Jamaica Post Budget Tax Bulletin 2016/17

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HIGHLIGHTS:

- Increase in the annual Personal Income Tax (PIT) Threshold for individuals
- Increase in the PIT rate for high income earners
- Increase in Special Consumption Tax (SCT) on petrol
- Introduction of SCT on liquefied natural gas and an increase in SCT on Fuel Oil
- Increase in SCT on cigarette
- Increase in Departure Tax
- Junior Stock Exchange

The Honourable Minister Audley Shaw, Minister of Finance and the Public Service, opened the 2016/17 Budget Debate today. The Minister started by highlighting that over the past 40 years, the economy has seen only marginal growth with an annual growth in the Gross Domestic Product of no more than 1% in recent years. The Minister emphasized that the unequivocal commitment of the Government of Jamaica is to move the country forward through economic growth and job creation.

The Minister did not announce many tax measures for 2016/17, but the small number of tax measures announced will have a big impact. The Ministry Paper No. 33/16, which was tabled, indicates that the measures are expected to raise a total of $1.278 billion for the financial year 2016/17 and will provide approximately $12.5 billion in tax relief to individuals through an increased personal income tax threshold. The revenue generating measures are heavily focused on consumption taxes. Even with a quick review of the revenue measures, it is apparent that the income tax relief granted may be offset by the additional consumption taxes that will have to be paid by consumers.

Increase in the annual Personal Income Tax (PIT) Threshold for individuals

The annual PIT threshold for individuals will be increased to $1,500,000 in two phases by April 1, 2017. The Ministry Paper indicates that effective July 1, 2016, in the first phase of the increase, the annual threshold will move from $592,800 to $1,000,272. On April 1, 2017, the threshold will be further increased to the targeted $1,500,000 level.

The increased tax-free threshold will be enjoyed by all individuals, which represents a more generous position than initially proposed under the ruling party's election proposals.

Application of new threshold to self-employed individuals

The ruling party's election proposal on this tax relief, as documented in its Ten-Point Plan, was targeted to benefit only PAYE workers, that is, persons who are employees as opposed to self-employed persons. In the same vein, the Minister today stressed that the benefit was only applicable to such individuals under the PAYE system. It is our view that this will not be the final result when the legislation is passed for the following reasons:

i. *The Ministry Paper indicates that the increased threshold would apply to all individuals, whether employed and or self-employed;*
ii. *The Income Tax Act, in its current form, applies the tax-free threshold to all individuals, whether employed and or self-employed; and*
iii. *Good tax policy demands equality among similar taxpayers. To deprive self-employed persons of the increased tax-free threshold would counter the past advances made by previous governments to simplify the tax regime and reduce inequality in the tax system.*

No impact on statutory contributions

Individuals and employers should be reminded that the increased tax-free threshold and any resulting lower income tax liability will not cause a decrease in statutory contributions to the National Housing Trust, National Insurance Scheme, Human Employment and Resource Training programme and Education Tax payments. This is because these contributions and taxes are calculated on the individual's taxable income before deducting the tax-free threshold. The new tax-free threshold, therefore, will have no impact on these payments.

Increase in the PIT rate for high income earners

Effective July 1, 2016, individuals earning over $6,000,000 per annum will be taxed on a graduated scale:

i. Income over the tax-free threshold and up to $6,000,000 will be taxed at 25%; and
ii. Income earned in excess of $6,000,000 will be taxed at 30%.

From our analysis, above a certain level of income, the benefits of the Personal Income Tax threshold are eroded by the additional tax that is payable at the higher personal income tax rate of 30%. The table below illustrates the point at which the benefits of the Personal Income Tax threshold are equal to the additional tax payable at the higher rate:

Year	Annual threshold* ($)	Max. income for tax benefit ($)
2016	796,536	7,056,180
2017	1,375,068	9,948,840
2018	1,500,000	10,573,500

**Computed effective tax threshold*

High income earners at this income level and above are likely to consider aggressive tax savings measures and the Government may not collect the amount of revenue from PAYE as projected. This discrepancy was seen in fiscal year 2009/10 when a similar graduated scale of taxation was imposed on high income earners in specified income levels over $5,000,000. Although revenues of $67,486,082,812 were projected, only $59,940,605,927 was actually collected, a shortfall of over $7 billion (source: 2010-2011 Jamaica Budget Summary of Expenditure Estimates by Ministries and Departments).

Depending on the wording of the legislation to be enacted, a high income earner whose employment income or trading income is less than $6,000,000 could end up in the higher income bracket if other passive income, such as interest income, is included in the income tax assessment.

For example, if a self-employed person earns taxable income from his business of $5,800,000 and also earns $400,000 in interest income, his total income for the year would be $6,200,000. The sum of $200,000 would be subject to taxation at 30%. Since the interest income of $400,000 may have been subject to 25% withholding tax at source from a financial institution, an additional 5% will be due on the $200,000 portion which is subject to 30% taxation. Individuals should therefore take care to ensure that interest income is considered when filing their income tax returns to avoid underpaying income tax. It is our view that dividend income should not have the same implication as there is a 15% Withholding Tax on dividends as a final tax.

Increase in Special Consumption Tax (SCT) on petrol

Effective May 13, 2016, there will be an increase of $7 per litre in the specific special consumption tax (SCT) paid on petrol. The classes of petrol affected are E10 87, E10 90, diesel and ultra-low sulphur diesel. This measure is expected to yield an estimated amount of $6.489 billion in revenue.

This increase in the specific SCT on petrol follows an increase of $9 per litre in the previous financial year. This reflects a consistent push by the government towards increasing petrol prices at the pump, even in the face of depressed world oil prices, and is in line with shifting direct to indirect tax revenues. However, the measure may have an inflationary effect given the product classes targeted

Introduction of SCT on liquefied natural gas and an increase in SCT on fuel oil

Effective May 13, 2016, a new SCT regime will be introduced for liquefied natural gas (LNG). There will also be a revision of the SCT regime for heavy fuel oil (HFO). The following are the new respective SCT rates:

i. LNG: a specific SCT of $4.56 per mmbtu and an ad valorem SCT of 3.5% will be introduced; and
ii. HFO: the specific SCT will be increased from $0.1512 per litre to $2.0006 per litre and an ad valorem SCT will be imposed at 0.395%.

Currently, there is no specific regime for the taxation of LNG. We understand that general consumption tax (GCT) at the standard rate of 16.5% is now imposed on LNG on the basis that there is no provision expressly exempting LNG from a GCT charge. This new regime will eliminate the current GCT charge and impose both a specific and an ad valorem SCT on locally manufactured and imported LNG.

The Ministry of Energy, Science and Technology has committed to a reduction in energy costs and we have seen a new thrust towards increasing our reliance on alternative energy sources, such as wind and solar power. Last year, the country signalled its move towards LNG with the signing of the first LNG supplier contract with the Jamaica Public Service Company Limited (JPSCo). The introduction of this new SCT regime for LNG will no doubt have an impact on the cost of this alternative energy source.

The increase in the SCT on HFO will also impact energy costs as the JPSCo uses HFO in its operations.

Increase in SCT on cigarette

Effective May 13, 2016, the Government has proposed to increase the SCT on cigarettes, cigars, cigarillos, cheroots to $14 per stick. This represents an increase of 16.67% over the previous year's SCT amount of $12 per stick.

In deciding to implement this tax, the Government has expressed its commitment to reducing tobacco consumption in accordance with Article 6 of the ratified Framework Convention on Tobacco Control.

It should also be noted that this is the second consecutive year of SCT increase on cigarettes, which last year moved from $10.50 per stick to $12 per stick.

Increase in Departure Tax

Effective June 1, 2016, the Departure Tax will increase to US$35, up from US$14.53 (J$1,800). In addition, the Departure Tax will now be denominated in US dollars. The change to US dollars is expected to protect against any future depreciation in the Jamaican dollar.

As indicated by the Minister, the Departure Tax was last updated in October 2009 when J$1,800 was equivalent to US$20. However, due to the depreciation in the Jamaican dollar over the years, the US dollar value of the tax has been reduced to approximately US$14.53.

The increase in the Departure Tax may significantly impact the tourism industry as this increase will be rolled into the price of an airline ticket and passed on to tourists and other persons travelling from Jamaica by air. It may be worthwhile for the tourism industry to assess the impact of this increase on Jamaica's competitiveness when compared to other Caribbean countries.

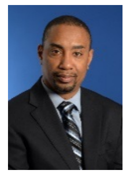
Further, it is to be seen as to what this will translate into for the cruise-shipping sector and also what transitional provisions will be implemented in respect of persons who have already purchased their tickets.

Junior Stock Exchange

The Minister referred to the Junior Market of the Jamaica Stock Exchange (JSE) as "a ray of hope and a catalyst for growth" and confirmed that the tax incentives available to companies listed on the Junior Market of the JSE would be maintained.

What remains unclear is the scope of the tax incentives that will be maintained. The Fiscal Incentives (Miscellaneous Provisions) Act, 2013 ("the FIA"), which provided for the termination of those tax incentives on March 31, 2016, created a new regime. This new regime provided only for a 100% income tax exemption in the first 5 years following a listing on the Junior Market of the JSE. The original regime created in August 2009 provided for a 100% income tax exemption in the first 5 years following a listing on the Junior Market of the JSE, and a 50% income tax relief in the second 5 years. We await the applicable legislation to determine whether the tax incentives will continue to be available for 5 years or 10 years.

Key members of KPMG Tax leadership



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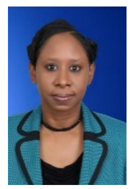

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