

**Ministry of Finance & the Public Service
Tax Administration Jamaica**



**REVISED
TECHNICAL NOTE
Personal Income Tax Threshold & Rate**

**FY 2016/17
Revenue Measures**

June 30, 2016

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Purpose

The purpose of this Note is to provide guidance on the application of the amendments to the Income Tax Act as it relates to the implementation of the new income tax rate and the increase in the income tax threshold as announced in the 2016/17 Revenue Measures.

Objective

The 2016/17 Revenue Measures outlined to the House on the May 12, 2016, in which the Minister of Finance and the Public Service (MoFP) asked the Honourable House to consider an increase in the personal income tax threshold from \$592,800 to \$1,000,272 effective July 1, 2016 and to a further \$1,500,096 effective April 1, 2017. The measure is recommended on the grounds that it will provide low income earners with additional disposable income.

The Revenue Measures covered:

- (1) An increase in the personal income tax threshold from \$592,800 to \$1,000,272 for year of assessment 2016.
- (2) An increase in the personal income tax threshold from \$1,000,272 to \$1,500,096 for year of assessment 2017
- (3) The Income Tax Rate of 30% on statutory income in excess of \$6,000,000.

Legislation

- The Income Tax Act is amended to form the legislative framework.
- Unless otherwise stated, all reference is to the Income Tax Act.
- Income Tax Order

Implementation date

The effective date for implementation is July 1, 2016 and April 1, 2017 respectively.

Main Amendments to the Act

Section 30 of the Income Tax Act will be amended to impose the tax rate of 30% per annum on income in excess of \$6,000,000 and to provide for the increased threshold of \$1,000,272 and \$1,500,096 for 2016 and 2017 respectively.

Definition

Statutory Income as defined in the income tax act means, subject to section 6, the aggregate amount of income of any person from all sources remaining after allowing the appropriate deductions and exemptions under the act.

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OPERATION OF THE TAX FOR 2016 AND 2017

Income Tax Threshold Year of Assessment 2016

Effective July 1, 2016 the income tax threshold will be increased to \$1,000,272.00 an increase of \$407,472.00 over the previous threshold of \$592,800.00. This increase will result in an effective threshold of \$796,536.00. The threshold for the year of assessment 2016 will be applied as follows see Tables 1 and 2

Table 1: Calculation of the effective threshold for year of assessment 2016	
Period	Threshold (\$)
January 1, 2016 to June 30, 2016	296,400 (592,800 ÷ 12 x 6)
July 1, 2016 to December 31, 2016	500,136 (1,000,272 ÷ 12 x 6)
Year of Assessment 2016	796,536 (296,400 + 500,136)

Table 2: Periodic threshold for individuals for year of assessment 2016			
Pay Periods	Weekly \$	Fortnightly \$	Monthly \$
January to June 2016	11,400	22,800	49,400
July to December 2016	19,236	38,472	83,356

NOTE: Individuals earning \$796,536 or less per annum will pay no income tax.

New Income Tax Rate

The measure also provides for an increase in the personal income tax rate for individuals earning in excess of \$6,000,000.00. Individuals whose statutory income exceeds \$6,000,000.00 will be required to pay tax at the rate of 30% on statutory income in excess of \$6,000,000.00 earned from July 1, 2016 to December 31, 2016 (resulting from the introduction of dual rates for the year of assessment). For the first \$796,536.00 of statutory income the tax rate of 0% will be applied, the next amount of \$5,203,464.00 (6,000,000.00 - 796,536.00) the tax rate of 25% will be applied and on statutory income in excess of \$6,000,000.00 the tax rate of 30% will be applicable restricted to July 1, 2016 to December 31, 2016 see Table: 3

Table 3: New Income Tax Rate	
Annual Income \$	Rate of Tax %
0 - 796,536	0
796,537 - 6,000,000	25
Above 6,000,000 – January 1 to June 30, 2016	25
Above 6,000,000 – July 1 to December 31, 2016	30

Dual Income Tax Periods

For individuals earning in excess of \$6 million dollars for year of assessment 2016 the income although for a single period has been separated into two separate bands for the purpose of applying a higher rate of tax. To give effect to the increased tax of 30% on statutory income in excess of \$6 million dollars effective July 1, 2016 the income for January to June and July to December has to be treated as two distinct periods. It is essential to determine the timing of all income and any benefits. In addition, all exemptions, deductions and credits must be allocated proportionally, on the cash basis or the accruals basis.

Income from emoluments

Payment of emoluments will be deemed to have been earned in the period it is paid in accordance with historical practice.

The threshold is applicable to the year of assessment and this has not changed therefore individuals who earned income for January to June only is eligible for the full threshold of \$796,536. Where the statutory income is less than the threshold a refund is due.

- Statutory deductions are to be applied in the period which the deductions were made
- Employees certified as disabled at any time during 2016 will have their income for the entire year being exempt (no change).
- Credits earned during the year of assessment must be claimed proportionately both periods (i.e. 50%/50%).
- Persons who attain age 65 or become pensionable at any time during 2016 will be entitled to the relevant exemptions for the full year.
- Benefits in kind are taxable proportionately from the date the benefits were received
- Rental benefits are taxable for the periods the accommodation is available
- Taxable benefits on concessionary loans are to be applied proportionately from when the loan was made available.

Income from business, profession, trade or vocation

The statutory income for year of assessment 2016 will be treated as two separate periods January to June and July to December and the relevant tax rates applied see Table: 3

- Estimated income tax payments will be paid when due as is usual.
- Employment tax Credit (ETC) is applicable to the aggregate tax payable for the year
- Any deductions under section 13 of the income tax act which are allowable when paid should be applied to the period in which they are paid this includes interest, rent and similar payments

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- Allowable deductions other than losses brought forward and capital allowances are to be allowed when incurred
- Capital allowances are to be allocated proportionately across the periods
- Losses brought forward are to be allocated equally across the periods maintaining the 50% cap; that is capped at 50% of the aggregate profits earned for year of assessment 2016
- Credits for contractor's levy are to be applied to the period in which the deduction was paid over, as stated in the Contractor's Levy Act
- Credit for withholding tax on specified services are to be applied in the period in which the deduction was made
- Double taxation credits earned during the year of assessment 2016 must be taken proportionately in the relevant period

Year of Assessment 2017

Effective April 1, 2017 the income tax threshold will be increased to \$1,500,096 resulting in an effective threshold of \$1,375,140 for the year as detailed below see Tables 4 and 5.

Period	Threshold (\$)
January 1 to March 31, 2017	250,068 (1,000,272 ÷ 12 x 3)
April 1 to December 31, 2017	1,125,072 (1,500,096 ÷ 12 x 9)
Year of Assessment 2017	1,375,140 (250,068 + 1,125,072)

Period	Weekly \$	Fortnightly \$	Monthly \$
January 1 to March 31, 2017	19,236	38,472	83,356
April 1 to December 31, 2017	28,848	57,696	125,008

Annual Income \$	Rate of Tax %
0 - 1,375,140	0
1,375,141 - 6,000,000	25
Above 6,000,000	30

NOTE: Individuals earning \$1,375,140 per annum or less will pay no income tax.

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Year of Assessment 2018

Table 7: Threshold for individuals for year of assessment 2018			
Period	Weekly \$	Fortnightly \$	Monthly \$
January 1 to December 31, 2018	28,848	57,696	125,008

NOTE: Individuals earning \$1,500,096 per annum or less will pay no income tax.

Examples of Different Scenarios

Worked Example 1:

Connie British is an employee with a salary of \$7,000,000 earned equally for year of assessment 2016 and contributes 10% to an approved pension scheme. Her liability for income tax is calculated as shown below. Her statutory income for 2016 is in excess of \$6m however, her statutory income for the July to December period is below \$6m and therefore not subject to the 30% rate.

Emoluments	7,000,000.00	
NIS (2.5% on the ceiling of \$1,500,00)	37,500.00	
Pension (10% of emoluments)	<u>700,000.00</u>	
	737,500.00	
Statutory Income		6,262,500.00
Less:		
Tax Liability		
796,536.00 x 0%	0	
5,465,964 x 25%	1,366,491.00	
Total Income Tax Liability		1,366,491.00
Less:		
Other Deductions		
NHT (2% of gross pay)	140,000.00	
Education Tax (2.25% of gross pay less NIS & Pension)	140,906.25	280,906.25
Total deductions		1,647,397.25
Net Pay		4,615,102.75

Refunds

Employed individuals will be eligible for a refund if their income for year of assessment 2016 exceeds the old threshold of \$592,800.00 but is less than the new annual threshold of \$796,536.00. This refund can be paid by the employers as authorised by the Second Schedule, Part I (Income Tax (Employments) Regulation), section 14, of the Income Tax Act.

Worked Example 2:

Ms. Nona Sang is employed as a receptionist with a statutory income of \$600,000.00. Her tax liability for year of assessment 2016 is calculated below.

For January to June 2016 she has paid income tax of \$150.00 monthly because her statutory income exceeded the income tax threshold. As of July 1, 2016 her statutory income was below the effective threshold of \$796,536.00 and therefore not taxable. Nona Sang is eligible for a refund of the income tax paid ($\$150 \times 6 = 900$).

The \$900.00 may be refunded by her employer in July based on the cumulative calculation.

Worked Example 3:

Mr. Hearty Hardie is a math teacher with a statutory income of \$840,000.00. His tax liability for year of assessment 2016 based on the new threshold is \$10,500 as calculated below.

For January to June 2016 he paid income tax of \$5,150 monthly; the effective threshold will result in a reduction in his income tax liability and a refund spread over July to December 2016 based on the cumulative calculation.

NOTE: Refunds payable by employers must be done within the calendar year.

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Worked Example 4: Ms. Nona Sang

January to June 2016 with an effective threshold of \$296,400

July to December 2016 with an effective threshold of \$500,136

	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec
Cumulative Statutory Income	50,000	100,000	150,000	200,000	250,000	300,000	50,000	100,000	150,000	200,000	250,000	300,000
Cumulative Threshold	49,400	98,800	142,800	197,600	247,000	296,400	379,756	463,112	546,468	629,824	713,180	500,136
	600	1,200	1,800	2,400	3,000	3,600	0	0	0	0	0	0
Cumulative Tax Payable	150	300	450	600	750	900	0	0	0	0	0	0
Monthly tax/(refund)	150	150	150	150	150	150	(900)	0	0	0	0	0

Worked Example 5: Mr. Hearty Hardie

January to June 2016 with an effective threshold of \$296,400

July to December 2016 with an effective threshold of \$500,136

	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec
Cumulative Statutory Income	70,000	140,000	210,000	280,000	350,000	420,000	490,000	560,000	630,000	700,000	770,000	840,000
Cumulative Threshold	49,400	98,800	142,800	197,600	247,000	296,400	379,756	463,112	546,468	629,824	713,180	796,536
	20,600	41,200	61,800	82,400	103,000	123,600	110,244	96,888	83,532	70,176	56,820	43,464
Cumulative Tax Payable	5,150	10,300	15,450	20,600	25,750	30,900	24,561	24,222	20,883	17,544	14,205	18,866
Monthly tax/(refund)	5,150	5,150	5,150	5,150	5,150	5,150	(3,339)	(3,339)	(3,339)	(3,339)	(3,339)	(3,339)

Self Employed Individuals

These individuals are required to file estimated income tax returns for year of assessment 2016 and pay their estimated income tax liability in quarterly instalments.

Persons who have already filed their estimated return may file an amended return and claim the additional threshold for the quarters September and December 2016.

Worked Example 6

Marie State is a 65 year old who operates Marie's Beauty Supplies with gross receipts for 2016 of \$32,000,000, purchases of \$9,000,000, operating expenses of \$2,000,000, wages and salaries of \$5,000,000, losses brought forward of \$2,000,000 and capital allowances of \$1,000,000. She also had interest income of \$1,000,000.

Based on the two periods for year of assessment 2016 (January to June and July to December) expenses are to be claimed in the period they were incurred. Her tax liability for year of assessment 2016 is calculated below.

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Periods	January to June		July to December	
	\$	\$	\$	\$
Income		15,000,000		17,000,000
Purchases	4,000,000		5,000,000	
Wages & Salaries	2,000,000		3,000,000	
General Expenses	1,500,000	7,500,000	500,000	8,500,000
		7,500,000		8,500,000
Interest Income		500,000		500,000
		8,000,000		9,000,000
Losses b/f	1,000,000		1,000,000	
Capital Allowances	500,000		500,000	
Age Exemption	40,000	1,540,000	40,000	1,540,000
Statutory Income		6,460,000		7,460,000
Less				
Tax Liability				
296,400 x 0%		0	500,136 x 0%	0
6,163,600 x 25%		1,540,900	5,499,864 x 25%	1,374,966
			1,460,000 x 30%	438,000
Tax Liability per period		1,540,900		1,812,966
Total Tax Liability for Y/A 2016				3,353,866

Filing of Returns

In filing returns for Year of Assessment 2016 and 2017 taxpayers should claim the effective threshold of \$796,536 and \$1,375,140 respectively.

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Pensioners

There has been no increase in the pension and age relief but these individuals will all benefit from the increase in the threshold.

	Age 55 to 64	Age 65 and over
Total Income inclusive of pension	\$1,200,000.00	\$1,200,000.00
Less: Pension Relief	80,000.00	80,000.00
Age Relief		80,000.00
	1,120,000.00	1,040,000.00
Tax Liability		
796,536.00 x 0%	0	0
323,464 x 25% (1,120,000 - 796,536)	80,866.00	
243,464 x 25% (1,040,000 - 796,536)		60,866.00

	Age 55 to 64	Age 65 and over
Total Income inclusive of pension	\$1,200,000.00	\$1,200,000.00
Less: Pension Relief	80,000.00	80,000.00
Age Relief		80,000.00
Statutory Income	1,120,000.00	1,040,000.00
Tax Liability		
1,375,140.00 x 0%	0	0
Tax Liability	0	0

Dividends

Dividend paid to a resident of Jamaica by Jamaican resident companies is currently subject to a withholding tax rate of 15%; based on the legislation the withholding tax on dividend is a final tax and therefore tax on dividend cannot be used as a credit against any other income. Dividend income should be deducted before the application of any other rate of tax of zero, 25% and 30%. A final tax is the full amount of tax due and payable on that source of income.

Worked Example 7

Veronica Halper is a 50 year old Fashion Designer employed to Frocks Ltd. Her income for year of assessment 2016 is \$12,000,000; comprised of emoluments of

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\$11,000,000.00 earned equally for the year, and dividends of \$1,000,000.00. Her income tax liability for year of assessment 2016 is calculated as follows.

Dividends	1,000,000.00	
Emoluments	<u>11,000,000.00</u>	
Total Income		12,000,000.00
NIS (2.5% on the ceiling of \$1,500,000)	37,500.00	
Pension	<u>1,100,000.00</u>	
	1,137,500.00	
Statutory Income		10,862,500.00
Income Tax Computation		
Statutory Income less Dividends	9,862,500.00	
Tax on Dividend (1,000,000 x 15%)	150,000.00	
796,536 x 0%	0	
9,065,964 x 25%	2,266,491.00	
Income Tax Liability	2,416,491.00	
Less:		
Tax deducted at source	150,000.00	
		2,266,491.00
Less:		
Other Deductions		
NHT (2% of gross pay)	220,000.00	
Education Tax (2.25% of gross pay less NIS & Pension)	221,906.25	
Total Deductions		441,906.25

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Worked Example 8

Mark Larks is self-employed Investment Analyst with dividend income of \$6.5 million and gross business income of \$2 million, operating expenses of \$250,000 and capital allowances of \$150,000. His Tax liability for year of assessment 2016 is calculated below.

Gross Receipt	2,000,000.00	
Expenses	250,000.00	
Capital Allowance	150,000.00	
Income from Trade		1,600,000.00
Dividend Income		6,500,000.00
Total Income		8,100,000.00
NIS (5% on the ceiling of 1,500,000)	75,000.00	
Approved Retirement Scheme (20% of Chargeable Income)	305,000.00	380,000.00
Statutory Income		7,720,000.00
Income Tax Computation		
Statutory Income less dividend	1,220,000.00	
Less:		
Tax Liability		
Tax on dividend (6,500,000 x 15%)	975,000.00	
796,536 x 0%	0	
423,464 x 25%	105,866.00	
	1,080,866.00	
Less: Tax Deducted at Source	975,000.00	
Net Tax Liability		105,866.00
Other statutory Deductions		
Education Tax (2.25% of statutory income less dividends)	27,450.00	
NHT (3% of Statutory Income)	231,600.00	
Total Other Statutory Deductions		259,050.00

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Worked Example 9

Marie State is a 65 year old who operates Marie’s Beauty Supplies with gross receipts for 2016 of \$32,000,000, purchases of \$9,000,000, operating expenses of \$2,000,000, wages and salaries of \$5,000,000, losses brought forward of \$2,000,000 and capital allowances of \$1,000,000. She also had interest income of \$1,000,000.

January to December Year of Assessment 2017			
	\$	\$	\$
Income		32,000,000	
Purchases	9,000,000		
Wages & Salaries	5,000,000		
General Expenses	2,000,000	16,000,000	
		16,000,000	
Interest Income		1,000,000	
		17,000,000	
Losses b/f	2,000,000		
Capital Allowances	1,000,000		
Age Allowance	80,000	3,080,000	
Statutory Income		13,920,000	13,920,000
Less Tax Liability			
1,375,140 x 0%		0	
4,624,860 x 25%		1,156,215	
7,920,000 x 30%		2,376,000	
Tax Liability			3,532,215
TOTAL Tax Liability Due			3,532,215