

Jamaica Budget Tax Bulletin 2015/16

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Introduction

Today the Minister of Finance and Planning tabled Ministry Paper 34/2015 and described this year's budget as "groundbreaking". It is the first time that revenue measures have been tabled before the House of Representatives prior to the annual income tax filing deadline of March 15. It is also the first time that new revenue measures for a financial year will take effect prior to the start of that financial year. However, the budget reflects none of the type of bold tax reforms contained in the Fiscal Incentives (Miscellaneous Provisions) Act, 2013. This budget serves the perfunctory purpose of filling the revenue deficit, by an almost complete reliance on consumption taxes. There are some additional measures directed at life insurance companies in an effort to address existing corporate income tax anomalies. There are also the usual compliance measures, which, while not revenue generating, are necessary to address the age-old problem of low tax compliance.

The proposed increases in consumption taxes account for some \$10.49 billion in revenue, which is more than 99% of the projected receipts from the new revenue measures for the 2015/16 financial year. Tax expenditure through revenue foregone for 2015/16 is projected to be \$645 million.

To cushion the effects on the disposable income of the average consumer, the Minister also announced that there will be an increase in the general personal

income tax threshold. He has also assured consumers that the biggest increase in their consumption taxes will be used to insure all consumers against any sharp increases in global oil prices in the future.

The clear emphasis on taxing consumption seems to be less about advancing the tax reform agenda and more about tapping into the more reliable sources of revenue. This consumption tax focus will result in a significant increase in the consumption tax imposed on petroleum products while at the same time some residential consumers will again be paying a tax on their electricity consumption. Consumers will also have an additional tax on cigarette purchases. What is new on the list is an environmental levy which will be imposed on the consumption of goods manufactured locally and on the importation of goods from other CARICOM countries. *Simply put, consumers will be paying more.*

Increase in individual tax-free threshold

There will be an increase in the income tax threshold from \$557,232 to \$592,800. This is an increase of \$35,568, which takes effect on January 1, 2016.

Changes in Special Consumption Tax (SCT)

Increase in SCT on cigarettes

SCT on cigarettes will increase to \$12.00 per stick, up from \$10.50 per stick. This measure takes effect tomorrow, March 13, 2015.

Although the last upward adjustment to this rate was effected in January 2010, the government returning to the tobacco industry for additional tax revenue indicates that this may be a reliable tax revenue earner. The increased cost of cigarettes may not negatively impact sales and consequently, increased tax collections may be achieved.

Increase in SCT on petroleum products

SCT on petroleum products will increase by \$7.00 per litre, effective March 18, 2015. The petroleum products identified in the Ministry Paper were E10 87, E10 90, Diesel and Ultra Low Sulphur Diesel.

Consumers will bear the impact of this tax increase at the gas pump as this cost is expected to be passed on by the gasoline retailers. The Ministry Paper indicates that government revenues have fallen due to the systematic

“Consumers will bear the impact of this increase in SCT on petroleum products at the gas pumps.”

reduction in oil prices and this measure is to insure against future price volatility.

Special SCT replaces Petroleum Cess

Effective March 18, 2015 the current 1 % Petroleum Cess paid by Petrojam to the Petroleum Corporation of Jamaica (PCJ) will be replaced by a specific SCT of \$2 per litre.

The Minister insisted that the implementation of the measure would not impact Petrojam’s reference billing prices for petroleum products. The expectation, however, is that this cost will eventually be passed on to the final consumer at the pumps. If this expectation comes to fruition, this revenue measure, along with the increased SCT on petrol consumers, will result in a double hit to the consumer.

General consumption tax (GCT) on residential electricity, again

Effective April 1, 2015, GCT at 16.5% is to be imposed on residential consumption of electricity above 350kWh per month. The government’s past efforts to impose GCT on residential use of electricity had met with strong opposition, resulting in the steady adjustment and ultimate withdrawal of the tax. It was first imposed in 2010 at a rate of 10% for usage over 200kWh, then an increase to 16.5% for usage over 300kWh was proposed in 2012, but this was not implemented and the tax was withdrawn that year.

The focus of this revenue measure is, again on consumption patterns. As the country moves towards achieving a lower energy bill, part of the strategy of the Government of Jamaica is to reduce energy consumption. The GCT on residential customers consuming more than 350kWh per month is a clear attempt at encouraging energy efficiency. The Ministry Paper also indicates that the measure is another effort to widen the tax net. This may not be achieved in light of the high rate of electricity theft in the island and the burden of the cost may again fall at the feet of Jamaicans who are already in the tax net.

“The GCT on residential customers consuming more than 350kWh per month is a clear attempt at encouraging energy efficiency.”

Extension of the Environmental Levy

Effective April 1, 2015 it is proposed that the Environmental Levy currently imposed on non-CARICOM imports, with certain exceptions, be extended to CARICOM imports. The Environmental Levy of 0.5% is currently imposed on the CIF value of imported goods.

On the same effective date, it is proposed that the 0.5% Environmental Levy also be applied to domestic supplies of goods. In this regard, the Minister stated that the following will apply:

- The total value of the supplies sold quarterly is to be used as the tax base.
- The Environmental Levy imposed at the ports on productive inputs will be treated as a tax credit against quarterly payments to Tax Administration Jamaica of the domestic levy. Hence such, amounts paid at the ports are treated as advanced payments against quarterly Environmental Levy obligation on actual supplies.
- Net payment obligations are to be remitted quarterly (same as income tax obligations) using a payment advice.
- Quarterly instalments would be due one month after the end of each quarter, e.g. March quarter would be due on the last working day of April.
- Environmental Levy is to be treated as an expense on the taxpayers' annual income tax return.

The Minister indicated that the above measures were intended to better achieve impartiality in the application of the levy in keeping with World Trade Organization rules. Currently, no levy is being applied to CARICOM imports or domestic goods.

From our analysis, the measures as a whole could result in increased costs to the consumer and additional revenues to the government. They may not assist domestic producers in being more competitive in the marketplace as other non-tax factors contribute to inefficiencies in production.

“The Environmental Levy imposed at the ports on productive inputs will be treated as a tax credit against quarterly payments to Tax Administration Jamaica of the domestic levy.”

“If the revenue measures are correct, the assets tax on life insurance companies that is due in four days on March 16, 2015, will be at the reduced rate of 0.25%.”

“For all the talk of taxes on consumption, this may be the sleeper provision in the Budget. It is described as a compliance measure and has no revenue estimate associated with it. But it could be a big revenue raiser.”

Amendment to the Taxation Regime for Life Insurance Companies

The Minister delivered on his promise to ease the assets tax on life insurance companies. The assets tax rate for life insurance companies will be reduced from 1% to 0.25% which is the rate currently applicable to all other financial institutions.

The Ministry Paper states that the proposed change will be applicable for year of assessment 2015. If this is correct, the assets tax that is due on March 16, 2015, which is four days from today, will be at the reduced tax rate of 0.25%.

The news may not be all good for life insurance companies. The Minister announced that the Gross Premium Tax (3%) and the Net Investment Income Tax (15%) will be replaced by a new corporate income tax regime with an applicable tax rate of 25%. By the Minister’s own accounts, this will likely result in increased income tax to life insurance companies.

Without reading too much into the corporate income tax rate change, it is interesting to note that life insurance companies will be the first group of regulated entities to be subject to the “unregulated” corporate income tax rate of 25%. Could the other regulated financial institutions be far behind?

Withholding Tax on Specified Services

For all the talk of taxes on consumption, this may be the sleeper provision in the Budget. It is described as a compliance measure and has no revenue estimate associated with it. But it could be a big revenue raiser.

The proposal is to impose a 3% withholding tax on payment for services above \$50,000, effective May 1, 2015. Although the Ministry Papers refers to “specified services”, no specific categories of services were stated. The tax would be an income tax and the amount withheld would be creditable against the service provider’s income tax liability. The credit would be available when the payor provides the service provider with a certificate showing the amount of tax withheld.

The plan is to phase in the withholding tax by limiting the payors, who are required to withhold, to larger entities such as financial institutions, ministries/agencies/departments and utility companies. These entities would be required to withhold 3% from payments made to a service provider and to provide the service provider with a withholding tax certificate so that the

service provider can claim the withheld tax as a credit against his normal income tax liability.

A withholding tax on services, as a concept, is not new. Today, there is the contractor's levy which is a 2% withholding tax on payments to a contractor who provides construction services. The contractor's levy however has many trappings including the inability to carry over the credit to another year. As a result, the contractor's levy could in some cases be an incremental tax rather than just a collection measure. It is hoped that the 3% withholding tax will be a straightforward collection measure without any of the complexities of the contractor's levy.

Resumption of the Bauxite Levy regime

The Minister indicated that the interim Bauxite Levy concession granted to members of the Bauxite Industry since 2008 expired in December 2014. He indicated that the full levy is now due and all bauxite companies are expected to "adhere to the law – both in letter and spirit".

The levy is due on a quarterly basis and must be paid by the 15th day of the month following the end of the quarter. This would mean that the first payment for 2015 could be due by April 15, 2015.

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Calendar of Significant Due Dates

MARCH	
15 th	Return of Income and Tax Payable and Declaration of Estimated Income and Tax Payable. Extended to March 25, 2015
15 th	Self-Employed Persons Annual Return of Income, Taxes and Contributions Payable for Year Ended 31, December (SO4). Extended to March 25, 2015
15 th	Declaration of Estimated Income, Taxes and Contributions Payable (Self Employed Individuals) (SO4a). Extended to March 25, 2015
15 th	Assets Tax filing and payment. Due by March 16, 2015
15 th	First Quarterly Statutory Payments for Self-employed Persons/Individuals (SO3) ¹ . Extended to March 25, 2015
15 th	First Quarterly Estimated Income and Tax Payable by Corporate Bodies (IT07). Extended to March 25, 2015
31 st	Employers annual return (SO2)
APRIL	
1 st	Property tax payment ²
JUNE	
15 th	Second Quarterly Statutory Payment for Self-Employed Persons/Individuals (SO3) ¹
15 th	Second Quarterly Estimated Income and Tax Payable by Corporate Bodies (IT07)
15 th	First instalment of Minimum Business Tax
SEPTEMBER	
15 th	Third Quarterly Statutory Payment for Self-Employed Persons/Individuals (SO3) ¹
15 th	Third Quarterly Estimated Income and Tax Payable by Corporate Bodies (IT07)
15 th	Second instalment of Minimum Business Tax
DECEMBER	
15 th	Fourth Quarterly statutory payment for Self-Employed Persons/ Individuals (SO3) ¹
15 th	Fourth Quarterly Estimated Income and Tax Payable by Corporate Bodies (IT07)

Disclaimer

We must emphasise that the information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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General Consumption Tax and Employer's Monthly Return (SO1) are also due monthly throughout the year.

¹Quarterly estimated payments for Income Tax NIS, NHT, Education Tax and HEART contributions

²Property tax may be paid biannually, or quarterly on April 1, July 1, October 1 and January 1