

# TECHNICAL GUIDANCE NOTE

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**Technical Paper:** *"2013 Income Tax Rates (revised)"*

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## Purpose

The purpose of this paper is to provide guidance on the application of the changes to the Income Tax rates for year of assessment 2013.

## Legislation

All references to the Income Tax Act

## Introduction

The Revenue Measures for Year of Assessment 2012/2013 introduced the reduction of Corporate Income Tax rate from 33½% to 25% for year of assessment 2013 for all unregulated companies. This reduction took effect January 1, 2013. The 25% rate of tax was later increased to 30% for large unregulated companies, effective April 1, 2013.

There was no change the Corporate Income Tax rates for Regulated companies, Insurance Companies and Building Societies.

**Please note** the regimes applicable to life assurance companies (Section 48(4) of the Income Tax Act) and buildings societies (Section 30(2)) will remain in force.

Building Societies                      30%

Life Assurance Companies            15%

**Regulated Companies** are companies that are regulated by the Financial Services Commission, the Office of Utilities Regulation, the Bank of Jamaica or the Ministry Responsible for Finance.

**Large Unregulated Companies** are companies which have gross annual income of not less than \$500 million in any year of assessment or as the case may be, in the period of twelve months referred to in section 6 (2) of the Income Tax Act.

## General Income Tax Rates (Section 30 of the Income Tax Act)

### With effect from January 1, 2013

Regulated Companies	33½%
Unregulated Companies-	25%
Individuals	25%

### With effect from April 1, 2013

Large Unregulated companies 30%

The cumulative/collective impact of the varied rates has given rise to an effective rate of **28.75%** (see computation hereunder) for Year of Assessment 2013 for large unregulated companies **other than** those with a permitted accounting period.

Where the Taxpayer was granted permission under section 6(2) of the Income Tax Act, to report for a permitted accounting period, that is, a period other than January to December, the Income Tax effective rate of 28.75% will also apply

### The Effective Tax Rate

The effective tax rate was determined based on the following:

$$(3/12 \times 25\% \text{ plus } 9/12 \times 30\% = \mathbf{28.75\%})$$

- the numerator represents the number of months from January 2013 to the end of the March 2013 (3 months).
- the denominator is the number of months of the year of assessment (12 months).
- 25% represents the reduced rate and 30% represents the rate introduced in April 2013.

### Sample Application

#### Scenario 1

JTA Ltd. is a large unregulated company whose permitted accounting period ended in June 2013. **What is rate of income tax for 2013?**

#### Answer

The Income Tax rate for 2013 will be 28.75% for the 12 months July 2012 to June 2013. (the determined rate).

## Scenario 2

Mars Ltd. is a large unregulated company whose permitted accounting period ended in January 2013. Mars had taxable income of \$6,000,000. **What is the Income Tax Payable and what is the Rate of Tax for 2013?**

### Answer:

The Income Tax Payable would be \$1,725,000 ( $\$6,000,000 \times 28.75\%$ ).

The effective Income Tax rate will be **28.75%** (the determined rate).

## Scenario 3

ABC Ltd. is a large unregulated company whose permitted accounting period ended September 2013. **What is the effective rate of tax?**

### Answer

The effective rate of tax for 2013 will be 28.75% (the determined rate).

**For Unregulated companies other than Large Unregulated companies, irrespective of the reporting period, the applicable rate of tax is 25%.**

## Withholding Tax Rates

The withholding tax rate provisions will remain for all companies at 33⅓%.

Withholding Tax Rates Sources:

- Interest payments on certain deposits or investments with Insurance Companies (Section 48A of the ITA);
- Unit trust/Collective Investment schemes income payments (Section 39 of the ITA);
- Company distribution (Section 38 of the ITA);

**NOTE: Estimated Income Tax Payments for large unregulated companies for year of assessment 2014 may be calculated at 25%**