

# **FINANCING OF THE 2014/2015 BUDGET**

## **Central Government Budget's Expenditure Budget**

The 2014/2015 expenditure budget is estimated at \$540.1 billion. Revenues and grants are projected at \$421.2 billion, leaving a financing gap of \$118.9 billion.

This will be financed by loan receipts of \$110.9 billion, utilization of balances in the banking system of \$1.4 billion and inflows from new measures of \$6.7 billion.

## **Tax Revenue**

Tax Revenue of \$377.6 billion is 9.8% above the out-turn for 2013/2014 and represents 23.4% of GDP.

Included in the tax revenue forecast is an amount of \$3.2 billion already announced for the Minimum Business Tax, Betting, Gaming and Lotteries and the tidying up of the Customs Regulations; all these were introduced last year. The legislation to cover these taxes are already before the Parliament. The tax measures projections also include various small measures designed to tighten the administrative features of certain existing taxes and plug loopholes.

## **Non Tax Revenue**

Non Tax Revenue is estimated at \$34.2 billion down from the \$41.1 billion out-turn in the previous fiscal year.

This includes payment for new licences and renewal of old licences applicable to the telecommunications sector, totaling \$4.3 billion, and capital revenues of \$1.05 billion.

### **Grants**

The projected grants for 2014/2015 is \$8.6 billion down from the \$10.6 billion received in 2013/2014.

### **Loan Receipts**

Loan receipts of \$110.9 billion comprise \$54.6 billion from external sources and \$56.3 billion from domestic sources. The external resources is some 0.8% above the inflows from last year and the domestic 40.3% above the out-turn for the last fiscal year.

### **Additional Revenue Measures**

Mr. Speaker you will note that the financing identified above is short some \$6.7 billion to fully fund the 2014/15 budget. This amount must come from new taxes. Mr. Speaker, no administration likes to impose new taxes. However, this \$6.7 billion is required to allow us to meet the Primary Surplus Target of our programme of fiscal consolidation. The tax package being proposed is approximately 0.5% of GDP.

## **Taxation of Alcoholic Beverages**

Mr. Speaker, all alcoholic beverages with the exception of white over-proof rum are currently taxed at a rate of \$1,120 per litre of pure alcohol.(l.p.a.)There is also a preferential regime for the tourism industry which is currently a rate of \$700 per l.p.a.

Under the current reform programme, the policy is for the systematic unification of the rates. In light of this, the proposal with respect to the taxation of alcoholic beverages is to provide for one unified specific rate of \$1,120.00 per l.p.a on all alcoholic beverages across all sectors. We have found that the differential rates increase the administrative costs as the system was not simple, but rather introduced a step that added complication to the administration.

**The estimated revenue yield from this measure is approximately \$844 million and will be effective April 22, 2014.**

### **Increase in the age limit of second sale vehicles on which GCT will be applicable**

The proposal to increase the age limit of second hand sale vehicles to which GCT is applicable from eight (8) years to ten (10) years was extensively discussed at the tax sub-committee of Parliament and was agreed to by the Parliamentary Committee. The proposal does not contemplate increasing the fees at this time.

**The revenue yield from this measure is approximately \$26 million and became effective April 1, 2014.**

**Levy on Withdrawals from Deposit Taking Institutions and Encashments from Securities Dealers**

Mr. Speaker, we propose to introduce a levy on deposit taking institutions and encashments from securities dealers .

This levy will be chargeable on all withdrawals from deposit taking institutions by way of:

- (i) Electronic Banking
- (ii) Point of Sales transactions
- (iii) Cheques
- (iv) ABM/ATM/ETM or over the counter
- (v) Internet Transfers

This levy will be charged on encashments from securities dealers whether partial or in full.

It is being proposed that a minimal ad valorem levy as detailed below be charged on the value of each withdrawal and encashment as identified above.

Levy Rates on Withdrawals from deposit taking institutions and securities dealers	
Value of Transaction	Levy Rate
Less than One (1) Million Dollars	0.1%
One (1) Million to Five (5) Million Dollars	0.09%
Greater than Five (5) Million – Less than Twenty (20) Million Dollars	0.075%
Greater than Twenty (20) Million Dollars	0.05%

Mr. Speaker, that would mean that for transactions of \$1,000; \$5,000 and \$10,000 the associated levy payable would be \$1.00, \$5.00 and \$10.00 respectively. On a withdrawal of \$100,000, the levy would be \$100.

Stamp Duty currently charged on cheque transactions will be removed.

**The revenue yield from this measure is estimated at \$2.3 billion and will be effective as of June 1, 2014.**

**Change in the taxation regime for Insurance Companies**

Insurance Companies are currently subject to corporate income tax and at a reduced rate of 15%. This rate was left unchanged in the recent rate adjustments made under the Fiscal Incentives regime.

In addition to the 15% corporate tax, Life Insurance companies are required to pay a premium tax, as per Section 48 of the Income Tax Act, at a rate of 3.0 and 4.0 per cent of gross premiums per year earned by regional and non-regional companies respectively. It is being proposed that the rate of tax on gross premiums be increased to a standard 5.5 per cent, which would result in an increase by 2.5 and 1.5 percentage points for regional and non-regional respectively.

The second change being proposed is to increase the 15.0% income tax on net investment income to 20.0% for all Insurance companies.

**This new regime will be effective May 1, 2014 and the total revenue yield from the combined measures would be approximately \$1.0 billion.**

### **Increase in the Asset Tax**

The following increases are being proposed for the Asset Tax:-

- (i) For specified entities regulated by the BoJ and the FSC, the rate to be increased from 0.14% to 0.25%.
- (ii) for other entities a new scale of rates will apply as follows:
  - Asset Value of at least \$50 million : a flat tax of \$200,000
  - Asset Value of at least \$5 million but less than \$50 million : a flat tax of \$150,000

- Asset Value of at least \$500,000 but less than \$5 million a flat tax of \$100,000

(ii) Asset Value Tax for all other categories remain unchanged

Asset Value of at least \$50,000 but less than \$500,000

Asset Value of less than \$50,000

**This tax is due as usual on the 15th March annually and the revenue yield from this measure is estimated at \$1.788 billion.**

**Modification of the duty regime for specified motor vehicles**

Mr. Speaker, Ministry Paper No. 32( FY 2012/13), allowed for an increase in the CET rates of select List C items, by ten percentage points. Based on our commitment to rate reduction the following changes are proposed:

- (i) Reduction of the customs duty (CET) - For vehicles 2000cc and above, a reduction of the CET from 30% to 20%.
- (ii) Reduction of SCT rates by ten percentage points for petrol / diesel vehicles over 3500 cc and Hybrid vehicles.

**The revenue yield expected from this measure is approximately \$250 million.**

### **Re-directing of SCT from Road Maintenance Fund to Central Government**

The percentage of the Special Consumption Tax on petrol which currently goes to the Road Maintenance Fund will now be redirected to the Central Government to provide for the servicing by the Central Government of the US\$340mn guaranteed debt from China Exim Bank. The proceeds of the loan from China Exim Bank were used to undertake road infrastructure improvement.

**The redirected SCT is estimated at \$1.2 billion and will be effective May 1, 2014.**

### **Increase in the Annual General Personal Income Tax (PIT) Threshold**

In keeping with our commitment to relieve the pressure amongst the working people and to improve the lot of the most vulnerable in the society, we propose to increase the threshold on Personal Income Tax by \$49,920 from the present value of \$507,312.00 to \$557,232. It is anticipated that this movement will result in an additional 13,000 (12,823) persons falling outside of the tax base.

**The Estimated Revenue loss is at \$650 million and the effective date is January 1, 2015.**