Example 3:

For Y/A 2015, **Taxpayer B made a loss of** $6.5M. PYL amounted to $2.5M. What is his loss to go forward ?

Solution:

Taxpayer B. will be permitted to carry-forward losses of $9M to the next tax year ($6.5 + $2.5).

NB: The 50% rule will be applicable only when a profit is made.

Example 4: Illustration of adjustment to Losses after an Audit

XYZ filed Income Tax Return for Y/A 2014 & 2015. Details are set out in **Table 1**.

Table 1

IT Return	2014	2015
	$M	$M
Net Income	7.50	8.00
PYL ($8.75M)	3.75	4.00
Chargeable Income	3.75	4.00
IT @ 25%	0.94	1.00
Unutilized Loss	5.00	1.00

Y/As 2014 & 2015 were audited by the Commissioner General. The result is as follows and set out in **Table 2:**

- Y/A 2014, the PYL was reduced to $4.2M due to transposition error in the PYL brought forward;
- Y/A 2015, the net income was increased to $9.35M.
- As the Net Income was increased to $9.35M, the allowable amount of PYL would be increased to $4.68M. Since the actual PYL was reduced to $4.2M, XYZ would be able to claim the full amount against its Net Income.
- Chargeable Income would therefore increase to $5.15M and tax thereon on would be $1.29M.

Table 2

IT Return	2014	2015
	$M	$M
Net Income	7.50	9.35
PYL ($7.95M)	3.75	4.20
Chargeable Income	3.75	5.15
IT @ 25%	0.94	1.29
Unutilized Loss	4.2	0

For more information :

Call: 1- 888-TAX-HELP (829-4357) or
1-888-GO-JA-TAX (46-52-829)
Email: TAXHELP@TAJ.GOV.JM
Website: WWW.JAMAICATAX.GOV.JM
Twitter:@JAMAICATAX

February 2014

Tax Administration Jamaica
Working together to serve you EVEN better

Treatment of Tax Losses

PURPOSE

The purpose of this brochure is to provide guidance on the treatment of tax losses in accordance with the policy of the Ministry of Finance to reform the incentive regime for income tax purposes.

TREATMENT OF TAX LOSSES PRIOR TO JANUARY 01, 2014

The Income Tax Act permits losses carried forward from previous tax years to be set off against income of the current tax year. Currently, there is no restriction as to the amount of losses to be set-off or period for which the losses may be carried forward.

NEW MEASURE – RESTRICTION OF TAX LOSSES

Effective tax year 2014 (Y/A 2014), the deduction allowed for <u>*prior year losses (PYL)*</u> will be capped at **50%** of the Net Income for the respective tax year.

- Net income means total income less all exemptions and allowable deductions excluding the specific losses (PYL).

- PYL which are not utilized in the current tax year may be permitted against the Net Income of subsequent years.

- There is no cap on the number of years for which losses may be carried forward.

- This regime is also applicable to approved farmers liable to pay income tax.

However, the cap will not apply to the following:

- For the first five years of assessment next following the Year of Assessment in which the taxpayer commenced a trade , profession or business.
- A taxpayer (whether individual or company) whose gross turnover is below J$3,000,000 per annum (the amount referred to in section 27(1) (b) (i) of the GCT Act).

Examples

EXAMPLE 1:

For Year of Assessment (Y/A) 2014, **Coop Ltd**. Has net income of $3.5M. Prior Year Losses (PYL) amounted to $2.7M

SOLUTION:

In computing chargeable income for Y/A 2014, **Coop Ltd**. will be allowed to set off $1.75M of the PYL (50% * $3.5M) against Net Income. Thus Chargeable Income will be $1.75M. The remaining PYL of $0. 95M ($2.75M - $1.75M) can be C/F to the next tax year.

EXAMPLE 2:

For Y/A 2014, **Taxpayer A**. Had Net Income of $6.5M. PYL amounted to $2.5M.

SOLUTION:

In computing chargeable income for Y/A 2014, **Taxpayer A** will be allowed to set off the full amount of the PYL of $2.5M against Net Income. This is because the PYL is less than 50% ($3.25M) of Net Income. Thus Chargeable Income will be $4M.