# Interpretations, Rulings & Opinions Committee Paper

I.R.O.C Paper (Volume 2; Issue 10; Issued 2004, May.)

## Re: Amendment to the Income Tax Act

**Issue:**

- The removal of tax concession from specific Public Enterprises.

**Legislative Reference:**

- Income Tax Act

**Provision:**

- Section 12 (b)

**Effective date of the Amendment:**

- December 23, 2003

**Amendment:**

1. Paragraph (b) was deleted and replaced by ***paragraph (b).***
2. The new provision stated that the income of any Parish Council, Municipality, public body or department of Government is exempt from income tax.

3. The income of the following entities ***are not exempted*** from Income Tax:

    a. The Airports Authority;
    b. The Betting Gaming and Lotteries Commission;
    c. The H.E.A.R.T. Trust;
    d. The Jamaica Development Bank;
    e. The Jamaica Mortgage Bank;
    f. The Jamaica Racing Commission;
    g. National Insurance Fund
    h. The National Housing Trust;
    i. The National Water Commission;
    j. The Petroleum Corporation of Jamaica;
    k. The Urban Development Corporation.

**The effect of the Amendment:**

- The incomes of the entities listed above (specified entities) are no longer exempt from Income Tax.

- Notwithstanding the effective date of December 23, 2003, the date of January 1, 2004 is to be used as the basis for the effect.

- The specified entities are required to file Income Tax Returns.

- The entities should file estimated tax return, pay estimated tax in four instalments; commencing Year of Assessment 2004.

- Chargeable Income to be pro-rated, if the basis period does not coincide with January to December.

- Interest and Dividends received after the effective date, relating to the Year of Assessment 2004, are also taxable.

- Any loss incurred prior to the date, which the provision was amended, will not be allowed as deduction in ascertaining the chargeable income, ***or*** be allowed to go forward.

- The specified entities are entitled to Capital Allowance on assets brought into use during the basis period in which the provision was amended.
    - The Capital Allowance is to be completed by calculating the notional written down value to the beginning of the basis period, by using the original date of acquisition, computing the Initial and Annual Allowance up to the beginning of the period when the entity becomes taxable, and ***if necessary***, pro-rated if January to December is not the basis period of the return.

**N.B:**

Where a choice is made to elect the straight-line method as it regards the treatment of annual allowances, **approval must be obtained from the Commissioner of Taxpayer Audit and Assessment.** This will require an inspection of the relevant documents at which time the Commissioner will determine the normal working life.

*See example overleaf.*

| **Example: NOTIONAL WRITE DOWN OF ASSET** | | | |
|---|---|---|---|
| Furniture purchased in year 2000 for $100,000 | | | |
| | | | |
| Cost | | | **$100,000** |
| Year 2000 | Initial Allowance | **20%** | $20,000 |
| | Annual Allowance | **10%** | **$10,000** |
| | WDV | | $70,000 |
| Year 2001 | Annual Allowance | **10%** | **$7,000** |
| | WDV | | $63,000 |
| Year 2002 | Annual Allowance | **10%** | **$6,300** |
| | WDV | | $56,700 |
| Year 2003 | Annual Allowance | **10%** | **$5,670** |
| | WDV | | $51,030 |
| Year 2004 | Annual Allowance | **10%** | **$5,103** |
| | WDV | | $45,927 |
| | | | |
| Total cost of asset | | | $100,000 |
| Notional allowance 2000-2003 given | | | **$48,970** |
| WDV at beginning of Y/A 2004 | | | $51,030 |
| Annual Allowance for 2004 | | **10%** | $5,103 |