GREEN PAPER NO…1/11

TAX REFORM FOR JAMAICA

Ministry of Finance and the Public Service

GREEN PAPER No. ____

Tax Reform For Jamaica

1.0 INTRODUCTION

1.1 The Honourable House of Representatives is being asked to note this Green Paper on Tax Reform for Jamaica.

1.2 The Government has committed to implementing tax reform in an incremental way to achieve the **objectives** of: ***simplicity, equity***, and ***broadening of the base***; ***improved compliance***; ***growth and competitiveness arising from policy certainty and confidence in the economy***. Most importantly, the measures must ***meet the revenue demands of the Budget while maintaining macro- economic and social stability***.

1.3 Pivotal to the achievement of this mandate is a rolling medium term (three year) tax policy framework. It is proposed that this framework, which is consistent with the new Strategic Business Plan will instil discipline in the promulgation of tax policy in Jamaica.

1.4 Given that taxation affects all strata of the society, GOJ believes that the citizens must be main stakeholders in the development of a sustainable strategic taxation regime. The public is hereby invited to review the current Green Paper on tax reform and provide comments and recommendations (on the direction and scope of tax reform in Jamaica), as deemed fit.

1.5 The Green Paper provides a synopsis of the central pillars of the medium term framework and an overview of the general and specific reform proposals, namely but not limited to changes in the GCT Rate and the Income Tax Rate.

1.6 The Government wishes to begin implementation of some of these proposals in the current financial year and will use the feedback to further fine-tune its proposals to arrive at a final policy position on tax reform (White Paper).

1.7 Prior to this Green Paper, consultations were held with the following:

1.7.1 The Jamaican private sector, inclusive of the Private Sector Organization of Jamaica (PSOJ), the Jamaica Manufacturers' Association (JMA) and the Medium, Small and Micro Enterprise (MSME) Alliance. There was also consultation with the Partnership for Transformation.

1.7.2 Portfolio agencies, inclusive of the Tax Administration, the Customs Department, the Revenue Protection Division and sister agencies such as the Planning Institute of Jamaica, the Statistical Institute of Jamaica and the Ministry of Labour and Social Security.

1.7.3 The Planning Institute of Jamaica (PIOJ), which undertook preliminary CGE analysis[1] on the reduction in the standard GCT rate to 15% or 12.5%, respectively. The reduction to 15% and 12.5% percent, respectively, will increase private consumption by 0.7% and 1.4%, respectively, but the GCT collected rate (i.e. the effective rate) would decline by 14.3% and 28.6%, respectively.

1.7.4 The PIOJ, STATIN, the MLSS and the IDB[2], regarding the potential to reduce the number of, and percentage contribution of, exempt items from 41.7% to 30.0% and the impact on the vulnerable as well as the need for enhancement of social expenditure. This inter-agency collaboration is expected to continue in the coming months and will be informed by the public discussion and technical analyses.

1.7.5 A Technical Working Committee, comprised of representatives from MoT, MIIC, MFAFT, MAF, MME, AGC and Petrojam, chaired by the Cabinet Secretary on the instructions of the Cabinet. The Committee reviewed the General Tax Reform Proposals (under Direction and Scope of the Tax Reform Proposals, 4.0).

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[1] As mentioned, the analysis is preliminary with caveats.

[2] Appendix I has the IDB's 13 point proposal for tax reform as well as the GOJ's response to these proposals. The GOJ went further to articulate a wider programme than originally envisaged by the IDB.

2.0 BACKGROUND

2.1 Tax reform has been a critical part of Government policy for decades. In particular, the Government of Jamaica is committed to reforming the tax system to ensure that the system is simple, efficient, provides equity and fairness, and stimulates economic growth whilst yielding adequate amounts of revenue.

2.2 The last major tax policy reform occurred over the period 1986-1991, resulting in the introduction the General Consumption Tax in October 1991.

2.3 After a few years, various aspects of tax reform, some emanating from the 2004 ***Matalon Tax Policy Review Committee*** (mainly based on findings presented by various consultants under the guidance of Professor Roy Bahl from the Georgia State University) were pursued and implemented in 2005.

2.4 It should be noted that, during the period 1991-2005, a number of revenue enhancement measures were introduced, in an attempt to balance the budget and meet the fiscal challenges that prevailed. The measures, albeit borne of good intention, assisted to further foster increased imbalance in the tax structure and failed to meaningfully address the complexity, inefficiency and inequity in the tax system.

2.5 It was clear that, to address these issues, the Jamaican tax system warranted further reform. In this vein, other reforms of the local tax system were subsequently carried out after 2005.

2.6 In 2009 for example, notable recommendations for reforming the tax system emerged from the National Planning Summit's "Blueprint for Tax Reform in Jamaica" document. Some of the recommendations from the Blueprint have since been implemented.

2.7 Despite some success in implementing selected tax reform initiatives over the years, some of those policy measures were at times implemented in a piece-meal or 'big-bang' manner (rather than as part of a comprehensive reform package), thereby limiting the intended positive effects.

2.8 Moreover, some of the intended reforms of the tax system were delayed partly due to serious fiscal constraints and based on the fact that some of the proposed reforms would have potential winners and losers. Consequently, the Jamaican tax system is still in need of further reform.

2.9 The tax system remains complicated and inefficient due to, for example, multiple non-standard tax rates and the absence of a uniformed rate structure. The system is also in need of urgent reform due to generally low tax compliance levels, narrow tax bases (due mainly to various exemptions and the granting of various incentives and waivers) but relatively high tax rates, high dependence on direct taxes (especially, income and payroll taxes) and based on the fact that only a few taxpayers generally bear the burden of selected taxes.

2.10 After careful analysis of the current state of the local tax system, Government has found it prudent to put forward a medium term tax policy framework for consideration. Crucial aspects of this tax policy framework are discussed hereinafter.

3.0 CENTRAL PILLARS OF THE MEDIUM TERM TAX POLICY FRAMEWORK

3.1 This reform would occur within the ambit of the medium term tax policy framework which is linked to other frameworks, including the Fiscal Responsibility Framework, specifically the Financial Administration and Audit (Amendment) (No. 2) Act, 2010 which sets out specific fiscal targets.

3.2 Section 48C of the FAA (Amendment) (No. 2) Act, 2010 speaks to fiscal targets. The Minister of Finance is tasked with taking specific measures: (a) to reduce the fiscal balance to nil by the financial year ending on March 31, 2016; and (b) to reduce the total debt to one hundred percent (100%) or less of the Gross Domestic Product (GDP) by the end of the financial year ending on March 31, 2016.

3.3 Achievement of these targets will be challenging without: an improvement in compliance; a broadening of the tax base; and achieving sustained economic growth.

3.4 Guiding principles include:

3.4.1 Sufficiency of the revenue (currently, so as to ensure the revenue base is protected and the success of the Government's financial programme)

3.4.2 Economic growth, efficiency and competitiveness

3.4.3 Enhanced Compliance & Convenience

3.4.4 Credibility & Viability of the Revenue (Projections and Actual Collections)

3.4.5 Reforming the Discretionary Waivers Regime (with a view to reducing these and ensuring that the regime becomes transparent, targeted and justified based on clear and objective qualifying criteria)

3.4.6 Sustainability & Certainty of the Framework through ***buy-in*** by the Opposition and Affirmative Resolution of Parliament, but most importantly, the public at large

3.5 Strategies to Facilitate Implementation include:

- **3.5.1** A systematic, structured approach to tax policy
  - **3.5.1.1** Changes to tax rates – the GCT rate, among others – would be structured in three-year intervals and be renewed or amended subject to review
  - **3.5.1.2** Ensure that there is performance monitoring with respect to tax policy changes
- **3.5.2** Changes in the purview of income tax would be implementable on a calendar year basis (effective January 1 – at the beginning of the tax year) to allow for smooth transition.
- **3.5.3** A Pre-Implementation Period (right after the Budget Debate ends):
  - **3.5.3.1** To sensitize the public to changes so that taxpayers can make the necessary adjustments.
  - **3.5.3.2** To provide the time needed to complete the analytical work and modelling required to be sure of the potential revenue implications, among other things.
- **3.5.4** Active Performance Monitoring of the respective tax policy changes

4.0 DIRECTION AND SCOPE OF THE TAX REFORM PROPOSALS

4.1 The following general reform measures indicate the **reform direction**: ***reduction of tax rates***; ***broadening of the tax base*** and ***simplicity of the overall tax system*** (See Appendices I and II).

4.1.1 ***Apply*** a Customs Administration Fee (CAF)[3] on all imports to shift the burden from direct to indirect taxes (with the standard exceptions such as Diplomats);

4.1.2 ***Reduce*** the Common External Tariff (CET); (this is subject to discussions with our CARICOM partners)[4];

4.1.3 ***Pay*** advance GCT – ***commercial importers only*** (with the exception of petroleum and bauxite[5])

4.1.4 ***Reduce*** the GCT rate(s) and widen the GCT base (It is crucial to note that without a reduction of exempt items and a reduction of some goods which attract 0%, among others, the extent to which the standard GCT rate can be reduced will be limited);

4.1.5 ***Reduce*** income tax rates and/or increase the general PIT threshold;

4.1.6 ***Institute*** a phased compulsory filing of income tax returns[6];

4.1.7 ***Simplify*** and amalgamate the various laws that provide authority for the granting of waivers into an Omnibus Tax Incentive Law through a review of, and overhaul, of the existing tax incentives and waivers.

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[3] From the consultations, there were indications that the CAF could be challenged given that there is a current court case relating to the customs user fee. The CAF would not be WTO-compliant because it is applied only at the border. However, other CARICOM countries also have fees that are not WTO-compliant (See Appendix III). If the fee is commensurate with the service, it may be possible to impose the fee. The environmental levy, which is also not WTO compliant, in particular, could be treated with if applied both at the border and as an internal tax.

[4] To reduce the CET on the over 600 tariff lines above 20% would require individual approval for each tariff line from CARICOM. This would take some time.

[5] The current advanced GCT of 5% is viewed as illegal since it is only charged at the ports; it could be challenged under the new proposed regime (Appendix I).

[6] Phased compulsory filing of returns was not opposed during the consultations held prior to this Green Paper but there are concerns for PAYE employees who have only one income source and would now be faced with the additional burden to file.

5.0 SPECIFIC TAX REFORM PROPOSALS FOR FY 2011/12

5.1 It is proposed that Tax Administration undertake the following in the short term:

5.1.1 Implement and sustain a new taxpayer education programme as well as a tax administrators' education programme;

5.1.2 Amend the General Consumption Tax (GCT) Act (and other relevant legislation) to facilitate one tax type being credited against another (set off) (First Schedule of the GCT Act); officials at Fiscal Services Limited (FSL) would need to advise on the time it will take to effect the set off of one tax type against another.

5.1.3 Amend the General Consumption Tax (GCT) Act (Sections 54 and 55) to apply simple interest to penalties and surcharges, rather than the current application of compound interest and to specifically indicate that the allocation of payment on account go first to interest, surcharge, penalties, then principal tax.

5.1.4 Amend the penal provisions of the relevant Acts to strengthen enforcement.

5.2 It is proposed that Jamaica Customs Department implement the following during the coming six to eight month period:

5.2.1 Apply a Customs Administration Fee at the ports, inclusive of customs user fees; processing fees; environmental levy; and standard compliance fee. This fee would, of course, have to be WTO-compliant.

5.2.2 Keep the Additional Stamp Duty (ASD) separate to provide some level of protection for the Agriculture Industry[7].

5.2.3 Reduce the Common External Tariff (dependent on the agreed level of the fee in 4.1.2 above); this would also be applicable to motor cars.

5.3 It is proposed that Tax Policy and Tax Administration work on the following to allow for a January 1, 2012 implementation, subject to the broadening of the GCT base and performance of the revenue:

5.3.1 Reducing the standard GCT rate to 12.5% (or 15%)

5.3.2 Reducing the statutory Corporate Income Tax (CIT) to 30%

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[7] The proposed reduction of the CET would remove some protection from the Agriculture Industry.

5.3.3 Increasing the general Personal Income Tax (PIT) threshold to a level that is at least commensurate with replacing the gratuity paid to hotel workers so these employees can access National Housing Trust (NHT) benefits, among others

5.3.4 Amalgamating the Education Tax with the PIT to simplify payroll taxes, given that the Education Tax is an additional payroll tax

5.3.5 Phasing in the compulsory filing of income tax returns and compulsory electronic filing for large taxpayers and professionals

5.4 It is proposed that the Minister of Finance and the Public Service expeditiously pilot the following pieces of landmark legislation in Parliament by the end of this calendar year:

5.4.1 Omnibus tax incentive legislation[8], to bring all pieces of legislation to do with the approval or granting of tax benefits under one umbrella

5.4.2 The pending Charities Act

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[8] There were concerns about the Omnibus Tax Incentive Law in terms of the peculiarities and treatment of each sector as well as the treatment of incentives that have a sunset clause.

6.0 TAX REFORM PROPOSALS ALREADY APPROVED FOR FY 2011/12

6.1 In addition to the tabling of a medium term tax policy framework, Ministry Paper 31/11, Revenue Measures – FY 2011/2012 was tabled on April 28, 2011:

6.1.1 **Effective May 16, 2011,** where there is refinancing of a mortgage for equal amounts or less, Stamp Duty will be payable at the nominal rate of $100.00. Where there is an increase in the value of the mortgage, the applicable duty rate will be payable on the difference.

6.1.2 **Effective May 16, 2011,** to facilitate the issuance and trading of registered corporate bonds (securities), the Stamp Duty and Transfer Tax be removed; this exemption will extend to all companies whether or not registered on the Stock Exchange.

6.1.3 **Effective May 16, 2011,** the Stamp Duty on Probate and Letters of Administration for applications filed on or before April 27, 2011 will now be a flat $5,000. Where payment has been made on the old basis, no refund will be allowed.

6.1.3.1 Transfer Tax on Death for those applications will be chargeable at the rate of 1.5%, down from the current 4%. Where deposits on transfer tax have been made in excess of 1.5%, no refund will be allowed.

6.1.4 **Effective May 16, 2011**, the existing fee structure applicable to deceased estates will be abolished. Thereafter, fees will be applied as ad valorem stamp duty, as follows:

6.1.4.1 Estates whose net value is $10 Million or less: $5,000.00

6.1.4.2 Estates whose net value is:

• above $10 Million but less than $20 Million	$10,000.00
• $20 Million to less than $30 Million	$15,000.00
• $30 Million to less than $40 Million	$20,000.00
• $40 Million and above	$25,000.00

6.1.4.3 The applicable transfer tax on death is reduced from 4% to 1.5%.

6.1.5 **Effective May 2, 2011**, the time that GCT registered taxpayers, who purchase machinery or equipment valued $100,000 or more, have to wait to claim input tax credit be reduced from twenty-four (24) months to three (3) months.

6.1.6 **Effective for financial year 2011/12**, where the 2% contractor's levy has been deducted from the contract sum of a contractor and was paid to the Collector of Taxes, any amount, not utilized as a credit for income tax for that year of assessment, can be carried forward to subsequent periods not exceeding five years.

6.1.7 **Effective May 2, 2011**, the motor vehicle import duty regime has been reformed such that:

6.1.7.1 the CET applicable to motor cars (including SUVs) has been reduced from 40% to 20%.

6.1.7.2 the CET on vehicles commonly referred to as pickups has been increased from 10% to 20%.

6.1.7.3 the CET on bikes with engine sizes below 300 cc and 600 cc has been reduced to 10% and 20%, respectively.

6.1.7.4 the CET on all-terrain vehicles (ATVs) has been reduced to 20%.

6.1.7.5 the CIF value to which the current 20% duty concession is applicable has been increased from US$25,000 to US$35,000 (J$3M).

6.1.7.6 the GCT payable on second sale vehicles has been increased.

6.1.7.7 a licensed taxi operator who acquires a bus, with less than ten seats, for public transportation will now pay aggregate duty of 36% (diesel).

6.1.7.8 the annual motor vehicles licensing fees have been increased by $1,000 (including motor bikes) for fees which are currently below $12,000.

7.0 RESULTS OF SELECTED SIMULATIONS BY THE TAX POLICY DIVISION

7.1 The Research and Analysis Unit of the Division looked specifically at the potential impact of applying the rates of 3%, 4% and 5% for the Advance GCT and the CAF – to a select group of products as well as all products with the exception of Bauxite and Government.

7.1.1 Currently, both the CUF and the Advance GCT are applied to 'selected' items. The revenue from the CUF and Advanced GCT are $6.7 billion and $7.9 billion, (before refunds are made), respectively.

7.1.2 The differential between applying the CAF at 3%, 4% and 5% to 'selected' and 'all' items is $0.2 billion, $0.3 billion and $0.4 billion, respectively.

7.1.2.1 If the CAF is applied to 'all' items, with the exception of bauxite and Government (and standard exceptions such as Diplomats), the potential revenue to be generated at 3%, 4% and 5% is $12.6 billion, $16.8 billion and $21.0 billion, respectively.

7.1.2.2 The revenue impact helps to determine how much CIT and PIT, among others can be reduced.

7.1.2.3 The CAF has to be applied to all items, except for the exceptions noted in 7.1.2.1.

7.1.3 The differential between applying the advanced GCT at 3%, 4% and 5% to 'selected' and 'all' items is $4.8 billion, $6.4 billion and $7.9 billion, respectively.

7.1.3.1 If the advanced GCT is applied to 'all' items, with the exception of bauxite and Government (and standard exceptions[9]), the potential gross revenue to be generated at 3%, 4% and 5%, respectively, is $13.0 billion, $17.4 billion and $21.7 billion.

7.1.3.2 Since approximately 80% of these revenues will be refunded, the net effect is actually $2.6 billion, $3.5 billion and $4.3 billion, respectively.

7.1.3.3 Again, the revenue impact would assist in determining how far the rates for CIT and PIT, among others that can be reduced.

7.1.3.4 A decision has to be taken on whether it is 'selected' or 'all' items.

7.2 A reduction in the number of exempt items was also simulated.

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[9] Red Cross, St. John's Ambulance Brigade, University Hospital, Governor General, Diplomatic & International Organizations, Specified Goods (unused) for export, Goods directly related to the production of bauxite and aluminum, Aircraft, Government, Goods & Services acquired by UWI/ Council of Legal Education, UTech and the Northern Caribbean University.

7.2.1 With regard to the reduction in the number of exempt items, three scenarios were run: exempt goods now taxable at 12.5%; exempt goods now taxable at 15%; and exempt goods now taxable at 17.5%.

7.2.1.1 The current value both at the ports and inland is nil as the *status quo* now exists.

7.2.2 Given that one objective of the reform is to reduce exempt sales as a proportion of total sales, the value of the reduction with respect to 'selected' and not 'all' items would be the preferred course.

7.2.2.1 Potential Revenue Impact of Reducing Exempt Sales from 41.7%

Value of GCT from Exempt Goods Now:	Collection at the Ports (J$ billions)	Collection Inland (J$ billions)	Total Collection (J$ billions)
Taxable at 12.5%	3.82	1.75	5.57
Taxable at 15.0%	4.57	2.10	6.67
Taxable at 17.5%	5.34	2.45	7.79

7.3 Reductions in both the statutory corporate and personal income tax rates were also simulated. Notably, the impacts from a reduction in each cannot be summed as some options are not mutually exclusive and, therefore, cannot be combined.

7.3.1 Preliminary 2010/11 data were used to simulate both the reduction in the statutory CIT and the PIT.

7.3.2 The statutory CIT rate is currently 33 1/3%.

7.3.2.1 Reducing the statutory CIT rate to 33%, 32%, 30%, 25% would result in potential revenue losses of $0.33 billion, $1.33 billion, $3.33 billion and $8.33 billion, respectively.

7.3.2.2 Whatever revenue loss is tolerable has to be balanced by revenue positive indirect taxes to maintain a revenue neutral tax reform (7.1.2.1; 7.1.3.1 and 7.1.3.2; 7.2.2.1)

7.3.3 The standard PIT rate is currently 25%.

7.3.3.1 Reducing the standard PIT rate to 24%, 23%, 22%, 21% and 20%, respectively, would potentially result in revenue losses of $2.06 billion, $4.12 billion, $6.19 billion, $8.24 billion and $10.31 billion, respectively.

8.0 CONCLUSIONS

8.1 These proposals form part of a menu of options to, finally, move forward with tax reform in Jamaica.

8.2 The measures are not stand-alone measures and have to be implemented together, if even in a sequential manner.

8.3 Decisions have to be taken on the appropriate rates for each measure to ensure that the revenue is not threatened and to ensure that the most vulnerable are not adversely impacted.

8.4 There will be winners and losers but, overall, the Jamaican taxpayers should be better off.

8.5 The feedback on this Green Paper will be used to enhance the proposals, resulting in the White Paper, the final policy paper.

9.0 RECOMMENDATIONS

9.1 The Honourable House of Representatives is, accordingly, asked to:

9.1.1 Approve that a Select Committee of Parliament hold hearings on this Green Paper.

9.1.2 Move the appropriate Resolution.

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Audley Shaw, MP

Minister of Finance and the Public Service

May 10, 2011

APPENDIX I – INDICATIVE MEDIUM TERM TAX REFORM OPTIONS

	IDB TAX REFORM PROPOSAL	COUNTER PROPOSAL
1.	New Customs User Fee of 5% (to be included in the GCT base) – consolidation of 5 customs fees	Customs Administration Fee (CAF) of 3%, 4% or 5% through amalgamation of 4 fees (customer user fee (CUF), processing fee, environmental levy; standards compliance fee); ASD separate Charities pay this fee as well. This CAF forms part of the GCT base.
2.	Reduction of highest trade tariffs (to 20%)	Reduction of highest trade tariffs (to 20% if CAF is 5% but up to 25% if CAF is 3%). Based on changes to regime for import duties on motor cars, it may be 20%.
3.	Standard GCT Rate reduced to 12.5%	Standard GCT Rate reduced to 12.5% (or 15%)
4.	Tourism GCT Rate remains at 10%	Tourism GCT Rate remains at 10% ***and tourism pays the CAF.***
5.	GCT on Oil Product imports remains at 0%	GCT on Oil Product imports remains at 0%
6.	No change on bauxite regime	No change to the bauxite regime
7.	Immediate GCT credit on purchases of Capital Goods	Immediate GCT credit on purchases of Capital Goods for all taxpayers and not just the manufacturing sector Define capital goods by tariff codes.
8.	Advance GCT Tax on Imports of 5% on all commercial goods (not private individuals) (except for bauxite and petroleum); creditable but not refundable	Advance GCT Tax on Imports of 5% on all commercial goods (not private individuals) (except for bauxite and petroleum); creditable against any type of tax after a period to be determined (would require amendment of the GCT Act) (but not creditable against CAF) Consider "expensing" rather than making creditable against all other tax types then the revenue intake will be significantly lower and impacts the extent to which the standard GCT rate can be reduced.
9.	Reduce GCT Sheltered Supplies from 41.7% to 30% (will yield approximately $10 billion, if food is included)	Reduce GCT Sheltered Supplies from 41.7% • Food items to be considered for possible taxation (some of those currently exempt) • Accompanying measures to enhance social expenditure, if this is to occur Note: The level of reduction impacts the extent to which the standard GCT rate can be reduced
10.	Zero Rated Sales reduced from 9.8% to 0%, except exports	Reduce zero rated sales as a percentage of total supplies The extent to which zero-rated sales is reduced impacts how much the standard GCT rate can be feasibly reduced
11.	Full GCT Withholding on Government Purchases	Start exploring full GCT Withholding on Government Purchases as a long term goal to reflect the true cost of Gov't doing its business and increase tax compliance by suppliers to the public sector Budgetary implications due to need to record as both expenditure and revenue
12.	Partial GCT Withholding on Large Taxpayers' Purchases	Start exploring the implementation of partial GCT Withholding on Large Taxpayers' Purchases Feasibility to be determined as well as determination of system requirements to credit taxpayers promptly
13.	No discretionary waivers	Significantly reduce discretionary waivers and institute a rules based framework for exceptional cases

Appendix II – JAMAICA TAX REFORM PROGRAMME

GENERAL RECOMMENDATIONS	
Reform Direction	• Apply a Customs Administration Fee (CAF) at the port to shift the burden from direct to indirect taxes (subject to WTO-compliance); • Reduce the Common External Tariff (CET) (dependent on the Customs Administration Fee); • Pay advance GCT on the importation of goods (***commercial importers only)*** • Reduce the GCT rate(s) and widen the GCT base; • Reduce statutory income tax rates and/or increase the general PIT threshold; • Introduce compulsory filing of income tax returns; • Simplify and amalgamate the tax laws into an Omnibus Tax Incentive Law through a review of, and overhaul, of the existing tax incentives and waivers.

TIER 1 REFORMS (FOR IMMEDIATE IMPLEMENTATION)	
Administrative Activities & Provisions	**Legislative Amendments (GCT Act)**: • Change the methods of payment-on-account: the tax code should state that where taxpayers are in default and thus incur charges, payments made on account for an existing debt should first pay, interest, then surcharge then penalty then principal tax. • Interest should be simple interest and computed only on the principal tax. • Set off against tax type (automatic transfer of funds from one tax type to pay another) • Have a fixed framework where all arrangements to pay have an instalment plan that will include interest and tax **Tax Administration**: • Implement public rulings (for both case ruling and the Advisory Unit's rulings) through the new Taxpayer Appeals Division • Implement and sustain a new taxpayer education programme as well as a tax administrator programme; • Strengthen enforcement through amendments of the penal provisions of the relevant Acts and/or through, for example, an overhaul of S.72 of the Income Tax Act (ITA) and the provisions for forced GCT registration under the GCT Act. **Customs**: • Apply a Customs Administration Fee at the port inclusive of customs user fee; processing fees; environmental levy; and standard compliance fee. Keep ASD separate **Transfer tax**: • Removal of transfer tax from certain commercial paper (***already effective***)
Import Duties	• Reduce the CET to 20% (or 25% dependent on the Customs Administration Fee), applicable to motor cars as well (***already effective***). • Restructure aggregate duties payable on the importation of motor vehicles (***already effective***).

TIER 2 REFORMS **(ONGOING ASSESSMENT/ FOR IMPLEMENTATION BEGINNING JANUARY 1, 2012)**	
1. GCT	Reduce the standard GCT rate to 12.5% (or 15%) effective Jan, 1, 2012 • This is to facilitate the widening of the base, reduce the number of items which are currently exempt from GCT Abolish the existing 5% advance GCT, payable on the importation of goods. • Replace same with an advance tax of 5% payable on the CIF by commercial importers, except for bauxite and petroleum.
2. Income Tax	CIT: • Reduce the statutory CIT rate to 30% by Jan. 1, 2012 (subject to review of indirect tax revenue performance in Tier 1) • Reduce the statutory CIT rate to 25% for Jan. 1, 2013, if overall revenue performance allows PIT • Increase the general PIT threshold, effective Jan. 1, 2012 and Jan.1, 2014 subject to an analysis of revenue performance of Tier 1 measures • Amalgamate the education tax with the PIT and eliminate one of the payroll taxes immediately • Review amalgamated PIT, and performance of other tax measures, to determine if PIT can be reduced for Jan. 1, 2013
3. Compulsory filing of income tax returns	It should be mandatory that every resident of Jamaica files an Income Tax Return. It is recommended that this is implemented on a phased basis. • Effective March 2011, every person who is regarded as a professional will be required to file a PIT return, whether that person is self employed or not (***already approved by Cabinet***). • Implement the compulsory requirement for electronic filing for large taxpayers and professionals. • By March 2014 ***all*** residents will be required to file an Income Tax Return whether paper or electronically. Additionally, there should be compulsory e-filing of IT06, especially by the Accountant General, to assist in validation of the returns.
4. Simplification of Major Tax Laws and Tax Incentive Regime	Create Omnibus Tax Code, a Tax Incentive Act and Charities Act. • This process will seek to eliminate some of the existing taxes (nuisance tax) and harmonize others. The Tax Incentive Act should address the waivers and remission of taxes. • The law should state the types of waivers, conditions and if possible a cap on how much can be waived. This should include the process for waiving taxes.

TIER 2 REFORMS **(ONGOING ASSESSMENT/ FOR IMPLEMENTATION BEGINNING JANUARY 1, 2012)**		
5.	Asset Tax	Eliminate Asset Tax which is imposed on the value of assets owned by companies. • This is not an equitable tax as it is not paid by all taxpayers and is seen as a nuisance tax. • Additionally, it is not easy to administer given the need to verify returns. • It is possible to replace this immediately, perhaps with a minimum business tax.
6.	Treatment of Capital Allowance	Review the existing capital allowance regime. • Increase capital allowance for motor cars. Currently the rate is $400 per annum. • Include, in the revised capital allowance regime, accelerated depreciation, immediate write off once the balance reaches a certain amount. • Give capital allowance on expenditure for intellectual property and other intangible assets. • Remove the annual capital allowance on building and offer a one-time initial allowance.
7.	Minimum Business Tax	Implement a minimum business tax. • Ensure every business pays a minimum tax (and eliminate all the little trade licenses) even if the business makes a loss.
8.	Contractors Levy	Revise (***already approved by Cabinet***). • To allow contractors to carry forward the unused amount to subsequent year(s) of assessment, not exceeding five years.

Appendix III – INVENTORY OF OTHER DUTIES & CHARGES (ODCs) APPLIED TO IMPORTS BY SELECT COUNTRIES

Country	Other Duties and Charges	Comments
Antigua and Barbuda	***Source:*** Antigua and Barbuda applies a revenue recovery fee of 10% applied to the CIF value of all imports	
Barbados	***Source:*** **Barbados Trade Policy Review 2007** Barbados applied and environmental Levy at a general rate of 1.5%. A rate of 2% is levied on the value of goods imported in containers made of plastic, glass or metal; on goods imported in containers made of paperboard; and on empty containers made of plastic, glass, metal or paperboard. Some items are subject to specific rates: - motor vehicles (BDS$150 per vehicle) - tyres (other than motor cycle or bicycle tyres) (BDS$10 per tyre) - motor cycle and bicycle tyres (BDS$1 per tyre) - refrigerators, freezers, certain stoves, washing machines, and dishwashing machines (BDS$15 per item) - television sets, mattresses, and electric accumulators (BDS$10 per item). In September 2005, Barbados introduced a Cess tax on imports originating in non-CARICOM members. This was imposed at a rate of 3% (with a wide range of exemptions)	The stated purpose of this levy is to defray the costs of the disposal of refuse generated by the use of goods imported into Barbados, and to preserve and enhance the environment. **Refunds are available for imported goods that are re-exported.** A wide range of exemptions are granted to inter alia diplomats, international business companies, foreign sales corporations, approved enterprises under fiscal incentives, hotels, government, registered manufacturers and a host of other categories of persons and businesses. **The environmental levy was eventually removed in 2010** The initial intention was that it should be terminated after 18 months. The rate was raised to 6% in 2006. Revenues from this tax were directed to the Export Promotion and Marketing Fund. **The Cess tax was eventually withdrawn at end-February 2007.**
Guyana	***Source:*** **Guyana's Trade Policy Review 2007** Guyana continues to levy an environmental tax on non-returnable beverage containers, which it applies only on imports. Under the Customs Act, a G$10 environmental tax is levied on every unit of non-returnable metal, plastic, glass or cardboard container of any alcoholic or non-alcoholic beverage imported into Guyana. **This fee is not levied on domestically produced equivalents**.	The authorities note that importers may have these charges refunded if containers are collected and exported. Both the environmental tax and the refund system are under review at the national and CARICOM levels (WTO compatibility issues).

St. Vincent and the Grenadines	***Source:*** **St Vincent and the Grenadines Trade Policy Review 2009** **St. Vincent and the Grenadines applies a customs service charge of 4% on the c.i.f. value of imports, in addition to tariffs; the CSC applies to imports from other CARICOM countries.**	**Two companies that operate resort islands (i.e., the Mustique Company and Canouan Development Company) are exempt by statute from the CSC and import duties for most items.** **The report made no mention of whether the fee was refundable and no such information was gleaned elsewhere.**
St Kitts and Nevis	***Source:*** **St Kitts and Nevis's Trade Policy Review 2009** **In 2005 St Kitts and Nevis applies a Customs Service charge of 6% on the value of all non exempt goods imported, and 12% on all exempt goods** Under the Trade (Bottle and Can Deposit Levy) Act No. 1 of 2002, St. Kitts and Nevis imposes a deposit levy of EC$0.30 per container of imported beer, stout, malt, ale, and aerated drinks in non-returnable bottles. An environmental levy is imposed on imports of second-hand cars under Environmental Levy (Used Motor Vehicles) it has been set at a rate of EC$3,500 for cars imported between two and four years after the date of manufacture; and EC$5,000 for cars imported four years or more after the date of manufacture.	**The information that TPD has presently is that everybody pays this fee (applied to raw materials and capital goods)** The deposit levy is refunded on re-export of the bottles or if disposal arrangements acceptable to the relevant authorities are made within six months of payment of the deposit.
St. Lucia	***Source:*** **St Lucia's Trade Policy Review 2009** St. Lucia applies a customs service charge (CSC) of 5% on the c.i.f. value of most imports. The Environmental Protection Levy Act No.15 of 1999, as amended in 2002, imposes a tax on most imports, but does not apply to domestically produced goods. Specific rates are set for motor vehicles, tyres, used refrigerators and freezers, and batteries.	The Act provides a schedule of exempted articles, including an exemption for all classes of raw materials and packaging materials imported by local (certified) manufacturers. Other exemptions concern goods imported by the Government and certain related institutions (e.g. public libraries); diplomatic missions and certain goods of OECS officials; goods imported by charities; newspapers, trade catalogues, and advertising matter; and certain goods used by approved airlines.

Grenada	***Source:*** **Grenada's Trade Policy Review 2007** A customs service charge (CSC) of 5% is applied on all imports. Under Environmental Levy Act No. 5 of 1997, an environmental levy is charged on vehicles, "white goods", and beverage containers imported into the country; this levy is also applied on households that consume 100 kilowatt hours or more of electricity per month, and on stay-over and marine visitors. The levy on beverages is EC$0.50 per plastic or glass container and EC$0.25 for other containers; it is collected by the Comptroller of Customs upon import. Domestic products are not subject to the levy. The environmental levy on "white goods", is at 1% of the c.i.f. value; it is charged on a range of goods including fans, air conditioning machines, refrigerators, freezers and other refrigerating or freezing equipment, clothes dryers, dish washing machines, washing machines, vacuum cleaners, floor polishers, kitchen waste disposers, and television receivers (including video monitors and projectors). The levy on vehicles is at 2% of the c.i.f. value on new vehicles or used vehicles less than five years old, or 30% of the c.i.f. value on imported vehicles over five years old (except trucks). For imported used trucks over five years old, the levy is: 5% of the c.i.f. value for trucks between 1 and 10 tonnes; 10% for trucks between 11 and 20 tonnes; and 20% for trucks of 20 tonnes and over.	The overall incidence of levies and charges applied on imports is expected to decline with new fiscal reforms.
Dominica 2007	***Source:*** **Dominica's Trade Policy Review 2007** **In addition to customs duties, the Government levies a 3% customs service charge (CSC) on all imports.** Dominica imposes an environmental surcharge imposed at specific rates on some products and on an *ad valorem* basis on others	There are exceptions for *inter alia* goods imported by the Government, goods imported by passengers as personal baggage or household and personal effects, and goods temporarily imported under the provisions of an international convention to which the Government of Dominica has acceded. *Environmental surcharge* *Scope and rates:* Specific EC$3,000.00 per unit on motor vehicles over five years old EC$10.00 per unit on used tyres; EC$20.00 per unit on used refrigerators; EC$20.00 per unit on used freezers; EC$10.00 per unit on electric accumulators (batteries)

		<u>Based on c.i.f. value</u> 1% on motor vehicles less than five years old 1.5% on goods in containers made of plastic, glass, metal, paperboard or wood 1% on all other goods There are a host of exemptions for *inter alia* raw materials and packaging materials imported for use in the manufacture of goods by locally registered manufacturers; pharmaceuticals; goods imported by the Government
Argentina	***<u>Source:</u>*** **Argentina's Trade Policy Review 2007** **<u>A 0.5 per cent statistical tax is levied on the c.i.f. value of all merchandise imports</u>** except those originating in MERCOSUR and its associate members Bolivia and Chile. Certain goods are exempted from payment of the statistical tax, however, irrespective of origin.	In 1998, a WTO Panel found that the imposition of the statistical tax was inconsistent with WTO rules, since "an *ad valorem* duty with no fixed maximum fee, by its very nature, is not limited in amount to the approximate cost of services rendered". As result, in 1999 the Argentine authorities set caps for the statistical tax depending on the value of imports.
Peru	***<u>Source:</u>*** **Peru's Trade Policy Review 2007** Since 2004, Peru has applied a customs clearance charge on imports that exceed three tax units (UIT) (or, in 2007, S/. 10,350, around US$3,252). The charge is paid "for processing the Single Customs Declaration" under the outright importation and customs warehouse regimes (section (2)(i)). It amounts to 2.35 per cent of the UIT (equivalent to S/. 81.10, or around US$25.50).	There was no mention in the TPR to suggest that the charge is being applied counter to WTO ordinances
United States	***<u>Source:</u>*** **United States of America's Trade Policy Review 2008** Certain imports continue to be subject to a merchandise processing fee and a harbour maintenance fees. The merchandise processing fee applies to imports valued at more than US$2,000. The fee is set at 0.21% of the import value; the statutory minimum and maximum are US$25 and US$485. Originating imports under the free-trade agreements concluded between the United States are exempt The USA also charges a Harbour Maintenance Fee of about 0.33%	According to the U.S. authorities, Congress intended the merchandise processing fee to approximate the cost to CBP of processing the entry of imported merchandise. They have also noted that the merchandise processing fee's statutory ceiling was introduced in part "to address GATT concerns". <u>In the context of the last Review of the United States, the U.S. authorities indicated that they had no intention of eliminating the merchandise processing fee.</u>

Mexico	***Source:*** **Mexico's Trade Policy Review 2008** A *Derecho de Almacenaje* (DTA - storage charge) is charged on imports The DTA is payable on customs operations that involve use of the corresponding customs declaration or document. In most cases, the rate is eight per thousand of the declared customs value; temporary imports of machinery and equipment for companies with authorized export programmes are at a rate of 1.76 per thousand and, in other cases, a special rate of Mex$202 (US$18) is payable per operation. Definitive imports of goods subject to a preferential regime under an FTA signed by Mexico are exempt from this fee provided that they meet the applicable origin requirements.	The DTA does not appear to run counter to WTO ordinances