

**HMFP STATEMENT TO PARLIAMENT ON PROPOSED CHANGES
TO THE TAX REGIME
20 MAY 2014**

Mr. Speaker, I wish to bring to the attention of the House, proposed changes to the tax regime that were recently approved by Cabinet that will allow for either the retention of existing benefits or the reduction in applicable taxes for certain sectors of the economy.

I. The first broad set of changes relate to:

**AN AMENDMENT TO STAMP DUTY ACT TO PROVIDE FOR REDUCTION IN
THE ADDITIONAL STAMP DUTY ON ALCOHOLIC BEVERAGES”**

Members of the House will recall that in response to a request from the Jamaica Hotel and Tourist Association (JHTA) for additional time to discuss the implementation of to the Alcohol Regime to unify the Specific Consumption Tax (SCT) on all alcoholic beverages, the Government took the decision to defer the implementation of this measure for **one month for the Tourism Industry only**. The tax measure resulted in a change in the rate to the tourism sector from \$700 per litre of pure alcohol (l.p.a.) to a unified rate of \$1,120 per l.p.a.

The purpose of the amendment is to provide for a reduction in the specific ASD paid on alcoholic beverages. The change is being taken consequent on:

- The impact that the unification of the specific consumption tax is likely to have on the tourist industry’s continued competitiveness.

- A more rigorous calculation of the revenue to be garnered from the alcohol measure which revealed that significantly more revenue would be received.

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In order to counter some of the impact of the measure, the Government has taken the decision to provide tax relief of approximately J\$200 million to the industry. In determining the form of relief, Government was mindful of the principle that guided the imposition of tax measure—that is the unification of the Specific SCT on all alcoholic beverages based on litre of pure alcohol (l.p.a.) In light of this another form of tax relief was contemplated and the ASD regime was chosen as the best option.

The Specific Additional Stamp Duty Regime for is to be amended as follows:

- (i) Decreasing the Specific ASD on alcoholic beverages (Wines, Liqueurs, Cordials) from US\$1.60 to US\$1.00 per litre; and
- (ii) Decreasing the Specific ASD on alcoholic beverages (Beers) from US\$0.90 to US\$0.60 respectively.

The extent of Government revenue from both measures will be unchanged. The measure will become effective on June 1, 2014.

II. The second broad set of changes relate to:

AMENDMENTS TO CERTAIN LAWS TO ALLOW FOR REGULARISATION (AND EXPANSION) OF TAX TREATMENT FOR FREEZONE OPERATIONS AND TOURISM SUB-SECTORS” These measures will become effective on July 1, 2014

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The changes being proposed under these amendments fall into three categories.

(a) Changes to the GCT Act to allow for the regularisation of the benefits currently enjoyed by the Free zone operators (in particular the BPO entities and the tourist accommodation sub-sector – hotels and resort cottages). The benefits to be gained by some entities were affected by the introduction of the of the fiscal incentives legislation last year.

The aim is to provide for GCT concession, that was previously enjoyed, on goods and/or services. These benefits had previously been provided on a case by case basis through administrative measures. The proposed changes are in furtherance of the stated objective of tax reform of simplicity, equity and transparency in taxation and will result in the embedding of the benefits in the appropriate legislation.

Specifically, there is to be an Amendment to the GCT Act - to provide for zero-rating in respect to:-

- i. *Purchase of locally supplied goods and services by operators within the free zone (including BPO operations with free zone status), with exception of utilities¹ such as light and telecommunication services.*
- ii. *Purchase of locally supplied goods by the accommodation subsector (hotels and resort & cottages).*
 - *The applicable GCT concession would be restricted to the items currently on the respective entities' approval listing.*

¹ Water was not included as exclusion as the provision of water supply is not currently subject to the payment of General Consumption Tax (GCT).

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- *The benefit is **only provided to entities that have chosen to remain under the specific Incentives Acts instead of opting to go on the omnibus fiscal legislation***
- ***Services would remain subject to GCT***

(b) The second change relates to the classification of motor vehicles and animal feeds as inputs to the ground transportation and attraction sub-sector thus making those items eligible for Productive Input Relief. The aim is to provide for an amendment to the FIA to allow these items to be treated similarly to other inputs as per the Productive Inputs Relief (PIR).

1. Specifically, there is to be an expansion of the inputs allowed as per the Productive Inputs Relief (PIR) to include motor vehicles to certain sectors. The amendment will provide 100% relief in relation to the CET chargeable on motor vehicles (The sector currently pays CET of 20% and will still be required to pay the applicable ASD).

Car Rental sector-

- Motor cars as per section 11 of the Road Traffic Act, with cc rating up to a maximum of 2,500 and CIF up to a maximum of US \$35,000 under the PIR.
- Vehicles exceeding any of these limits will not be allowed under the PIR and will be subject their full tax liability.
- **The sector will be allowed to import up to 800 vehicles per year.**

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Contract Carriage Operators-

- It is proposed that the contract operator's policy be modified to accommodate motor car with seating capacity of 8 or more, with a maximum cc rating of 2500 and maximum CIF value of US\$35,000 under the PIR.
- **In this case, the sector will be allowed a maximum of 50 vehicles in any given year. The actual number of vehicles that will be allowed will be dependent on the available fiscal space.**

Tour Operators-

- It is proposed to expand the benefit to this sector by making a provision under the PIR to include town cars and limousines.
- The vehicles allowed will be limited to those with cc rating from a minimum 2500 to a maximum of 3,500 and CIF value up to US\$35,000. Full duties will be payable on the value in excess of US\$35,000 CIF.
- **The sector will be allowed to import a maximum of 20 vehicles at this rate. Similarly the number of vehicles to be imported under this category will be dependent on the available fiscal space.**

2. Expansion of the inputs allowed as per the Productive Inputs Relief (PIR) to include animal feed for Attractions sub-sector.

- Animal feed would be allowed as per the PIR with the exception of the following categories:-

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- Goods listed in Part I of the Fourth Schedule of the Resolution; and
- Goods of a type, which the Commissioner of Customs, is satisfied can be obtained in adequate supplies from a local manufacturer or from a manufacturer within the CARICOM Single Market

In order to prevent abuse, the system of certification by the Ministry of Agriculture will be monitored to ensure that only "animal feed" destined for the Attraction sub-sector will be given this specific tax relief.

II. The third change relates to SMARTPHONES:

**THE SUSPENSION OF CUSTOMS DUTY PAYABLE ON TELEPHONES
(CELLULAR ET AL)**

This measure will become effective on July 1, 2014

Members of the House will recall that I had indicated in my budget presentation that phablets would be treated as computers and therefore be granted duty free concession.

The decision to change the customs duty payable on 'smartphones' was taken in light of the increasing use of 'smartphones' to enhance business communications and operations generally and the resultant improvement in productivity.

This measure allows for the removal of the 20% CET that is presently payable on 'smartphones' imported into Jamaica. The requisite application was made

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to the Council for Trade and Economic Development (COTED) of CARICOM for the suspension and approval was received.