministry of Finance in consultation with the Linkages Committee subject to established protocols (i.e. to ensure transparency and to prevent an arbitrary reclassification).

The primary effect of this measure would be to create a more investment-friendly environment to facilitate the establishment and operation of businesses engaged in the production of goods and services. Businesses would not require special approval or concessions to access this duty-free treatment – the act of purchasing such non-consumer goods should be self-evident that they intend to utilise them for productive purposes. This treatment would apply equally to large and small businesses and should be efficiently administered by Jamaica Customs.

8. Relief from Customs Duty & ASD on Certain Consumer Goods

In general it is proposed that consumer goods shall continue to attract the prevailing rate of customs duty in the Customs Tariff and where applicable ASD as specified by the Stamp Duty Act.

Notwithstanding this, it is proposed that relief be given (in whole or part) in respect of certain consumer goods in prescribed circumstances. It is proposed that a listing of such goods as well as any associated terms/conditions be determined by the Ministry of Finance in consultation with the Linkages Committee. For transparency, this list would also be maintained on the website of the Ministry of Finance and Jamaica Customs.

This listing should stipulate:

1. a description of the consumer goods and associated tariff code;

2. the prescribed circumstances in which relief is granted including any associated terms/conditions where appropriate.

3. the extent of the relief granted (normally full relief from customs duty/ASD should apply save in exceptional cases as determined by the Ministry of Finance in consultation with the Linkages Committee)

4. the evidence/support to be made available to Jamaica Customs (along with import entry) to support application of the relief by Jamaica Customs. By way of example, this might include:

    - certification by Jamaica Customs (say in consultation with the Jamaica Manufacturer's Association or other relevant Business Association recognised by Government) that the taxpayer's activities constitute a manufacturing operation and a listing of consumer goods which Jamaica Customs has satisfied itself constitutes critical productive inputs for such operations (including maximum limits as appropriate). This would require re-certification by Jamaica Customs as the manufacturing business expands.

    - license issued by Jamaica Tourist Board and certification by the Ministry of Tourism of Bill of Quantities for a defined new/expansion/refurbishment project.

Appendix I

Overview of First-Tier Policy Reform Proposal

5. the time period for which the relief will be granted (e.g. 6 months) after which it will be renewed subject to a review by the Ministry of Finance (in conjunction with the Linkages Committee on the appropriateness of maintaining the exception). Any withdrawal of an exception previously granted shall be subject to established protocol/criteria etc. (i.e. to ensure transparency and prevent an arbitrary withdrawal of an exception).

To facilitate backward linkages, proposals to import a material volume of consumer goods after expiry of the specified exception period should be submitted to the Ministry of Finance / Linkages Committee so that the matter can be considered in advance and where appropriate local suppliers can build capacity with a view to provide an alternative to importing the goods.

The above regime facilitates transparency as the relief is granted in respect of consumer goods used for prescribed productive purposes on the presentation of prescribed documents. This information is freely available and accessible to all (particularly if posted on the web). It does not require application by taxpayers for special concessional treatment to be afforded to them by the Ministry of Finance (whether by means of waiver or otherwise). It is accessible by both small and large businesses under the same circumstances once the prescribed conditions are met.

In the event that a qualifying importer (e.g. a manufacturer, hotelier, farmer or service provider) is permitted under this regime to claim relief from customs duty or additional stamp duty (ASD) on the importation of specific consumer goods, then he may purchase same from a local supplier of such goods provided that:

(a) such supplier maintains an approved bonded warehouse in respect of such goods;

(b) the goods are withdrawn from such bonded warehouse under the supervision of Jamaica Customs; and

(c) the qualifying importer complies with the same terms and conditions (provides the same documentation) to Jamaica Customs to facilitate withdrawal from the bonded warehouse as would be necessary to support any claim for relief from customs duty or ASD upon direct importation.

Having regard to the above, it is proposed that the listing of goods (in respect of which relief is granted) is determined by the Ministry of Finance by reference to the following criteria:

Sector	Capital Inputs	Operating Inputs
Manufacturing	Capital machinery, equipment and tools (including spare parts) as well as specialized industrial finishings (e.g. lighting/flooring) imported by a manufacturer and used solely or primarily in connection with manufacturing goods within Jamaica	Raw material / intermediate good inputs, consumables used in the manufacture of goods within Jamaica as well as associated packaging materials
Agriculture	Capital machinery, equipment and tools (including spare parts) as well as specialized agricultural/industrial finishings (e.g. lighting/flooring) imported by a farmer or agro-processor (including spare parts) and used solely or primarily in connection with manufacturing goods within Jamaica (including spare parts)	Pesticides, fertilizer etc. used for the growing of crops and feed/veterinary consumables used in the rearing of animals by farmers. Raw material / intermediate good inputs, consumables used in the processing of agricultural produce grown within Jamaica as well as associated packaging materials
Tourism	Agreed list of finishings (e.g. lighting/bath fixtures, flooring), furnishings, capital machinery, tools, equipment and appliances) used solely and exclusively in the construction or refurbishment of a licensed hotel, resort cottage or tourism attraction).	Agreed List of Consumables (say Bed Linen, Pillows, Dining Room Linen, Crockery, Flatware, specific Food Items) (Alcohol not included))

Appendix I

Overview of First-Tier Policy Reform Proposal

Other Services	Critical capital inputs (representing a material component of overall capital spend) which are essential to the performance/delivery of the specified services	To be determined by the Ministry of Finance (in consultation with the Linkages Committee) in limited circumstances where the consumer goods represent critical operating inputs (representing a material component of overall operating spend)

Finally it is proposed that the current 20% customs duty concession and zero-rating (for GCT purposes) of motor vehicles imported or purchased by specified groups of individuals (public sector workers, members of statutory boards, Members of Parliament etc.) be removed and that standard rates should apply. To the extent that these concessions form part of a contractually agreed remuneration package which the GoJ is obligated to maintain, then such benefit should be appropriately monetised and subjected to payroll taxes in the normal manner.

It is the view of the Working Group that the current 20% duty concession offered, has and continues to provide an opportunity for abuse and consequent tax revenue leakage. In addition it is submitted that in light of Jamaica's massive trade deficit it is inappropriate for the State to continue to remunerate public sector employees by way of a tax concession which incentivises the spending of take home pay on the importation of motor vehicles.

9. Establishment of Linkages Committee

It is proposed, for the purposes of transparency and good governance, that a Linkages Committee comprising of public sector representatives along with representatives from the private sector industry associations be established:

(a) To make recommendations to the Minister of Finance on the application and operation of customs duty and ASD reliefs (at **(7)** and **(8)** above). It is proposed that consultation should take place in advance of implementation of the regime or any changes thereto.

(b) To receive reports from Ministry of Finance and Tax Administration Jamaica on the application and monitoring of incentives and reliefs offered and to make recommendations to the Minister of Finance as appropriate.

(c) To make recommendations to the Minister concerning the design, implementation or operation of new performance based incentives pursuant to provisions of the proposed Omnibus Incentives Act.

(d) To periodically review the level of trade protection enshrined in Jamaica's customs laws and to make recommendations to the Minister of Finance on any adjustment, withdrawal or extension to same.

(e) To provide a forum for Jamaica's various industry sectors to consult with one another and identify and implement opportunities for business linkages between the sectors with a view to further enhancing the contribution of each sector to the development of the economy.

(f) To issue a report annually to the Minister of Finance in connection with the above matters, to make recommendations on tax policy and administrative reform etc. A copy of this report should be placed on the Ministry's website in the interest of transparency.

It is proposed that the customs duty/ASD reliefs and performance based incentives as well as the associated framework outlined above should be set out and governed by an omnibus Jamaica Incentives Act (JIA) to supplement the competitive general tax regime. In implementing this regime, it will be important to ensure that it is properly

Appendix I

Overview of First-Tier Policy Reform Proposal

designed to comply with Jamaica's international obligations including with WTO and the CARICOM Community (under the Treaty of Chaguaramas and the Common External Tariff).

10. Review of Customs Duty rates in excess of 20%

It is proposed that a review of all customs duty rates in excess of 20% be undertaken with a view to assessing whether (and if so to what extent) it is feasible to reduce these rates to 20% in an effort to simplify the customs tariff regime. This was a specific recommendation contained in the IDB Tax Reform Proposal presented by the IDB in March 2011.

This requires a line-by-line review of each category of goods currently attracting customs duty in excess of 20% in order to assess the basis on which it attracts a higher rate of duty and whether there is continued merit in retaining same. For certain goods (e.g. agricultural produce), the higher rate of duty represents a trade protection measure and significant caution must be exercised before adjusting same. It is critical that not only should an appropriate level of trade protection be maintained (in particular in relation to agriculture) but that consideration should also be given as to whether this protection can be extended where appropriate. This will be dependent in part on to what extent Jamaica's commitments to WTO limit our scope in maintaining the desired level of protection through a commensurate increase or expansion of the scope of Additional Stamp Duty (ASD) as a compensatory measure.

OTHER IMPORT LEVIES & CHARGES:

The following measures are proposed:

11. Abolition of Advance GCT, the Customs User Fee (CUF), the Environmental Levy (EL) & the Standards Compliance Fee (SCF)

At present importers are faced with a series of *ad valorem* levies and charges at the port in addition to customs duty, import GCT/SCT and various service fees charged by Jamaica Customs:

Levy/Charge	Rate	Comments
Customs User Fee (CUF)	2% / 5%[4]	Not recoverable by way of credit
Advance GCT	5%	Imposed on certain commercial imports (wide range of exceptions)
Environmental Levy (EL)	0.5%	Imposed on most imports – not recoverable by way of credit/refund SCF accrues to the Bureau of Standards
Standards Compliance Fee	0.3%	

It is proposed to abolish each of the above charges/fees and replace them (with the exception of petroleum products) with an Advance Tax Payment (ATP) regime which is described in **(12)** below. It is also proposed to replace the 5% CUF on finished petroleum fuel and oil products by a commensurate increase in special consumption tax (SCT) (described in more detail in **(13)** below).

The principal effects of the above proposed measure may be summarised as follows:

- As non-recoverable *ad valorem* levies on imported goods, the customs user fee (CUF), the environmental levy (EL) and the standards compliance fee (SCF) collectively increase the cost of imported business inputs by 2.8%. This cost becomes embedded in the cost structure of Jamaican businesses and therefore must either be absorbed or passed on to consumers (both domestic and overseas) in the form of higher prices - thereby making Jamaican businesses less competitive. The abolition of CUF, EL and SCF will serve to enhance the cost competitiveness of

[4] On finished petroleum fuel and oil products

Appendix I

Overview of First-Tier Policy Reform Proposal

Jamaican businesses.

- These levies offer no protection to tax compliant businesses which are disadvantaged in having to compete against tax evaders who can undercut the prices of legitimate businesses due to their non-payment of tax. In contrast, where a higher withholding is imposed at the port which is fully creditable and refundable against one's income tax or GCT liabilities as appropriate, this does not represent an additional cost to the tax compliant business (other than in cash flow terms). It does however recover further taxes from the non-compliant operator and reduces his competitive advantage. The abolition of CUF, EL and SCF and the replacement of same with an ATP regime (see **(12)** below) will help to protect compliant taxpayers and reduce the competitive advantage currently enjoyed by non-compliant businesses.

- Concern has also been expressed over the application of *ad valorem* fees at the port in the context of Jamaica's obligations to the World Trade Organisation (WTO) and the CARICOM Community. The abolition of these levies entirely addresses this issue.

- In principle, the 5% advance GCT payment should operate as a compliance measure on a similar basis to the ATP. The manner in which it was implemented however was deficient in that it was structured so as to be treated as a GCT input tax credit instead of a withholding tax creditable against income tax or GCT. As a result compliant taxpayers whose activities are not subject to GCT cannot recover this amount (i.e. it therefore increases their tax burden). In addition there are a wide range of exclusions from the application of advance GCT. Furthermore there is also concern as to whether the current regime is WTO compliant. These issues are resolved by abolishing the advance GCT and replacing it with the proposed ATP regime (see **(12)** below).

- The current CUF/EL/SCF and advanced GCT regimes all contain different exemptions and exclusions which require significant administrative resources from both the perspective of the taxpayer (in terms of securing relief) and the tax administration (in terms of policing). The elimination of these regimes in replacement of these regimes with a more simplified broad-based ATP regime should serve to enhance the efficiency of the Jamaican tax system.

12. Imposition of an Advance Tax Payment (ATP) on most imports:

In lieu of the Customs User Fee, the Environmental Levy the Standards Compliance Fee and Advanced GCT, it is proposed, for the reasons described in **(11)** above, that an Advance Tax Payment (ATP) be imposed on all imports (other than on crude petroleum and certain prescribed petroleum products) at the rate of:

- 3% of the CIF value of imports by Authorised Economic Operators (AEOs);

- 7.5% of the CIF value of imports in any other instance.

The Authorised Economic Operator System is devised by World Customs Organization (WCO) and is designed to encourage compliance and reduce security risks by certifying all relevant personnel within the importation and exportation chain. According to the WCO an AEO is:

"a party involved in the international movement of goods in whatever function that has been approved by or on behalf of a national Customs administration as complying with WCO or equivalent supply chain security standards. Authorized Economic Operators include inter alia manufacturers, importers, exporters, brokers, carriers, consolidators, intermediaries, ports, airports, terminal operators, integrated operators, warehouses and distributors."

Properly implemented, this regime can incentivise importers to become tax compliant and pursue AEO status. In order to ensure that the system is not abused, it will be important that Jamaica Customs reviews the certification

Appendix I

Overview of First-Tier Policy Reform Proposal

process for rigour and ensures that it has sufficient resources to cater to increased demands for AEO status. There needs to be a clear and robust system for the issuance, renewal and monitoring of AEO certification. Where a taxpayer substantially fulfills all requirements, the issuance or renewal of AEO status should not be held up for minor outstanding matters. Where necessary an interim AEO status should be granted pending resolution of same.

It proposed that ATP (in excess of a *de minimis* equivalent of US$250 per import entry) shall be creditable against the importer's own income tax or GCT liabilities and that any lawful excess shall be refundable. In terms of administration, it is understand that Tax Administration Jamaica (TAJ) will initially record the ATP as an advance payment against GCT pending amendment to its system in order to capture the ATP for set off against either income tax or GCT liabilities.

ATP chargeable on imports by approved charitable/educational/healthcare institutions should be relieved by way of a tax credit or refund mechanism (i.e. as opposed to not being liable at the port).

SPECIAL CONSUMPTION TAX:

13. Increase in SCT on certain petroleum products:

CUF is currently imposed the rate of 5% on the importation of the following products:

Chargeable On	Exemptions
Petroleum oils etc. (Tariff Heading 27.10) *Lubricating Preparations (Tariff Heading 34.03)* *Hydraulic Brake and Transmission Fluids (Tariff Heading No. 38.19)*	*Products imported under Petrocaribe Agreement* *Aviation fuel* *Fuel used in bauxite/alumina industry*

Further to the proposed abolition of the customs user fee and environmental levy, it is proposed to apply an *ad valorem* rate of SCT of 5% on the importation or manufacture of the above products (subject to similar exemptions). In the case of prescribed petroleum fuel products which currently attract ad valorem SCT at a rate of 10%, this shall be increased to 15%.

14. Increase in SCT on motor vehicles

It is proposed that additional *ad valorem* SCT be imposed on the importation of motor vehicles at a rate sufficient to maintain the current aggregate import duty structure as a result of:

(a) the proposed reduction in the standard rate of GCT from 17.5% to 12.5%; and

(b) the proposed abolition of customs user fee (CUF) and environmental levy (EL).

The overall effect of the proposed change is intended to be revenue neutral.

It is also proposed to increase the rate of SCT on the following luxury motor cars, SUVs and trucks:

Appendix I

Overview of First-Tier Policy Reform Proposal

Type	Current SCT Rate
Motor Cars (incl. SUVs) - 2001 cc - 3500 cc (gas)	20% (dealer) / 30% (individual)
Motor Cars (incl. SUVs) - 2201 cc - 3500 cc (diesel)	13% (dealer) / 20% (individual)
Motor Cars (incl. SUVs) - 3500 cc + (gas)	30% (dealer) / 40% (individual)
Motor Cars (incl. SUVs) - 3500 cc + (diesel)	23% (dealer) / 30% (individual)
Trucks - pick-ups - exceeding 2,200 kg (gas)	30% (dealer) / 40% (individual)
Trucks - pick-ups - exceeding 2,200 kg (diesel)	23% (dealer) / 30% (individual)

The proposed rates are currently in the process of being determined. It is intended that this measure combined with the proposed modification to the alcohol tax regime (see **15.** below) should yield an additional J$1 billion to the Consolidated Fund.

It is not proposed to alter the concessional SCT rates offered to trucks used exclusively for agricultural purposes but where appropriate the larger/higher end pick-up trucks should be excluded from benefiting from this concession and there should be further administrative tightening of same.

15. Modification of tax regime on alcoholic beverages

The following modifications are proposed to the alcohol taxation regime:

(a) Application of a single reduced uniform specific rate of SCT to alcoholic beverages (i.e. computed at a prescribed dollar value per litre of pure alcohol content). This amount should be indexed annually for inflation.

(b) Increase in the rates of Customs Duty (CD) and/or Additional Stamp Duty (ASD) with a view to enhancing trade protection particularly in relation to cheap alcohol imports. **(15)**

(c) Withdrawal of the special concession currently afforded to the tourism sector on the importation/purchase of alcohol (i.e. alcohol would be subject to a standard form of taxation across the board irrespective of who purchases it). **(15)**

It is proposed that the adjustments highlighted in (a) to (c) above should be effected at such rates such that when combined with the proposed increase to the SCT rate on high-end motor vehicles (see **14.** above) yields an additional J$1 billion to the Consolidated Fund.

15A. Modification of tax regime in relation to tobacco products

The tax regime currently imposes the following levels of special consumption tax (SCT) on the tobacco products highlighted:

Description	Base	SCT
Cigarettes containing tobacco or tobacco substitutes	Number of sticks	J$10,500 per 1,000 sticks
Cigars, cheroots, cigarillos containing tobacco or tobacco substitutes	Number of sticks	J$10,500 per 1,000 sticks
Smoking and other manufactured tobacco and snuff	Value	12%

Appendix I

Overview of First-Tier Policy Reform Proposal

The Working Group makes the following reform recommendations in relation to the tobacco tax regime:

(a) All tobacco products together with all over-the counter consumer products containing nicotine (or any substitute thereof) collectively referred herein as nicotine-containing products (NCPs) should be subjected to a similar level of taxation. Consequently it is proposed that the rates of tax currently imposed on cigarettes, cheroots, cigarillos etc. should be extended to all NCPs other than those prescribed by a medical professional for use in the treatment of nicotine dependency. This would include applying identical or comparable taxation levels to electronic cigarettes, nicotine cartridges, manufactured tobacco (including locally produced tobacco products) and dissolvable/smokeless tobacco products.

(b) With a view to ensuring that NCPs designed to medically treat persons with nicotine dependency (e.g. nicotine patches etc.) are not caught by the above provisions, it is proposed that such products be listed under the Fourth Schedule (List Four Drugs) to the Food and Drug Regulations 1975. This would mean that these products would require a medical prescription but in turn should become more affordable as they would be subject to minimal taxation as prescription medication.

(c) In line with other specific rates of SCT, the amount of SCT imposed on NCPs should be indexed annually to an appropriate inflation index.

(d) In an effort to stem the trade in tobacco products which have not been appropriately subjected to customs or excise, it is proposed that the Commissioner General be empowered to secure recovery of any outstanding customs or excise in respect of NCPs from any person supplying NCPs which have not borne such customs or excise.

(e) Given the challenges of imposing SCT on the informal production and supply of locally grown tobacco, a review should be undertaken to identify alternative mechanisms to recover a comparable measure of taxation on such products.

(f) As part of the proposed administrative reform measures, various measures are proposed to further enhance border control with a view to minimising contraband and ensuring that goods imported (including NCPs) are appropriately subjected to required import duties.

PERSONAL INCOME TAX (PIT):

16. Reform of the PIT Regime:

At present Jamaican tax resident individuals are liable to income tax at the rate of 25% in excess of income exceeding J$441,168 per annum.

The Working Group is of the view that a significant reform of the PIT regime is necessary in order to improve the equity of the system. Under the current regime a disproportionate share of the burden of PIT is borne by PAYE taxpayers.

With a view to enhancing the PIT regime, the following amendments are proposed with effect from **1 January 2013** (being the commencement of a new year of assessment) or such earlier date as the Government may determine:

(a) Abolish the existing tax-free threshold (currently J$441,168 per annum)

(b) Introduce a reduced PIT rate of 15% (imposed from the first dollar of income) on income up to J$1,123,200 per annum (i.e. on the first J$21,600 per week or J$93,600 per month)

(c) Income in excess of J$1,123,200 per annum will continue to be liable to income tax at the rate of 25%

Appendix I

Overview of First-Tier Policy Reform Proposal

(d) Introduce an income tax exemption limit of J$499,200 whereby individuals whose income does not exceed J$499,200 are not liable to income tax. In other words, income tax shall not be payable by individuals whose aggregate income does not exceed J$9,600 per week or J$41,600 per month.

(e) For individuals whose income exceeds J$499,200 but is less than J$1,123,200, their income tax liability will be capped at the lower of:

(i) 15% of their income (i.e. from the first dollar); or
(ii) 25% of the difference between their income and the exemption limit (J$499,200)

This may be summarised as follows:

Chargeable income does not exceed:	Liability to Income Tax
J$499,200 p.a.	No Liability
J$1,123,200 p.a.	The lower of: Chargeable income x 15% OR (Chargeable Income – J$499,200 Exemption Limit) x 25%
Exceeds J$1,123,200 p.a.	First J$1,123,200 of Chargeable Income x 15% Balance of Chargeable Income x 25%

The proposed regime may easily be given effect through the PAYE regime through the application of a tax-free amount equivalent to the tax saving offered by the reduced rate of PIT.

It is estimated that the proposed regime should reduce the current income tax burden of PAYE workers by over J$2 billion in aggregate. All PAYE workers (307,320 workers in total) will benefit with the bulk of this enjoyed by lower and middle income earners. PAYE workers earning incomes of less than J$2.6m per annum will benefit from in excess of J$1.7 billion of the total of J$2 billion in reduced income tax burden.

PAYROLL TAXES – STATUTORY DEDUCTIONS:

17. Reform of the National Insurance Scheme (NIS)

It is proposed that the NIS regime be amended by the removal of the current income limit (J$1,000,000 per annum) on which NIS is imposed and a commensurate reduction of NIS rates as follows:

NIS Contributor	Current	Proposed
Employer	2.5% on the first J$1m of emoluments per annum	1.5%
Employee	2.5% on the first J$1m of emoluments per annum	1.5%
Self-Employed	5% on the first J$1m of earnings per annum	3%

The principal effects of the above proposed measure may be summarised as follows:

- It is estimated that the measure is approximately revenue neutral on an aggregate basis.

Appendix I

Overview of First-Tier Policy Reform Proposal

- The measure however has a highly re-distributive effect in favour of the lower paid as it reduces the NIS contribution of lower income earners by an aggregate of J$2.4 billion – this is borne instead by higher income earners and their employers (as a result of removing the salary cap).

- The NIS rate reduction therefore reduces the cost of employed labour (at lower income levels) by 2% thereby incentivising formal employment at lower income levels.

It is proposed that these measures be implemented with effect from **1 January 2013** (or such earlier date as the Government may determine) along with the PIT measures noted at **(16)** above.

Given the reduction in NIS contributions by lower-income contributors (as a result of reducing the rate of NIS from 2.5% to 1.5%), the formulas for calculation of associated NIS benefits should be reviewed and as appropriate adjustments made in order to ensure that the benefits payable to lower-income contributors are not adversely impacted as a result of the proposed NIS rate reduction.

18. Harmonisation of Payroll Tax Base and Regime Consolidation

Having regard to the proposal to reform the NIS regime (see **(17)** above) the following additional amendments are proposed in order to harmonise and consolidate the payroll tax regime:

(a) Amendment of the Education Tax Act to make it clear that Education Tax (EDT) is assessable by reference to a contributor's gross emoluments (for employees) or earnings (in the case of the self-employed) i.e. before deduction for NIS contributions. This harmonises the payroll tax base so that EDT/NIS/NHT and HEART contributions can all be computed in a similar manner.

(b) The completion of (a) above facilitates consolidation of the computation, reporting and payment of statutory deductions by employers. Upon receipt of these monies, Tax Administration Jamaica then divides the monies collected between the Consolidated Fund (representing PAYE & EDT), the National Housing Trust, the National Insurance Scheme and the HEART Trust.

(c) The following table summarises the effect of consolidating the various payroll taxes:

Contributor	Consolidated	NIS	EDT	NHT	HEART
Employer	**10.5%**	1.5%	3.0%	3.0%	3.0%
Employee	**5.5%**	1.5%	2.0%	2.0%	n/a
Self-Employed	**8%**	3.0%	2.0%	3.0%	n/a

The principal effects of the above proposed measures may be summarised as follows:

- The harmonisation of the Education Tax base with the other payroll tax bases is somewhat revenue positive (to the tune of approximately J$240m).

- It is estimated that the combined effect of the proposed changes to the payroll tax regime should reduce the aggregate payroll tax burden of approximately 248,000 of the lowest earning PAYE workers by over J$3.87 billion. Of this amount, J$2.13 billion is borne by higher paid PAYE workers with the balance (J$1.74 billion) representing a net give-back to the PAYE population.

Appendix I

Overview of First-Tier Policy Reform Proposal

- The consolidation of the payroll tax regime significantly reduces the payroll tax administrative burden on both employers and the tax authorities.

It is proposed that these measures be implemented with effect from **1 January 2012** along with the PIT measures noted at **(16)** above.

CORPORATE INCOME TAX (CIT):

19. Reduction in the Corporate Income Tax (CIT) Rate

As previously indicated the overall goal of the proposed tax reform is for Jamaica to have a tax system which:

- Promotes economic growth and acts as a catalyst for development;
- Is characterised by simplicity, equity and competitive rates;
- Is administered in an efficient and effective manner.

As part of this reform, a phase out existing sectoral incentives is proposed along with a discontinuance of discretionary Ministerial waivers.

This goal simply cannot be achieved without fundamentally overhauling Jamaica's general CIT regime. At present CIT is imposed at the rate of 33⅓% on chargeable income. This is imposed from the first dollar of income i.e. this contrasts with our personal income tax (PIT) regime which currently grants each taxpayer full relief from income tax on his first J$441,168 of income per annum.

The unattractive nature of the current CIT regime is further compounded by additional taxes imposed on the distribution of these profits to non-resident shareholders. This matter is separately dealt with in **(20)** below.

It is therefore the view of the Working Group that Jamaica's general CIT rate needs to be significantly reduced in order to:

- establish a competitive rate of CIT when benchmarked against our key regional competitors (who also currently offer a range of sectoral incentives in addition to the above);

- offer an attractive alternative (when combined with other indirect tax reforms proposed herein) to sectors which are currently incentivised and offer no CIT contribution. This is particularly urgent as Jamaica needs to offer an alternative to existing export-driven incentives by 2015 (especially for the goods-producing sector).

- pursue a key broader objective of lowering tax rates and broadening the tax base.

- stimulate Jamaica's indigenous private sector so that local businesses (whether large or small) can play their key part in economic development alongside foreign direct investment (FDI) attracted to the Island.

- incentivise greater levels of tax compliance by companies (along with strong administrative measures).

In light of the above, the following amendments are proposed to the CIT regime:

(a) a reduction in the general rate of CIT from 33⅓% to 15% on income and profits arising in any basis period (i.e. the company's financial year) ending on or after 1 April 2012;

(b) a retention in the short-term of the current 33⅓% rate of CIT for entities engaged in 'specified categories' of activities. The determination of 'specified categories' will be appropriately defined in the proposed supporting

Appendix I

Overview of First-Tier Policy Reform Proposal

legislative framework but in broad terms will include certain highly regulated/licensed activities and those conducted in a monopolistic or near monopolistic environment. (note: special consideration should be given to smaller Security Dealers and Insurance Companies who face increases in their capital adequacy standards under current regulation).

(c) subject to the achievement of demonstrated revenue performance and associated fiscal and economic growth targets (which should be specified in detail in any final policy statement), it is proposed that the CIT rate applicable to entities specified in (b) be reduced on a phased basis over six years of assessment as follows:

2013	2014	2015	2016	2017	2018
30%	27%	24%	21%	18%	15%

(d) in the short-term, no adjustment is proposed to the special Building Societies regime (30% CIT) or life assurance tax regime (15% tax on investment income plus 3% premium tax on gross premiums from life, pensions and annuity business). As and when the CIT rate is reduced for entities specified in (b) above, a commensurate adjustment to these regimes is also proposed.

19A. Imposition of a Minimum Income Tax (MIT) Payable by Companies

The proposed tax reform seeks to encourage persons to conduct formally structured business activities in a responsible manner. The conduct of legitimate business through companies should be encouraged given the benefits that incorporation affords (limited liability, perpetuity, ease of ownership etc.). The introduction of a competitive CIT rate of 15% is specifically designed to stimulate and support such activity. The corollary to this is that incorporation also requires discipline and organisation including the maintenance and filing of records annually as well as adherence to the requirements of the Companies Act and all relevant tax laws.

Based on checks at the Companies Office of Jamaica, the following table highlights the total number of companies currently registered:

Registered Companies	Total
Locally incorporated companies	61,153
Registered branches of overseas companies	1,324
TOTAL	**62,477**

Source: Companies Office of Jamaica – February 2012

Based on checks with the Ministry of Finance, it is provisionally estimated that (as at April 2011) approximately 17,100 corporate entities were registered for tax purposes and just over 6,000 of these entities filed Corporate Income Tax (CIT) Returns in respect of the year assessment 2010 (as at April 2011). Of the CIT Returns filed a sizeable percentage were "nil" Returns (i.e. in respect of which no tax was paid).

In light of the above, it is proposed to impose a minimum income tax (MIT) payable by locally registered companies (both locally incorporated companies and overseas companies with locally registered branches) of the higher of:

(i) 0.5% of gross turnover/revenues (as defined); or

(ii) J$100,000.

Appendix I

Overview of First-Tier Policy Reform Proposal

provided that in the event that the amount of income tax otherwise payable on chargeable income reported by the company exceeds the above MIT amount, then the MIT shall not be payable.

MIT shall not be payable by:

(a) companies engaged in "specified categories" which are subject to income tax at the higher CIT rate of 33⅓%;

(b) companies whose entire income is exempt from income tax (e.g. charitable organisations).

Where a company is entitled to a relief from income tax in respect of profits derived from specified activities (e.g. export, tourism incentives etc.), gross revenues derived from such specified activities shall be excluded from the computation of the MIT at (i) above.

On the understanding that nearly 60,000 of the locally incorporated companies do not currently file Tax Returns on which tax is reported as payable and it is conservatively estimated that the minimum MIT should be assessable on at least one-third of these companies, then it is estimated that the MIT should yield at least J$2 billion per annum.

20. Taxation of Dividends

At present Jamaican tax law imposes tax at the rate of 0% on profits distributed by a Jamaican company by way of dividend to its Jamaican tax resident shareholders. In contrast where the same profits are distributed to non-Jamaican resident shareholders, then withholding tax is imposed at a rate up to 33⅓% in the case of corporate shareholders (25% for individual shareholders). This results in the imposition of an effective income tax rate of up to 55% on foreign investors. This is clearly unattractive and therefore strongly promotes investors to;

- aggressively pursue special incentives or concessions;
- structure their operations in a more complex manner in an effort to reduce the effective rate of tax faced; or
- consider Jamaica as an unattractive investment location and therefore pursue alternatives.

It is proposed therefore that the following amendments (designed to work in conjunction with the CIT proposals outlined in **(19)** above) should be made to the manner in which dividends are taxed:

(c) Abolition of current zero-rate of tax charged on ordinary and non-deductible preference dividends paid to Jamaican residents out of profits derived in a basis period (i.e. the company's financial year) ended on or after 1 April 2012.

(d) Imposition of income tax (including withholding tax) at the rate of 10% (representing the full and final tax liability) on all ordinary dividends or non-deductible preference dividends paid out of profits derived in a basis period (i.e. the company's financial year) ended on or after 1 April 2012 (subject to exceptions in (c) and (d) below) to either a Jamaican tax resident shareholder or a non-resident shareholder (subject to any protection the non-resident shareholder may enjoy under a tax treaty concluded between Jamaica and the jurisdiction in which he is tax resident).

(e) Notwithstanding the above, where profits derived in a basis period (i.e. the company's financial year) ended on or after 1 April 2012 have been subjected to CIT at a rate exceeding 25% (or have been subjected to commensurate taxation under the special tax regimes for building societies or life assurance companies), then the distribution of such profits (including dividends representing such profits) by a company shall be treated as franked income and may be distributed to Jamaican tax resident shareholders (whether individual or corporate) without further income tax. In the event that such profits (or dividends representing such profits) are

Appendix I

Overview of First-Tier Policy Reform Proposal

distributed to non-Jamaican resident shareholders, then the 10% tax noted at (b) above shall apply and must be accounted for by way of withholding (subject to any protection the non-resident shareholder may enjoy under a tax treaty concluded between Jamaica and the jurisdiction in which he is tax resident).

(f) Dividends paid by one Jamaican resident company to another Jamaican tax resident company (which is beneficially entitled to the dividend) shall be exempt from income tax (and shall not be subject to withholding tax) – so however when amounts representing these dividends are paid to Jamaican resident individual or non-resident shareholders they shall be liable to income tax (including withholding tax) at the rate of 10% (as specified in (b) above). In the case of non-resident shareholders, the imposition of the 10% rate of income tax shall be subject to any protection the non-resident shareholder may enjoy under a tax treaty concluded between Jamaica and the jurisdiction in which he is tax resident.

(g) Tax-deductible preference dividends shall attract withholding tax at a rate of 25% where paid to Jamaican tax resident shareholders or non-resident shareholders (subject to any protection the non-resident shareholder may enjoy under a tax treaty concluded between Jamaica and the jurisdiction in which he is tax resident).

The current and proposed general positions are summarised in the following table:

	Current: Resident	Current: Non-Resident	Proposed: Individual/Non-Resident
Profit before Tax (PBT)	100.00%	100.00%	100.00%
CIT	(33.33%)	(33.33%)	15.00%
Distributable Profit After Tax (PAT)	66.67%	66.67%	85.00%
Less: Dividend Withholding Tax (DWT)	-	(22.22%) (1)	(8.50%) (2)
Net Dividend	66.67%	44.45%	76.50%
Effective Tax Rate	**33.33%**	**55.55%**	**23.50%**

(1) PAT – 66.67% x 33.33% (2) PAT – 85.00% x 10%

Finally it should be noted that consideration was given to whether dividend taxation should be abolished entirely in order to simplify the tax regime further. While this is a matter that can be revisited at a later date, it is felt by the Working Group that a dividend withholding tax regime should be retained on the following grounds:

- While a reduced rate of PIT (of 15%) is being proposed, higher income individuals will remain subject to a marginal rate of income tax of 25%. With a CIT rate of 15% being proposed, the absence of a DWT could be sufficient to incentivise individuals to earn income / hold investments through companies that would otherwise accrue directly to the individual. The maintenance of a DWT (combined with the cost of establishing and maintaining a company) will serve to disincentivise this behaviour.

- Jamaica has concluded treaty arrangements with our key trading partners which permit taxation paid in Jamaica by investors from those jurisdictions to be creditable against taxation in their home country. The lower combined effective income tax rate proposed significantly increases the likelihood that those investors can secure full credit for Jamaican income tax (including DWT) paid. In light of this, the abolition of a DWT would unnecessarily forgo the opportunity to collect taxes which would otherwise be paid in the investor's home jurisdiction.

- In the event that DWT is abolished entirely, it is unlikely that a CIT rate of 15% would be sustainable. It is the view of the Working Group that a 15% headline CIT rate can provide Jamaica a significant competitive edge in terms

Appendix I

Overview of First-Tier Policy Reform Proposal

marketing the Island as the destination of choice for investment in the region. CIT rates are trending downwards both globally and regionally – a 15% general CIT rate (the lowest in the Caribbean) would capture the attention of both the local and international investment community and has the capacity to be transformative at several levels.

- Finally the existence of a DWT encourages companies to re-invest their profits back into their business in Jamaica (as opposed to distributing it to shareholders) while the relief from DWT afforded to local inter-company dividends enables local groups of companies to reallocate cash within the group where it is most needed in order to preserve and stimulate further business activities.

SECTORAL INCENTIVES & WAIVERS:

21. Phase-out of Sectorally-Driven Incentives

Despite extensive sectoral incentives granting full relief from income tax, the Jamaican economy has recorded anaemic economic growth over an extended period of time. Jamaica has been successful in attracting Foreign Direct Investment (FDI) (when one considers the level of FDI as a percentage of GDP) but this has not translated into the desired levels of economic growth.

In light of this, it has been argued that:

- the current sectoral approach is no longer effective and may indeed divert resources from other sectors (with growth potential) to mature sectors with less growth potential.

- Jamaica unnecessarily relieves excessive amounts of tax in order to attract investment. It is also pointed out that investors from treaty jurisdictions are in any event entitled to claim a credit for Jamaican income tax against their home country tax liability.

- the focus on export activity (within our existing incentive framework) is unsustainable in the long-term in light of Jamaica's obligations to WTO and CARICOM (as previously noted). Jamaica is required for example to abolish export incentives in relation to goods-producing activities by 2015.

A counter-argument made to the above is that the prevailing incentive regime has had some success (as evidenced by the level of FDI) despite its weaknesses and limitations and that the economy would have been much worse off without these sectoral tax regimes. It is further argued that the prevailing incentives should be maintained for as long as possible in order to compete with our regional neighbours who continue to offer sectoral incentives. In a global environment, it is perceived by some that Jamaica cannot afford (in light of its challenging fiscal position) to risk taking a different path which may undermine its tax competitiveness.

Having considered the merits of both arguments and taking account of:

- the country's current fiscal position;

- the complexity of our tax regime and associated uncertainties created;

- the limitations of and challenges faced by our tax administration (compounded by the consumption of scarce resources to administer a myriad of incentives, concessions and waivers);

the following reforms are proposed by the Working Group:

Appendix I

Overview of First-Tier Policy Reform Proposal

(a) Phase-out of the sectorally-driven incentive regime with a competitive overall tax regime that supports and stimulates the local production of goods and services. This would involve the following (once the new competitive general regime is put in place):

- Cessation of approval of new incentives (including extensions) under the Hotel Incentives /Resort Cottage Incentives/Approved Farmer regimes and Free Zone/EIEA regimes in respect of goods producing activities.

- Existing time-bound incentives would continue until expiry subject to proposed mechanisms that will be employed to monitor and strictly enforce reliefs.

(b) Jamaica has committed to remove export-driven incentives which it currently grants to "goods-producing" activities by 2015. This will require the disbanding of several pieces of incentive legislation including the Jamaica Export Free Zones Act (JEFZA) and Export Industry Encouragement Act (EIEA). As Jamaica has not yet bound itself to forgo export-driven incentives in respect of service activities, it is proposed the JEFZA & EIEA be replaced by the Omnibus Incentives Act which would offer the same incentives to existing and new Free Zone exporters and EIEA-type partial exporters. The primary service activity which would continue to benefit from these provisions would be ICT/BPO activities.

(c) Cessation of other sectorally-driven direct/indirect tax incentives, preferences and waivers.

(d) Reduction of relief from income tax offered in consideration of listing on the Jamaica Junior Stock Exchange (JJSS). At present companies that list on the JJSE enjoy full relief from corporate income tax (CIT) on their profits for the first five years after listing and a further 50% relief from CIT during the subsequent five years (i.e. for years 6 -10). The following modifications are proposed:

- The 50% relief offered for the years 6 – 10 should be abolished for new listings (i.e. new listings may enjoy full relief from CIT for a five year period only).

- Existing companies listed on the JJSE should continue to enjoy current ten-year relief granted until expiry.

- Transfer tax and stamp duty exemption on the transfer of shares across the floor of either the JSE or the JJSE will be unaffected.

(e) It is recognised that certain specialised activities e.g. international financial services / investment funds (e.g. UCITS), shipping and aircraft registries etc. may require a special supporting tax framework.

22. Incentive for Large-Scale Strategic/Pioneer Projects

It is proposed that the competitive general tax regime be supplemented by a tax credit based non-sectoral incentive mechanism (based on specific deliverables) where needed to attract large-scale pioneer/strategic/ nationally significant projects (to be defined with measurable characteristics). The precise mechanics of such a scheme is currently being considered.

The attraction of such a scheme is that it is performance based, measurable in dollar terms, transparent and does not require taxation legislation to be amended on a sectoral/piecemeal basis. Rather than focusing on the type of activity, the performance criteria would focus on desired deliverables: e.g. job creation and maintenance, skills creation/transfer, capital investment, transfer of know-how, creation of intellectual property, backward linkages etc. The scheme would include the development of appropriate scorecards and the level of additional "incentive" tax credit would be tied to the score achieved. This would also provide JAMPRO with more flexibility to negotiate and land

Appendix I

Overview of First-Tier Policy Reform Proposal

desired strategic projects.

23. Tax credits to encourage pursuit of certain national goals

It is proposed that the competitive general income tax regime will apply to all taxpayers subject to certain exceptions (e.g. approved charities, pension funds etc.). In addition it is proposed that the general regime will be supplemented by a number of performance-based incentives specifically designed to encourage the pursuit of certain national goals including:

- Investment in education and training
- Investment in research & development, investment in technology & transfer of know-how
- Public-private partnerships (e.g. to address infrastructural deficits)
- Maintenance of savings locally
- Seed capital for start-ups and SMEs
- Urban renewal and rural development
- Investment in the arts, entertainment, sports and cultural activities
- Investment in energy conservation/alternative energy initiatives
- Socially & environmentally responsible initiatives

The precise mechanism to implement the above incentives needs to be developed and enshrined within the proposed Omnibus Incentives Act.

24. Special PAYE tax credit to stimulate new job creation:

With a view to stimulating the creation of new jobs it is proposed to establish a tax credit incentive scheme for employers whereby a non-refundable tax credit shall be granted at the rate of 25% applied to the following base:

In the case of existing registered employers:

(i) An amount equivalent to the aggregate amount of Education Tax (employee & employer) and Income (PAYE) remitted and reported by the employer in Annual Returns filed by the due date in respect of the year of assessment 2011 and subsequent years; LESS

(ii) An amount equivalent to the aggregate amount of Education Tax (employee & employer) and Income (PAYE) remitted and reported by the employer in Annual Returns filed by the due date in respect of the previous year of assessment (i.e. 2011 being the first year) as indexed by an inflation index (published annually prior to the filing of the current Annual Return).

In the case of newly registered employers (i.e. in the first year):

An amount equivalent to the aggregate amount of Education Tax (employee & employer) and Income (PAYE) remitted and reported by the employer in Annual Returns filed by the due date in respect of the first year of assessment.

The tax credit computed may be used by the employer as a credit in computing net Education Tax/PAYE obligations in subsequent monthly payroll tax filings until fully utilised. The regime will also contain a number of anti-avoidance

Appendix I

Overview of First-Tier Policy Reform Proposal

provisions with a view to mitigating the scope for abuse (e.g. by transferring employees between related companies etc.).

As the job creation tax credit is computed as a percentage of incremental PAYE/Education Tax reported (net of inflation), the working Group estimates that the scheme would be at least revenue neutral.

Apart from stimulating the creation of new jobs, and in light of the observation that only approximately 30% of the employed labour force is included in the PAYE tax rolls, another important advantage of this proposed tax credit scheme would be to encourage employers to regularise the employment of workers not currently included in the PAYE Tax rolls.

25. Discontinuance of Discretionary Ministerial Waivers (with limited exceptions):

It is proposed, once the competitive general tax regime and the proposed performance-based incentives are implemented, that discretionary ministerial waivers/licenses or other mechanisms which provide tax preferences should be discontinued subject to the following exceptions:

(a) Waivers which are necessary to give legal effect to contractual commitments entered into by the Government of Jamaica (GoJ) prior to the implementation of the competitive tax regime and which the GoJ has continuing legal obligation to honour.

(b) Waivers which are necessary to give legal effect to commitments made by the GoJ pursuant to bilateral, multilateral or other similar borrowing arrangements.

(c) Waivers of importation duties in respect of goods imported by approved charitable organisations which are solely and exclusively for charitable purposes subject to such terms and conditions as the Ministry of Finance may specify.

In this regard, it is proposed that a Tax Credit Scheme be implemented whereby the value of importation duties to be waived be determined in order to enable an equivalent amount to be credited to the tax account of the approved charitable organisation which would then draw upon same to settle the duties etc. at the port at the point of importation. The value of such credits granted to each taxpayer should be actively monitored on a periodic basis and the total value of such amounts (by taxpayer) should be published annually on the Ministry of Finance website.

In conjunction with implementing the above, all existing waivers granted to date which fail to meet the above criteria should be withdrawn. If there is a clear and justifiable reason for maintaining a specific tax preference previously granted pursuant to an existing waiver, then the tax preference should be appropriately codified in tax law. In considering these matters, the Ministry of Finance should consult with the Linkages Committee. Finally any waiver, license or other mechanism used to award or facilitate access to a tax preference should be published by the Ministry of Finance on its website and (subject to a minimum limit) in the print media.

PROPERTY TAX:

The importance of the property tax in Jamaica has been steadily declining for at least the past twenty years. The decline is largely a result of collection shortfalls and valuation cycles. Property revaluations are mandated every five years, but in practice this happens about every ten years. The last revaluation was conducted in 2002. A new valuation exercise is currently underway and indications are that values will have increased with respect to 2002 levels by between 100% and 150%. It is important to note that GOJ's failure to allocate sufficient funding during the current financial year ($75 million allocated versus $180 Million required) to complete the valuation exercise, will threaten the

Appendix I

Overview of First-Tier Policy Reform Proposal

administration's ability to implement the revised valuation roll for the targeted date of April 1st 2012. Collection rates also remain a significant problem, with only 41% of all properties paid in full for the year 2009-2010.

26. Property Tax Reform:

Having regard to the above, the Working Group proposes the following reforms to the current property tax regime:

(a) For both theoretical and practical reasons, we recommend that Jamaica keep the base as it is currently defined, a tax based on the unimproved value of land. It is also recommended that agricultural lands continue to be de-rated.

(b) Assuming, as noted above, that insufficient funding is available to complete the valuation process currently underway, it is proposed that the current 0.75% rate applicable to values above the threshold, be increased on a temporary basis to 2% with effect from **1 April 2012**. If on the other hand the valuation exercise can be completed in time for implementation on **1 April 2012**, then it is proposed that the currently applicable rate of 0.75% be increased to 1%.

(c) It is proposed that the current threshold be adjusted upward to $400,000 and that the flat rate of tax, applicable to land parcels falling below this value threshold, be adjusted to J$2,000.

Current expectations for 2011/12 are for total collections (including arrears) amounting to approximately $3.0 Billion, and based upon available data we estimate that the policy changes outlined above will lead to a gross collectible amount of approximately J$8.6 billion.

At the existing compliance rate we estimate current collections of approximately $4.8 Billion, with an additional $1.2 Billion from arrears collection providing a total yield of $6.0 Billion in 2012/13. It is important to note that the total revenue gain of $3.0 Billion estimated here ($6.0 Billion versus $3.0 Billion) assumes no improvement in collection rates. We believe there is scope to substantially and rapidly improve collection rates through the further administrative reforms described in Appendix III **(140 - 145)**.

OTHER:

27. Increase in Certain Motor Vehicle License Fees

It is proposed to increase annual motor vehicle licensing fees in respect of the following categories of vehicles (excluding taxis) with effect from 1 April 2012:

Category	Current	Proposed
Motor Cars (exceeding 2999 cc but not exceeding 3999 cc)	J$16,000	J$24,000
Motor Cars (exceeding 3999 cc)	J$24,250	J$36,000
Trucks etc. exceeding 2,000 kg	J$12,000	J$36,000

The increase in motor vehicle licensing fees on larger/high-end vehicles is a cost effective means of targeting higher income individuals. This measure is estimated to yield an additional J$150m to the Consolidated Fund.

Appendix I

Overview of First-Tier Policy Reform Proposal

28. Establish a Micro & Small Business Capacity Building Fund

It is recognised by the Working Group that the micro, small and medium enterprises (MSME) sector has a critical role to play in Jamaica's economic development. With a view to assisting the development of micro and small businesses, it is proposed to earmark J$500 million of budgeted expenditure annually to establish a Micro & Small Business Capacity Building Fund designed to provide capacity building support from suitable locations across the Island.

On a related matter, it is also proposed to earmark a portion of these budgeted expenditures towards initiatives to regularise deficient property rights in Jamaica. At present much real estate in Jamaica is unproductive and cannot be provided by way of security as a result of deficiencies in the underlying property title. This arises for several reasons including (i) that the property not being listed on the Register of Titles, (ii) there are deficiencies in the current title (e.g. the title does not reflect the current owners or physical sub-divisions of the land), (iii) there are disputes over title (e.g. unresolved family/estate matters) or (iv) the land is occupied illegally.

All of the above prevent owners and occupiers of such property from accessing credit by providing the property by way of security and actively discourages persons from making investments or improvements in connection with the property in the absence of certainty of tenure. Regularising these property rights will assist in unlocking the inherent value and provide greater access to capital for micro and small businesses.

29. Asset Tax:

It is proposed that the current requirement imposed on companies to file an Asset Tax Return and pay an annual asset tax amount should be abolished. Asset tax is a nuisance tax and does not provide any meaningful revenue to the Consolidated Fund.

Appendix II

Overview of Second-Tier Policy Reform Proposals

Short-Term (within 6 months)

Income Tax:

30. Review and overhaul of the current capital allowances regime to simplify and clarify asset categories, remove inconsistencies, unattractive write-off rates etc.

31. Increase threshold in terms of the maximum allowable tax write-off available in respect of motor car purchases (to say the Jamaican dollar equivalent of US$35,000).

32. Expand the capital allowances regime to include expenditure on intellectual property and other intangible assets.

33. Implement a direct tax incentive programme for renewable energy solutions

34. Introduce appropriate legislative amendments in order to recognise FX gains and losses for tax purposes in line with their recognition under GAAP. Particular care needs to be taken in addressing transitional rules. Design and implementation of specific provisions to ensure that companies whose functional currency is other than the Jamaican dollar may prepare tax computations and supporting schedules in that functional currency.

35. Abolish contractors levy. Replace (using a more tightly defined and practical base) with a withholding of an Advance Tax Credit (of 2-3%). Extend this requirement to payments by the Government of Jamaica and non-commercial statutory bodies for services rendered.

36. Amend the Income Tax Act (in line with international best practice) to facilitate the purchase by a company of its own shares. This amendment is particularly urgent for quoted companies.

Payroll Taxes

37. Apply Statutory Deductions only to employment income (emoluments) and income derived from a trade, profession or business (self-employed). It should not apply to investment income, approved pension income or on income of individuals aged 65 or over.

General Consumption Tax

38. Evaluation of international best practice vis-à-vis what constitutes an exported service for VAT purposes with a view to amending the GCT Act and Regulations accordingly.

    In a similar vein it is recommended that the application of GCT on imported services needs to be urgently addressed as it risks impairing Jamaica's international competitiveness. It does this by making critical services not otherwise available locally (e.g. technical expertise, intellectual property rights, software etc.) much more expensive in circumstances where the GCT chargeable is not recoverable. It is proposed therefore GCT on imported services be either abolished entirely or confined to services physically performed within Jamaica by non-resident suppliers.

39. Abolish restriction requiring a registered taxpayer to claim the input credit in three equal instalments on the purchase of "*machinery or equipment*" (in excess of J$100,000) for the purpose of making taxable supplies.

40. Abolish prohibition on

    (a) a registered taxpayer from claiming an input credit in respect of GCT incurred in on materials used in the construction of or repairs to any premises in relation to his taxable activity;

    (b) suppliers of electricity claiming input credits in respect of GCT on their inputs.

    It is asserted that the above prohibitions are inconsistent with basic GCT principles.

    In conjunction with the abolition of the prohibition noted at (b) above, the current GCT exemption applicable to:

Appendix II

Overview of Second-Tier Policy Reform Proposals

the supply of electricity by any person who supplies electricity to a supplier (licensed within the meaning of section 5 of the Electricity Lighting Act) who supplies electricity nationwide to residential, commercial and industrial customers.

should be repealed.

41. Amend the GCT Act to ensure that GCT incurred on expenses while undertaking activities preparatory to or necessary for the commencement of operations and the making of taxable supplies should be recoverable by means of input credit (subject to meeting certain criteria).

42. Amend the GCT Act to ensure that GCT incurred on staff-related expenses or other indirect costs should be recoverable by means of input credit (subject to meeting certain criteria).

43. Permit local general insurers to recover input credits in respect of GCT on general insurance claims and enable registered taxpayers to issue tax invoices to these insurers in respect of insurance claims made.

44. In conjunction with establishing the ATP regime, the Commissioner of TAAD should no longer be permitted to impute profit margin on the value of the imports (for the purposes of assessing GCT).

45. Review the Additional Stamp Duty on Customs Warrants Inwards regime with a view to simplifying same where feasible.

46. A review should be undertaken of all fees levied by Jamaica Customs for the processing of certain documents or the performance of various services with a view that they are commensurate to the cost of rendering such services.

Transfer Tax & Stamp Duty

47. For now, transfer tax should be retained in its current form. An amendment should however be made to provide relief to the extent that transfer tax suffered exceeds 25% (i.e. the PIT rate) of the monetary gain.

48. Implementation of a scheme to provide relief from transfer tax and stamp duty (subject to conditions and maximum amounts) to facilitate land titling reform.

Property Tax

49. The base used should be unimproved land valuations maintained and updated by the National Land Agency on a five-year cycle – in the intervening period, valuations should be indexed annually by reference to inflation.

Appendix II

Overview of Second-Tier Policy Reform Proposals

Medium-Term (by the end of 2012)

Income Tax:

50. Review of Jamaica's tax treaty network order to determine opportunities for renegotiation. Identification of opportunities and needs for expansion of Jamaica's tax treaty network and investment of additional resources to achieve same.

51. Development of a Tax Credit Scheme to assist in the monitoring of tax preferences as well as a mechanism to attract mega projects.

52. Overhaul of incentives to promote urban renewal and rural development.

53. Implementation of enabling legislative framework and complementary tax provisions to encourage public-private partnerships to implement public infrastructural and other projects.

54. Identification and implementation of opportunities to use the tax regime to stimulate investment in and development of the arts, entertainment, sports and cultural initiatives.

55. Enhancement of tax regime to facilitate investment in original scientific research.

56. Evaluate scope to enhance tax regime to stimulate the provision of seed/venture capital by investors.

57. Explore the scope for applying the "polluter pays" principle to the tax regime by identifying revenue-generating opportunities to discourage behaviour/practices which are detrimental to the environment and performance-based incentives encourage behaviour/practices which protect/enhance the environment.

58. Establishment of specific objectives, performance -based criteria and benchmarks to inform the development of performance based incentives and design (including legislative drafting) of performance-based tax incentives to promote same.

59. Determination what constitutes a group of companies for group relief purposes. Design and implementation of a group relief provisions to permit tax losses to be surrendered between group companies in the year of assessment for income tax purposes.

60. Introduction of a maximum period (of not less than ten years) within which tax losses may be carried forward. Introduce loss carry-back provisions (3 years). Review of existing provisions dealing with tax losses incurred in incentive or agricultural activities.

61. Undertake a review of Jamaica's various withholding tax provisions to assess their scope and effectiveness and how they could be enhanced. Review and amend the meaning of "prescribed person" under Section 31A of the Income Tax Act.

62. Undertake a review of Jamaica's tax laws with a view to ensuring that the tax treatment of complex financial instruments and transactions broadly mirror their commercial substance.

63. Undertake a review of the Companies Act generally to assess the extent to which Jamaica's current tax regime presents an obstacle to undertaking activities facilitated by the Companies Act.

64. Undertake a review of international best practice concerning transfer pricing rules and methodologies and assess how these may be applied in a Jamaican context in order to preserve and protect the tax base.

Appendix II

Overview of Second-Tier Policy Reform Proposals

Payroll Taxes:

65. Exempt from taxation any provision by employers of qualifying group health insurance coverage and corresponding tax deduction for the self-employed. Exempt from taxation any provision by employers of group permanent health benefits insurance policies and post-retirement health insurance policies.

66. Review compliance mechanisms to ensure taxation is paid in respect of the highly mobile activities.

67. The CSFBS contributions imposed on certain public sector employees should be abolished (to the extent that the insurance component is minimal) or offered at a market premium.

General Consumption Tax:

68. Permit taxpayers to elect to form GCT Groups which will enable the Group to file a single consolidated GCT Return (which would reflect aggregate taxable activity of the Group – ignoring intra-group activity).

Special Consumption Tax / Importation Duties & Charges:

69. Indexation of fixed SCT rates in line with inflation – including on cooking gas, fuel oil, kerosene etc.

70. Review of motor vehicle regime to assess effectiveness. Identify any anomalies that require correction or opportunities for simplification.

71. Review current level of SCT is charged on cigarettes to determine whether it is consistent with current policy and prevailing international best practice.

72. Jamaica should take the issue of the CET up at the CARICOM level as the current CET regime is neither permits the simplification of Jamaica's customs regime nor the introduction of a lower flat rate of customs duty;

73. Withdrawal of existing tariff concessions and waivers which are inconsistent with the overall thrust of the proposed tax policy. Any withdrawal of same must however be balanced with the extent to which Jamaica can offer a competitive customs regime in lieu.

Transfer Tax & Stamp Duty / Other:

74. The *de minimis* limit for transactions subject to transfer tax needs to be reviewed as well as whether the principal private residence and consanguinity reliefs offered are sufficient or require enhancement.

75. The creation, transfer etc. of a wide variety of financial instruments should be specifically exempt from stamp duty or otherwise excluded from charge.

76. Undertake a review of each head of charge under the Stamp Duty Act and eliminate all unnecessary imposition of stamp duty (particularly those which do not provide material revenue inflows).

77. The Stamp Duty Act should be amended to provide corresponding relief (as provided in the Transfer Tax Act) for share capital reductions and reorganisations as well as schemes of reconstruction and amalgamation etc.

78. As fiscal conditions permit, introduction of group relief which permit intra-group transfers of property to be made free of transfer tax and stamp duty.

79. Imposition of an environmental taxation as well as associated incentives.

80. Review of existing provisions offered to shipping/aircraft registries and opportunities for reform.

Appendix II

Overview of Second-Tier Policy Reform Proposals

Long-Term (by the end of 2013)

Income Tax:

81. Assessment of the viability of a regime which imposes taxation on capital gains in lieu of the current transfer tax regime.

82. When policy on the taxation of capital gains is clarified / implemented, stamp duty should be abolished.

83. Introduction of a participation exemption in respect of dividends derived from overseas trading subsidiaries.

Appendix III

Overview of Administrative (Third-Tier) Reform Proposals

Short-Term (within 6 months)

84. Tax Administration Jamaica (TAJ) should have unfettered access to critical relevant data needed to properly administer the tax laws. The ability of the TAJ to access data maintained by executive agencies should not be hindered. Fees normally charged by executive agencies in order to access data (e.g. company searches at the Companies Office of Jamaica) should be waived.

85. At present the tax roll includes tax pre-2001 tax balances (plus accumulated interest and penalties) which were brought over from the old system to ICTAS. In many instances, these tax balances may not be supported by clear documentary evidence as to how they arise. Old irreconcilable tax balances on taxpayers' records have prevented both the taxpayer and the Inland Revenue Department from bringing their tax accounts up to date. This has created challenges in terms of trying to secure TCCs, availing of interest and penalty amnesties etc. It is therefore recommended that all old tax balances (pre-2001) be written off (along with associated interest and penalties) to the extent that TAJ cannot confirm that it has reasonable documentary evidence to support the basis on which these figures have been inputted on the ICTAS system.

86. Tax Administration should be given the authority (within a prescribed framework) to write-off bad debts where it is clear that they are not recoverable.

Promulgation of Tax Laws:

87. Curtail use of the Provisional Collection of Taxes Act as a mechanism for introducing tax legislation.

88. The publication of amendments to tax laws, Ministerial orders etc. through the Jamaica Gazettes needs to be overhauled. All Gazettes issued should be properly sequenced chronologically in numerical order.

89. All new tax-related acts, regulations, orders etc. should be placed (e.g. in pdf. form) on the internet (e.g. on a Jamaican tax laws portal within the Ministry of Finance website) within three working days of being signed into law.

Registration of Taxpayers & Support Services:

90. Streamline the registration process & enable single registration for all taxes (income tax, GCT, payroll taxes etc.)

91. Implement aggressive registration surveys and drives, link and cross-check with other sources (e.g. the Companies/Business Names Register, statutory registration schemes, professional associations, telephone directory etc.). Assign a JTA official to the Companies Office on a full-time basis.

92. Require a property tax roll number to be included in sale documentation to facilitate cross checking property valuations. Also a certificate of property tax paid should be presented as part of documentation required for stamping.

Tax Compliance Certificates:

93. Re-evaluate role of the Tax Compliance Certificate (TCC). Streamline the process of issuance and renewal of same (need to update taxpayer records so that process is incremental since last TCC was issued). Automatic issuance based on JTA databases. Extend the period of validity for taxpayers with a history of compliance.

94. Introduce a *de minimis* amount of tax payable (say J$25,000) below which a TCC will be automatically issued.

95. Controls to minimise abuse of TCC process should be further enhanced.

Appendix III

Overview of Administrative (Third-Tier) Reform Proposals

Tax Payment & Filing:

96. Strengthen processing and validation procedures at the time Returns are filed in order to minimize errors on data input and identify faulty Returns at time of filing (as noted in the Matalon Report).

97. It is proposed that all locally registered companies (both locally incorporated and local branches of overseas companies) shall be automatically required to file a CIT Return annually (irrespective of whether the company is liable to pay income tax). Consideration may also be given as to whether this automatic filing requirement should be extended to:

    (i) directors and shareholders of such companies (presumably subject to certain practical exceptions (e.g. shareholders of publicly traded companies); and

    (ii) individuals engaged in a trade, profession or business.

    The introduction of these automatic income tax filing requirements will also ensure that persons benefiting from an income tax exemption or incentive will nonetheless be required to file an annual income tax return. This will facilitate the capture of important data (e.g. to quantify the cost of the exemptions/incentives granted). Upon implementation of the above automatic filing requirements, it is the view of the Working Group that it is unnecessary to impose an automatic filing requirement on all adult Jamaicans.

    It is proposed that fixed filing penalties also be introduced for failure to file income tax returns by the due date.

98. Ensure that refunds are processed and repaid on a timely basis. In determining cash available for use from the Consolidated Fund, adequate provision must be made to exclude tax revenues which must be refunded. Set-off of refunds due over 3 months against liabilities should be enshrined in law and extended to set-off between tax types and groups of companies - establish clear procedures to implement this. Refunds should attract at least 70% of the interest rate charged on overdue tax. The Government of Jamaica should borrow funds and repay all outstanding arrears or issue securities in order to clear the backlog.

Audit, Investigation, Assessment, Collection & Enforcement:

99. Assess whether further anti-avoidance provisions are required to counteract the formation of multiple companies through which transactions/activities are conducted on a temporary basis with a view to facilitating tax evasion e.g. by lifting the veil of incorporation and holding directors and shareholders personally responsible.

100. Enhance scope of authority of the Appeals Division to hear appeals on decisions by Commissioner General other than in relation to assessments issued.

Medium-Term (by the end of 2012)

101. Undertake a detailed process analysis & support systems review across the operations/functions of TAJ in order to determine efficiency/effectiveness of processes/methodologies/staffing and IT support etc. against TAJ objectives. Identify opportunities to maximise synergies (e.g. automation, IT system linkages)

Information Technology Reform:

102. Review adequacy of the current IT platform with a view to:

    a) determining the weakness/exposures of the existing system;
    b) assessing the extent to which these systems support TAJ's objectives/strategies and
    c) developing a roadmap to overhaul/replace current systems.

Appendix III

Overview of Administrative (Third-Tier) Reform Proposals

It is understood that significant challenges still exist with the ICTAS system while it is also limited in terms of desired levels of functionality/integration. It is recommended that Fiscal Services Limited should be brought on board as soon as possible to address this issue in order to evaluate the challenges/limitations of ICTAS and what alternatives are available.

Promulgation of Tax Laws:

103. Develop and implement a process whereby draft tax legislation is tabled, issued for comment (i.e. in Bill form) and debated in Parliament before finalisation and passing of same in Parliament.

Ministerial Waivers:

104. Undertake a review of all existing waivers: codify into tax law where necessary or abolish if no longer relevant.

Registration of Taxpayers & Support Services:

105. Expand use of TRN (National ID No.) for non-tax activities and cross-check bio-metric data. Co-ordinate with National ID Project as appropriate. This would facilitate more accurate identification of taxpayers and effective use of third-party information for compliance and data mining/exchange. Discontinue the use of a separate NIS number.

106. Use innovate ways to collect information on tax evaders, encourage taxpayers to transact with compliant taxpayers (e.g. use of lottery) and make it more difficult for tax evaders to conduct business.

107. Upgrade, clean, maintain and secure marketplaces across the Island. Upon completion of this, implement a crack-down on unregulated street vending to minimise market access by informal sector. Maintain clean and secure marketplaces across the Island which can be regulated, monitored and subjected to appropriate licensing/taxation - need to level the playing field for the legitimate business community.

108. Implement regular communication with taxpayers. Increase taxpayer education and awareness through a variety of publications e.g. taxpayer charter of rights, code of practice for revenue audits, assessments and objections etc.

109. Document and publish all policies/procedures/documentary requirements to be adhered to by the public in transacting business on taxation-related matters. Ensure that these are harmonised and consistent across tax heads and that they not too onerous (e.g. forms do not ask for more information than is needed, certification by a Justice of the Peace or notarisation by Notary Public is not arbitrarily required etc.). All modifications should be approved centrally so as to limit the opportunity for over-zealous public servants to arbitrarily modify protocol/requirements in their interaction with the public.

110. Provision of formal binding rulings by JTA on tax technical matters - these should be published (subject to sanitisation for confidentiality purposes).

Tax Compliance Certificates:

111. Widening of TCC requirements for a range of business transactions/interactions with Government departments agencies: professional practising licenses, liquor licenses (on-premises/off-license), public health certificates, bookmakers, gaming licenses, renewal of visas/work permits etc. Other transactions (e.g. drivers license issue/renewal, motor vehicle registration/transfers, real estate transfers etc.) should be allowed to proceed but should be cross-checked against forensic tax database to develop taxpayer profiles.

Appendix III

Overview of Administrative (Third-Tier) Reform Proposals

Tax Payment & Filing:

112. Design and implement a Unified Tax Return (UTR) to facilitate monthly filing and payment of GCT data (including imported services), payroll data (for employers) and withholding tax data. Implement a single filing date of 25th of the following month. Permit (a) quarterly filing for small taxpayers (determined by the same criteria as a small company is defined under the Companies Act) and (b) a consolidated UTR filing by Groups subject to receiving authorisation from TAJ to do so.

113. Stagger annual Income Tax filing deadline for companies. Determine deadline by reference to agreed statutory basis period. Deadline should be no less than six (6) months after the end of the company's basis period. e.g. a company with an accounts year end as at 31 March would be liable to file its Tax Return by 30 September, while a company with a year ended 31 December would be required to file by the following 30 June.

114. Estimated income tax could still be payable on a quarterly basis for the year of assessment on 15 March, 15 June, 15 September & 15 December respectively. It nonetheless should be explored as to whether it is feasible (from a fiscal perspective) to reduce the number of preliminary tax payments required (say to two per annum).

115. Detailed overhaul of the interest and penalties regime. Standardise approach to interest and penalties across all taxes. Interest should be levied on a **simple interest** basis and be reduced to levels which are approximate market rates (to reflect the time value of money). Penalty regime should factor in 1) the nature of the breach, 2) materiality of the breach, 2) the number of breaches. This should result in low (or no) penalties being imposed on taxpayers who are generally compliant with heavy penalties being imposed for regular or ongoing breaches. Penalties should be fair and commensurate with offences committed.

    In an effort to encourage delinquent taxpayers to fully participate in the tax regime (and declare, file and meet their full tax obligations), consideration should be given to implementing a Compliance Incentive Programme (CIP). This programme would involve removing the perceived deterrents to making full and complete declarations in order to fully embrace the reformed competitive tax regime. With a view to providing a clear path to tax compliance, delinquent taxpayers should be permitted to avail (within a limited defined time period) of full relief from penalties on taxes due and payable within the four years prior to the implementation of the proposed tax reform. Interest shall be calculated at 10% of outstanding amounts. Persons who avail of the CIP must make a full declaration in respect of all taxes and pay same (including interest at the concessional rate of 10%) in order to benefit from the CIP. The CIP may be availed of by all taxpayers. . In the event that a person does not make a full and accurate declaration, then the benefit of the CIP will be withdrawn. In contrast, if a full declaration is made and associated taxes are paid, then the taxpayer shall not further assessed in respect of these and prior years. In the event that a taxpayer elects to settle outstanding obligations under the CIP by means of a payment plan (over a maximum period of three years) agreed with the Commissioner General, interest shall be chargeable at a concessional rate of 10%).

116. Introduce facility for taxpayer to "express doubt" over tax treatment when filing. This should not attract penalties/interest as a result.

117. Introduce mandatory filing of a Return of Third Party Information (TPI). Due for filing at the same date as one's Income Tax Return. If not filed (or it contains material inaccuracies), then neither Return will be considered to be filed on time. The TPI Return would require filing of details in respect of payments made (in excess of J$200,000 per annum) for services supplied: name of supplier, TRN, nature of services supplied and aggregate dollar amount. Needs to be implemented carefully in order to minimise administrative burden on business community. Should be capable of being filed electronically. This would provide extremely valuable information for the forensic data centre (noted below) to develop taxpayer profiles and target tax evaders.

118. Deadlines for non-business taxes/fees (e.g. motor vehicle licensing etc.) should be staggered to reduce administrative burden on the Inland Revenue Department and enhance customer service e.g. motor vehicle licensing etc. could be set for the 15th of every month.

Appendix III

Overview of Administrative (Third-Tier) Reform Proposals

119. Reporting of interest income (associated TRN and dollar amount) in filings by financial institutions and companies. Amend banking laws to facilitate same.

Audit, Investigation, Assessment, Collection & Enforcement:

120. Review effectiveness of operation of forensic data centre. Compilation and interpretation of taxpayer-related data coming from various sources e.g. JTA IT systems (e.g. non-filers, stop-filers, delinquents, various external registers, industry analysis, return of third party information etc.) Develop taxpayer profiles and compare with actual filing history. Use of intelligence-based approach to identify audit cases.

121. Enhance audit selection process, methodology and quality control. Implement deadlines for completion of audits, review and issue of assessments, responding to objections etc. Develop, implement and publish a detailed code of practice for the conduct of revenue audits, issue of assessments, objections and appeals etc.

122. Compilation and review of statistics which are able to be produced by ICTAS system to determine how effectively they are being used to identify areas/ taxpayers for audit focus and what "red flags" are built into the system - e.g regarding non-filers, stop-filers, payment and other profiles etc. Ability to report/classify tax debts as uncollectible.

123. Introduce standardized statutory time limits for each stage of the process (e.g. at present there is no time limit for responding to income tax objections) and clear rules regarding the application of interest and penalties for cases under objection.

124. Amend legislation to facilitate set-off between various taxes and establish a clear procedure for implementing same (e.g. if a taxpayer is owed an income tax refund, he should be allowed to set it off against other taxes).

125. Development additional capacity to enforce withholding obligations.

126. Publication of list of tax offenders (subject to undertaking careful due diligence and materiality threshold).

127. Enable taxpayers to check their entire tax account online (via secure website) in order to facilitate reconciliation and ensure their tax records are up to date (e.g. to facilitate timely TCC renewal).

128. Imposition of criminal penalties for non-filing.

129. Visible imposition of criminal sanction (including jail time) against large tax evaders (i.e. “making an example”).

130. Review arrangements/procedures for seizing property and using bailiffs etc.

Customs Administration Reform:

Prescriptions for tax policy reform will yield sub-optimal results in the absence of strong administrative reform. In particular, the ability to minimise tax leakage at the ports will be critical.

An importer may seek to evade importation charges in a number of ways (whether acting on his own or in collusion with corrupt customs officials or brokers) includin:

- false declaration of classification (e.g. schoolbags instead of handbags);
- false declaration of identity/purpose (say by claiming some concession/relief available to specific importers or that goods are to be used for specific purposes e.g. imported by a registered charity etc.)
- under-declaration of quantity.
- under-declaration of value.

Appendix III

Overview of Administrative (Third-Tier) Reform Proposals

131. In light of this, it is suggested that an evaluation be undertaken of Jamaica Custom's current strategies to address these issues. This would include consideration of the following:

- Evaluation of the physical flow of goods into Jamaica
- Assessment of controls, validations and security
- Review of documentation, examination, assessment and approval processes used at each stage (e.g. when goods are exported, examination of importation documents upon arrival, arrival at dock and unloading of goods, storage, physical examination, determination of classification, valuation, assessment of duties, payment of duties, release of goods)
- Evaluation of work flow and interaction between the various players (e.g. custom officials, port workers, security officials, brokers and importers
- Identification of opportunities for collusion etc.
- Review of effectiveness of mechanisms used to supervise/audit the work of customs officials etc. and profile importers/brokers
- Post-importation reviews & audit trail
- Offences and penalties
- Incentivisation
- Recommendations for reform

In addition to the above review, the following is also suggested:

132. Create a class of offence for officials failing to adhere to clearly mandated customs clearance procedures – if not followed, then an offence is committed.

133. Minimise contact/interaction between customs officials examining shipments/evaluating customs assessable and the public/customs brokers.

134. Development of information database (CARICOM wide) to assist in determining average import valuations. Evaluate (in conjunction with overseas competent authorities) how to prosecute and/or deter under-invoicing at the export stage.

135. Comprehensive internal post-entry audit of importations entries to identify fraud/under-valuation etc. Clear tie-back to individual customs officials and imposition of heavy penalties.

136. Active post-importation audits by Jamaica Customs of businesses. Examination of stock/importation records to identify discrepancies/fraud/under-valuations etc. Seizure of goods as appropriate.

137. Extend this concept to goods purchased by businesses from informal importers if improperly imported – develop a practical enforceable system to discourage legitimate businesses from sourcing goods through improper channels.

138. Provide additional scope/resources for Customs to undertake audits without prior notice. Update and reform of the laws of evidence to facilitate the easier introduction of evidence of all relevant records and data.

139. Suspension/revocation of importation privileges e.g. for customs brokerage entities and specific individuals/companies for multiple breaches of customs law (e.g. false classification, under-declaration of value, designating nominees/imposters as importers of record etc.).

Property Tax – Administrative Reforms:

It is imperative that the current laws, regulations and administrative law practices on the collection of property tax be amended so that the court system is more supportive of property tax collections. Without reform of the court system and a demonstration of significant political will by policy leaders all attempts to collect the property tax will eventually fail.

Appendix III

Overview of Administrative (Third-Tier) Reform Proposals

The following specific recommendations are made:

140. Have personnel from the Attorney General's chambers represent the Inland Revenue in the collection process through the court system.

141. Allow the notification of legal and collection proceedings, either mailed to the property or posted on the property, to serve as legally binding notification.

142. Simplify and streamline the process of selling property in order to execute a lien to recover outstanding property tax. The current system of the property tax allows non-compliance because there are no serious consequences for nonpayment.

143. The role of local government municipalities should be reviewed carefully with an eye toward expanding their legitimate involvement in setting property tax policies (such as final rates within a range set at the national level) and administration (such as monitoring land use changes and directing the legal aspects of collection enforcement efforts).

144. The current law prohibiting indexing of property values between revaluations should be changed. Property value indices should be created on at least a bi-annual basis, and used to adjust all property values between revaluations.

145. The titling process should be strengthened to require that the Taxpayer Registration Number (TRN) be part of the actual title or any registration of legal interest with any government entity or public record.

* * *

Appendix IV

List of GCT-exempt goods to become liable to GCT at the standard rate

FREE CODE	DESCRIPTION
014.01	Governor General
015.02	Goods directly related to the production of bauxite and aluminum.
016.00	Government
017.00	Place of Worship
018.01	School Books
018.06	Exercise books ex. Tariff Heading 4820.20
018.08	Wooden pencils, pencil erasers, pencil sharpeners, rulers (up to 30 cm in length) and pocket notebooks (not including electronic notebooks).
019.01	Approved Sporting Goods
031.06	Raw foodstuff
031.07	Milk
031.08	Cornmeal and counter-flour; corn, soya meal, wheat
031.09	Corn beef
031.10	Pickled mackerel, herring, shad, dried salted fish.
031.11	Canned sardines, herrings and mackerel.
031.12	Infant Formula
031.13	Breads, buns, bullas, biscuits and crackers(salted and unsalted)
031.14	Rice
031.15	Sugar (brown)
031.17	Salt
031.18	Eggs
031.19	Patties
031.20	Rolled Oats
031.21	Baking Flour in bags of not less than 45.359 kg
031.22	Live Birds, Fish, Etc. for food.
031.23	Unprocessed agricultural produce etc. supplied directly from farm gate
031.24	Motor Spirit, lubricating oil for Commercial fishing
031.26	Cooking Oil
031.31	Syrup ex. Tariff 21.06
031.32	Fish, cock and noodle soup, in aluminum sachets.
031.42	School uniforms and school bags
031.45	Sanitary Towels & Tampons
031.46	Food Produced Exclusively for school feeding programme
031.47	Solar water heaters specified under tariff heading no 8419.1910 and 8419.1920
031.48	Photosensitive semiconductor devices, including photovoltaic cells whether or not assembled in modules or made up into panels specified under tariff no. 8541.40
031.49	Animal feeds

Appendix IV

List of GCT-exempt goods to become liable to GCT at the standard rate

FREE CODE	DESCRIPTION
031.50	All Machetes
031.51	Planting materials including cereals and seeds in their natural state, dormant flower bulbs, corns, roots and tubers and nursery stock, vegetable plants and live trees;
031.52	Fishing Apparatus, gear, boats, engines (but not including outboard motors exceeding a maximum of 75 hp) equipment and parts thereof taken out of bond by commercial fishermen for use in the capture of fish for sale
031.53	Fertilizers
031.54	Insecticides of heading Tariff Heading No. 38.08. intended for use exclusively in agriculture.
031.57	Contraceptive devices and substances.
031.65	All printed matter
031.66	Stationery and educational apparatus and equipment (including those used for games and physical training) for use by an approved educational institution intended solely for educational purposes
031.67	Stationary (including writing paper), printed forms, envelopes and blotting paper for Examination Bodies
031.68	Exercise books ex. Tariff Heading 4820.20
031.70	Sports equipment for use in an approved educational institution or for use by an approved sporting organization
031.75	Goods (except motor vehicles) acquired or on behalf of the Boy Scouts or Girls guides Association of Jamaica
031.76	Goods of non-consumable nature which the head of a denomination for which the goods are assigned declares in writing will be used only for the purpose intended and which the Commissioner of Inland Revenue is satisfied are purchased or imported solely for furnishing or decorating place of worship or as vestments for use during public worship.
031.77	Altar bread, matzos unleavened bread, communion wafers and altar wine purchased or imported for the purpose of administering the sacraments which the head of the denomination for which they are intended declares in writing will be used for the purpose intended.
031.78	Candles, myrrh and frankincense which the Commissioner of Inland revenue is satisfied are purchased or imported solely for use in places of divine worship.
031.79	Offertory envelopes purchased or imported by or on behalf of a religious denomination.

Appendix V

List of GCT-Exempt Goods

FREE CODE	DESCRIPTION
013.08	Red Cross, St. John's Ambulance Brigade, University Hospital
018.02	Schools and any other Educational Institution approved by Ministry of Education
018.03	Stationery for Examination bodies
018.05	Goods and services acquired by U.W.I./ Council of Legal Education, UTECH, Northern Caribbean University
019.02	Parcels
019.03	Passenger baggage & Household effects.
019.04	Specified re-imported goods
019.05	Currency etc. imported by BOJ
019.06	Specified imports by Postmaster Gen
031.01	Travel Tickets for International Travel
031.55	Drugs specified in the Fourth Schedule (List Four Drugs) to the Food and Drugs Regulations, 1975
031.56	Diagnostic reagents used for testing of dextrose in the blood and glucose, protein, ketones and pH in the urine.
031.58	Surgical gloves, including disposable, sterile and those made of latex rubber.
031.59	Disposable diapers for the incontinent.
031.60	Orthopedic appliances, surgical belts, trusses, splints and other fracture appliances, artificial limbs, eyes, teeth and other artificial parts of the body, hearing aids, other appliances which are worn or carried or implanted in the body to compensate for any bodily defect or disability, canes and crutches for the handicapped, prescribed eye-glasses and contact lenses.
031.61	Parts and accessories for any of the items specified in paragraph 60.
031.62	Invalid carriages.
031.63	Medical and surgical prostheses including surgical implants and ileostomy, colostomy and similar abilities designed to be worn by human beings.
031.64	Artificial breathing apparatus for individuals afflicted with respiratory disorder
031.69	Goods (excluding motor vehicles, alcoholic beverages, motor spirit, kerosene and diesel oils and goods purchased for fund-raising events) purchased by an approved educational institution
031.71	Parcels whose value (exclusive of customs duty and postage) does not exceed such amount as is applicable for customs duty purposes.
031.72	Passengers' baggage and household effects as described in and to the extent allowed under Items No. 6 and 6A of Part I of the second schedule to the Customs Tariff (Revision) Resolution 1972.
031.73	Gold bullion, coins and bank and currency notes imported by the Bank of Jamaica
031.74	Unused postatge, revenue and other stamps, postmarks and franked envelopes, letters and cards imported by the Postmaster-General.
960.00	U.W.I.
970.00	Public Transport (corp. area)
995.00	Research And Development

Appendix VI

List of GCT-Exempt Services

Description
Transportation of people within Jamaica
Rental of residential property
Public postal & telegraph services
Services rendered by a charitable corporation or charitable association or a service club, or a home for the aged
Financial services: financial instruments, including shares
Gaming and Lotteries Act (all forms of gambling)
Provision of education or training in an educational institution
Services rendered under a contract of life assurance
The supply of water (excluding bottled water) to the public
Services rendered by the St John's Ambulance Brigade
Services (excluding catering services) rendered at a port or international airport in Jamaica in connection with the importation or exportation of goods (including services related to transhipment) or the transportation of people into or out of Jamaica
International aircraft & ship repair and maintenance services (and associated goods)
Burial or cremation (under J$100k)
Services under contracts for construction or installation (i.e. current exemption)
Medical, dental, nursing, optical and veterinary services
Services performed under a contract the payment for which is by a foreign government or a multilateral lending agency.
Services by the Jamaican Branch of the Red Cross Society.
Services rendered under a contract of health insurance
Services rendered by Legal Aid Clinics and under the Poor Prisoner's Defence Act.
Sewerage disposal services
Services rendered by the Boy Scouts and Girl Guides Association of Jamaica and any other youth organisation or association approved by the Minister

Appendix VII

Position Paper for GCT Tax Reform

GOVERNMENT OF JAMAICA

MINISTRY OF LABOUR AND SOCIAL SECURITY

Position Paper for GCT Tax Reform

Background to PATH

In 2000, the Government of Jamaica initiated a reform of the social safety net primarily to eliminate programme overlaps, improve targeting and increase the cost effectiveness of the Social Protection System. During the reform process the following factors were found to contribute to inefficiencies in programme delivery:

- Several programmes in the Social Safety Net that were unrelated to each other
- No Central Database of programme beneficiaries leading to fraud and misuse of public funds
- Multiple access to programmes
- Varied assessment of programmes
- Need for a more systematic and equitable mechanism for the targeting of beneficiaries and a major shift from a welfare to a developmental mode for greater effectiveness
- Archaic Legislation
- Duplication and Inefficient use of resources

To resolve these issues, three social assistance programmes were consolidated namely the Food Stamps, Old Age and Incapacity and Outdoor Poor Relief Programme into the Programme of Advancement Through Health & Education (PATH). Since its launch in 2002, PATH has become Jamaica's flagship social assistance programme providing cash transfers to approximately 120,000 poor households totalling 389,000 individuals as at December 2011[5]. The transfers are made through two categories of grants: (i) child grants for poor children 0 to 19 years old, conditioned on school attendance and preventive health care visits; and (ii) social assistance grants for poor pregnant women and lactating mothers, the elderly poor, poor persons with disabilities, and destitute adults under the age of 60. In addition, some 313,658 persons benefit indirectly from PATH cash transfers by virtue of being resident in a household where persons receive PATH benefits. These additional persons are within the working age group and do not currently qualify for individual PATH benefits.

Recognizing the fact that the Government of Jamaica was not able to sustain a universal social assistance programme, a targeted approach had to be utilized for selecting beneficiaries for PATH. The

[5] See appendix for breakdown of PATH registered beneficiaries by category

Appendix VII

Position Paper for GCT Tax Reform

Beneficiary Identification System (BIS) has been used to determine the eligibility of members of poor households to access PATH benefits.

The BIS involves a proxy means test which generates scores for applicants based on their responses to questions on the PATH Targeting Form. Weights are assigned to the response to each question on the Targeting Form based on analysis of the indicators of poverty. These indicators which form the BIS are taken from the Jamaica Survey of Living Conditions (JSLC) which is fielded annually. In this survey, data is collected on the household consumption patterns, composition, education, housing and health conditions of sampled participants. The results from the survey are used to determine the likely consumption and demographic characteristics of the poorest households within the Jamaican society and form the basis of the Beneficiary Identification System.

The BIS was developed by the Planning Institute of Jamaica (PIOJ) as a means not only to select beneficiaries for the PATH but also to screen and identify recipients for all social welfare programmes in Jamaica. Prior to the free health and education policy of government, PATH beneficiaries having been identified as being in need (through the BIS), also qualified for exemption from health and tuition fees in government operated institutions. Currently there are other Government institutions that are actively considering the use of the BIS in the selection of needy clients for assistance.

The Ministry of Labour & Social Security undertakes periodic reviews of the selection mechanism to ensure that it is selecting the poorest persons in Jamaica. In 2007 MATHEMATICA Inc[6] reported that 80% of families on PATH were in the two poorest quintiles of the Jamaican population, having conducted an Impact Evaluation and Targeting Assessment of PATH. A second Targeting Assessment is currently being undertaken. In addition, the dynamics of poverty are constantly changing and necessitate constant review of the determinants of poverty. In this respect, in 2011, The PIOJ completed a review of the BIS based on the findings of the 2009 and 2010 publications of the JSLC. The new BIS will further improve the targeting accuracy of PATH.

A qualitative assessment supports the quantitative targeting mechanism utilised to select PATH households. Since the BIS uses a proxy to identify poor households it is anticipated that there will be errors of inclusion and exclusion meaning that some persons who may be in need of PATH may be excluded while other persons who may not be as needy are selected for benefits. The Appeals mechanism seeks to address the errors of exclusion by allowing persons the opportunity to have their cases examined qualitatively when the quantitative assessment denies them access to the programme. The appeals process was instituted to examine instances of poverty that are not driven by consumption. These instances may include: chronic illness and unemployment. Through the appeals process, Social Workers develop case files which are presented to a committee comprising members of Civil Society and the Parish Council. Following deliberations on each case, selection is based on a simple majority of the Committee. Approximately 10% of the PATH families have been admitted to the programme through the appeals process.

PATH benefits are paid either by cheques (through the post office) or cash cards. A bimonthly payment is made out in the name of the family representative for all the members in the household who qualify for a benefit.

[6] Evaluation of Jamaica's PATH: Final Report (March 2007), MATHEMATICA Policy Research, USA

Appendix VII

Position Paper for GCT Tax Reform

Potential Impact of the GCT Tax Reform Proposal on the Poor

Since the introduction of the General Consumption Tax (GCT) on October 22, 1991, there have been items that do not attract the payment of the Tax. These are defined as GCT exempt items. Since the latest reform of the GCT in December 2003, relatively few physical goods are specifically exempted from the GCT and those exemptions that remain are largely of items that are presumably relatively more important in the household budgets of low income households, particularly food.[7]

The GCT Reform programme is a part of a wider Tax Reform process aimed at the reduction of tax rates, broadening of the tax base and simplifying the overall tax system.[8] More specifically, there is a proposition to reduce the GCT rates and widen the GCT base. In order to do this, there will be the need to reduce the number of goods currently exempt from GCT and/or zero rated.

The PIOJ in its recent assessment of the impact of the new GCT Tax Reform agenda has outlined that there will be a significant impact on the poor. This will result in heightened hardship due in the main to the fixed nature of the income in poor households and the net inflation increase due to the percentage of income that is used to purchase goods that are now exempt as compared to those which are not exempt.

This paper proposes a mechanism of targeting this support to the most vulnerable poor households through the cash transfer mechanism of the Programme of Advancement Through Health and Education (PATH).

Advantages of using PATH to administer the Food Subsidy to offset the removal of GCT from basic food items

- In the impact evaluation done on the PATH programme in 2006, it was found that the programme is at least 80% accurate in selecting families in poverty. Translated, PATH is able to target 80% of persons in quintiles 1 and 2 that are below the poverty line. This is an achievement that is not matched by any other social assistance programme.

- PATH is the only programme with the reach and scope and the networking arrangements to delivery social protection support to poor households

- A recent study completed by the University of the West[9] Indies regarding the coping strategies of PATH households since the food price crisis points to the fact that poor household, especially those on PATH convert more of their disposable income on basic food items. Given this fact, PATH households are more likely to be impacted by the change created by the tax reform

- PATH already has a computerised mechanism for distributing benefits to poor households that has an administrative component of 8%

---

[7] Tax Consumption in Jamaica, University of Toronto, Edmiston, Bird and Rotman, 2006
[8] Green Paper No. 1-2011, tax Reform for Jamaica, Ministry of Finance and the Public Service
[9] Consumption Patterns and Coping Strategies for PATH Households, UWI Consulting, University of the West Indies, 2011

Appendix VII

Position Paper for GCT Tax Reform

Proposal

The proposal is based on the following assumption:

1. All PATH beneficiary families belong to the first four (4) consumption deciles/quintiles 1&2[10] .
2. Most of the Jamaican population in quintiles 1 & 2 are registered on PATH.

Option 1: Pay a Food subsidy to all PATH households alongside the PATH bimonthly payment to offset the GCT reform of 12.5% or 15% based on the table below:

Additional Income Needed to Maintain Purchasing Power (CETERIUS PARIBUS) BY DECILES (J$)		
Detail	**Purchases as at end of 2011 – (GCT Reform) 12.5%**	**Purchases as at end of 2011 – (with GCT Reform) 15%**
Deciles	**Total purchases (All Jamaica)**	**Total purchases (All Jamaica)**
1	395,094,503.30	655,305,090.10
2	448,170,909.00	842,296,525.60
3	539,937,381.60	1,034,881,908.50
4	429,633,358.30	1,011,840,832.80
TOTAL	1,812,836,152.20	3,544,324,357.00
ADDITIONAL INCOME PER FAMILY	13,528.63	26,450.18
ADDITIONAL INCOME PER PAYMENT PERIOD PER FAMILY	2,254.77	4,408.36

[10] New estimates based on revised proposal for income tax reform – as captured by excel sheet entitled *"Alternative PIT Proposal - Model", PIOJ, 2011*

Appendix VII

Position Paper for GCT Tax Reform

Advantages/Disadvantage of Option 1:

1. Easy to administer one flat benefit to each household
2. Ignores household size and the related cost associated with larger families
3. Administrative costs would be incurred to facilitate this payment on the BMIS

Option 2: Pay a Food subsidy to working Age Members of PATH households to offset the GCT reform of 12.5% or 15% based on the table below:

Additional Income Needed to Maintain Purchasing Power (CETERIUS PARIBUS) BY DECILES (J$)		
Detail	**Purchases as at end of 2011 – (GCT Reform) 12.5%**	**Purchases as at end of 2011 – (with GCT Reform) 15%**
Deciles	**Total purchases (All Jamaica)**	**Total purchases (All Jamaica)**
1	395,094,503.30	655,305,090.10
2	448,170,909.00	842,296,525.60
3	539,937,381.60	1,034,881,908.50
4	429,633,358.30	1,011,840,832.80
TOTAL	1,812,836,152.20	3,544,324,357.00
ADDITIONAL INCOME PER FAMILY	5,779.66	11,299.96
ADDITIONAL INCOME PER PAYMENT PERIOD PER FAMILY	963.28	1,883.33

Advantages/Disadvantage of Option 2:

1. Allows household to receive benefits based on the number of working age members within the family
2. Open to potential abuse as members can be added to the family who are not residing in the household
3. Create additional workload for social workers to verify additional members in the household.
4. Administrative costs would be incurred to facilitate this payment on the BMIS

Appendix VII

Position Paper for GCT Tax Reform

Appendix

Table 1: Registered PATH beneficiaries as at December 2011

PATH Registered Beneficiaries by Benefit Group	December 2011
Children (0-18 years)	300,800
Adult Poor	4,907
Disabled	10,130
Elderly	60,158
Pregnant/Lactating	1,972
PAD/Poor Relief	11,845
Total No. of Registered PATH Beneficiaries	**389,812**

Table 2: PATH/PAD Families

PATH Family Data	December 2011
No. of Persons in receipt or have received a payment from PATH within registered families	389,812
No. of Persons within PATH/PAD Poor Relief families not in receipt of benefits	313,658
TOTAL	**703,212**