

TECHNICAL ADVISORY

Re: Enhanced Revenue Measures 2009/2010

Legislative

References:

General Consumption Tax Act
Income Tax Act
Provisional Collection of Tax (Income Tax) (No. 4) Order 2009
Provisional Collection of Tax (General Consumption Tax)
(No. 23) Order 2009

Background

Enhanced revenue measures were announced by the Minister of Finance and the Prime Minister which resulted in changes to section (4) (1) (a) of the GCT Act reflecting an increase in the standard General Consumption Tax (GCT) rate, an increase in the GCT rate applicable to the Tourism Sector, the re-introduction of the ad valorem component of the SCT on petroleum products, a revision of exempt items which resulted in the imposition of GCT on the supply of electricity, an increase in the GCT rate on commercial imports and changes to the Income Tax Act reflecting an increase in income tax for higher income earners.

The items will be addressed in the following order:

- 1. Increase in the Standard Rate of GCT**
- 2. Imposition of GCT on the supply of Electricity for Residential, and Commercial and Industrial customers**
- 3. Increase in the rate of GCT applicable to the tourism sector**
- 4. Re-introduction of the ad valorem component of the SCT on petroleum products**
- 5. Increase in SCT on cigarettes**
- 6. Increase in GCT on commercial imports**
- 7. Increase in Income Tax for higher income earners**

Amendments:

1. Increase in the Standard Rate of GCT

Section 4(1)(a) of the GCT Act was amended with effect from **January 1, 2010** to provide for the increase in the standard GCT rate from **sixteen and one-half percent** (16 ½ %) to **seventeen and one-half percent** (17 ½ %).

2. Imposition of GCT on the Supply of Electricity to Residential and Commercial/Industrial Premises

Effective **February 1, 2010**, the supply of electricity to residential, commercial and industrial premises will be as follows:

a) Residential Premises

- The supply of electricity to residential premises for residential and domestic purposes above a usage of 200 kilowatt hours (kwh) will attract the special rate of 10%;
- Usage of 200kwh and below will attract a zero-rate (0%).

b) Commercial and Industrial Premises

- The supply of electricity for commercial and industrial use will also attract the special rate of 10%. The 200kwh threshold is applicable to residential and domestic usage **only**.
- Some customers will enjoy zero-rating, pursuant to the First Schedule Part 2 of the GCT Act and Regulation 23

3. Increase in the rate of GCT Applicable to the Tourism Sector

Effective **April 1, 2010** the special GCT rate applicable to the tourism sector, mentioned in Part V of the First Schedule to the GCT Act, will be increased to 10% up from the current 8.25%.

4. Re-introduction of the Ad Valorem Component of the SCT

In the Second Schedule to the GCT Act, fuel attracts both a specific and an ad valorem rate of Special Consumption Tax.

Effective **January 1, 2010**, the ad valorem component on prescribed petroleum products have been re-imposed at a rate of 15%. This will be applied to the value of fuels manufactured in or imported into Jamaica.

Fuels include:

- Motor Spirits including E10/87, E10/90

- Automotive Diesel Oil
- Kerosene (Excluding Turbo Jet A1 Fuel)
- Marine Diesel Oil

Motor spirit sold to fishermen certified by the Director, Fisheries Division, Ministry of Agriculture for commercial fishing will continue to be exempt pursuant to Paragraph 24 of the Third Schedule of the GCT Act.

Example of ad valorem computation on petroleum products manufactured in Jamaica

Where the fuel is manufactured in Jamaica the 15% will be applied to the ex-refinery price inclusive of the Specific component of the SCT as illustrated below.

Please note that the figures in the tables below are hypothetically determined

Detail	E10-87	E10-90	ADO	Kerosene
ex Refinery	52.1008	53.1676	53.0552	53.623
Specific SCT / Litre	16.1061	16.4792	15.4145	6.0186
Refinery BP	68.2069	69.6468	68.4697	59.6416
Ad Valorem - SCT 15 %	10.2310	10.4470	10.2705	8.9462
Ex- Factory	78.4379	80.0938	78.7402	68.5878
Total SCT	26.3371	26.9262	25.6850	14.9648

Example of ad valorem computation where petroleum products are imported into Jamaica

Where the fuel is imported into Jamaica the 15% will be applied to the value as prescribed in section 13 (1) (a) of the GCT Act. That is, the value of the goods as determined under the Customs Act plus the customs duty plus any additional stamp duty on inward customs warrants plus any specific special consumption Tax

Detail	E10-87	E10-90	ADO	Kerosene
Value of Goods at Customs	52.1008	53.1676	53.0552	53.623
Specific – SCT/Litre	16.1061	16.4792	15.4145	6.0186
Stamp Duty	2.8751	3.5432	2.6754	1.9875
Total Value	71.082	73.1900	71.1451	61.6291
Ad Valorem SCT 15%	10.6623	10.9785	10.6718	9.2444
Total Price	81.7443	84.1685	81.8169	70.8735

5. Increase in the Special Consumption Tax (SCT) on Cigarettes

Effective January 1, 2010, the Special Consumption Tax on Cigarettes of tariff #2402.20 and 2402.9010 will be increased from the current \$8,500 per 1,000 sticks to \$10,500 per 1,000 sticks.

6. Increase in the GCT rate on Imported Items

Effective January 1, 2010, commercial importers will be required to pay, in addition to the standard rate of 17.5%, an advanced rate of 5% on commercial imports. "Commercial Importer" means a registered taxpayer who, in relation to a taxable supply, imports into Jamaica any goods that the Commissioner of Customs is satisfied is imported for resale or use in carrying out a taxable activity." (First Schedule Part VII GCT Act).

The advanced rate shall not apply to the following:

- Petroleum products as specified in the second schedule to the GCT Act.
- Capital goods as designated under the Customs Act.
- Goods imported under the Deferment Scheme pursuant to Section 42 of the GCT Act.
- Goods that are zero rated or exempt under the GCT Act.
- Goods imported in commercial quantities by persons who are not registered to collect GCT and to whom an uplift value for the purpose of GCT will be applied.

The advanced payment of GCT at the 5% rate will be recoverable as a tax credit where applicable.

7. Increase in Income Tax on Higher Income Earners

Effective **January 1, 2010**, the Income Tax Threshold for individuals will be increased from \$320, 736 to \$441,168. Individuals earning above \$5million annually will be charged an increased rate of income tax as indicated below:

<u>Taxable Income</u>	<u>Marginal Rate</u>
\$0 - \$441,168.00	nil
\$441,169.00 - \$5,000,000.00	25%
\$5,000,001.00 - \$10,000,000.00	27.5%
\$10,000,001 and above	35%

The above rates are to be applied based on the proportionate amount of the annual income bands on a monthly, fortnightly or weekly basis, depending on the employee's pay cycle. In order to give effect to the higher rates in the relevant

periods, a cumulative approach to the computation of income tax must be used, as stipulated in the Income Tax (Employments) Regulations, Second Schedule Part 1 of the Income Tax Act.

Monthly Computation:

For each successive month the cumulative monthly totals of the statutory income, the income tax threshold and monthly equivalent of the \$5M and \$10M bands should be used to determine the tax payable to date. "Statutory income" means, the aggregate amount of income of any person from all sources remaining after allowing the appropriate deductions and exemptions under the Income Tax Act;

The table below reflects the cumulative monthly equivalent of the \$5M and \$10M bands.

Months	Cumulative Monthly Income equivalent of \$5M Band	Cumulative Monthly Income equivalent of \$10M Band
1	416,666.67	833,333.33
2	833,333.33	1,666,666.67
3	1,250,000.00	2,500,000.00
4	1,666,666.67	3,333,333.33
5	2,083,333.33	4,166,666.67
6	2,500,000.00	5,000,000.00

For example in month 1 where your statutory income is equal to or less than \$416,666.67, the rates applicable are 0% and 25%. The first \$36,764 is taxed at the nil rate, and up to the next \$379,902.67 is taxed at 25%.

For a person whose statutory income in month 1 exceeds \$416,666.67 but is equal to or less than \$833,333.33, the rates applicable are 0%, 25% and 27.5%. The first \$36,764 is taxed at the nil rate, the next \$379,902.67 is taxed at 25% and up to the next \$416,666.67 is taxed at 27.5%.

For a person whose statutory income in month 1 exceeds \$833,333.33, the rates applicable are 0%, 25%, 27.5% and 35%. The first \$36,764 is taxed at the nil rate, the next \$379,902.67 is taxed at 25%, up to the next \$416,666.67 is taxed at 27.5% and the amount in excess of the \$833,333.33 is taxed at 35%.

Example:

An individual with a statutory income of \$1,000,000.00 in month 1 will pay tax as follows:

Month 1

First \$36,764 at the nil rate

Next \$379,902.67 at 25% equals tax payable of \$94,975.67

Next \$416,666.67 at 27.5% equals tax payable of \$114,583.33

Balance of \$166,666.67 at 35% equals tax payable of \$58,333.33

Total tax payable in month 1 is \$267,892.33.

Month 2

In month 2 representing a cumulative statutory income of \$2,000,000 tax will be computed as follows:

First \$73,528 at the nil rate (36,764 X 2)

Next \$759,805.33(833,333.33 – 73,528) at 25% equals tax payable of \$189,951.33

Next \$833,333.33 at 27.5% equals tax payable of \$229,166.67

Balance of \$333,333.34 at 35% equals tax payable of \$116,666.67

Total tax payable to date is \$535,784.67 and tax payable in month 2 is \$267,892.34.

It is to be noted that all income levels will benefit from the general threshold of \$441,168.00, the age exemption of \$80,000 applicable to individuals 65 years and over, and the pension exemption of \$80,000.00.

Table for Acronyms

GCT – General Consumption Tax

SCT – Special Consumption Tax

S-SCT – Specific Special Consumption Tax

BP - Billing Price