

# TAX REFORM

## PROPOSAL FOR JAMAICA

Equity • Simplicity • Efficiency • Growth

Private Sector Working Group (PSWG)



# JAMAICA: AT AN ECONOMIC CROSSROADS

- \* GDP to debt ratio (2011/12): 131%
- \* Poverty level (2010 est.): 19.6%
- \* Deficit of (2011/12 est.): -7.6%
- \* Primary Balance (2011/12 est.) 3.4% vs target 5%
- \* Average GDP growth rate (2001 to 2010): 0.8 %

***Why is today any different from previous crisis situations?  
We have run out of options to stave off hard choices.***

***So let's make the right choices that will give us the result we know  
Jamaica needs - GROWTH!***

# NEED TO ADDRESS URGENT SHORT TERM ISSUES

- \* Current IMF Agreement is defunct
- \* Fiscal performance has deteriorated significantly over the last 12 months - urgent need for FISCAL and BoP support which cannot be accessed at reasonable rates without an IMF Agreement
- \* Comprehensive Tax Reform, as a critical element of a broader suite of economic reforms, would be a decisive prior action in order to reach an IMF Agreement
- \* Significant fundamental risks for all Jamaicans if agreement not reached
  - \* Deteriorating business & consumer confidence
  - \* Inability to meet debt service obligations leading ultimately to default if not decisively averted
  - \* Steep depreciation of the Jamaican currency impacting price levels and living standards

# GETTING THE BUDGET UNDER CONTROL

- \* Agreement with the IMF is Jamaica's only credible option at this point
  - \* IMF will stipulate aggressive expenditure reductions and revenue enhancements
- \* While it is important to carefully prioritise and control Government expenditure, current levels of spending in key public services are woefully inadequate and can only be cut so far
- \* So PSWG's proposal focuses on the revenue side:

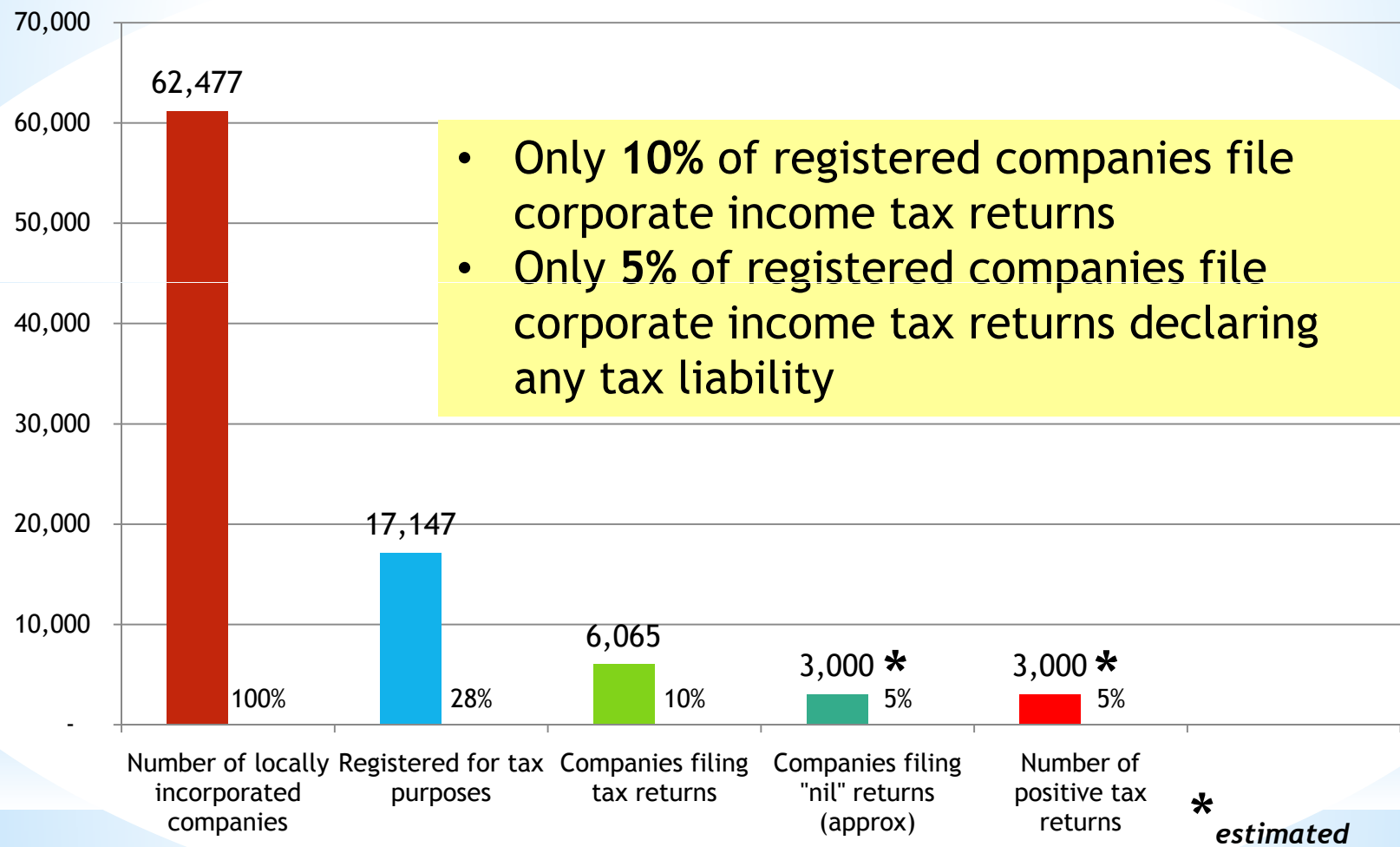
Comprehensive reform our tax system with the aim of:

- **Stimulating** economic growth and job creation
- **Funding** the provision of better and more extensive public services (including greater support for our more vulnerable citizens) and infrastructural investment
- **Generating** much needed tax revenues and **Reducing** our dependency on debt

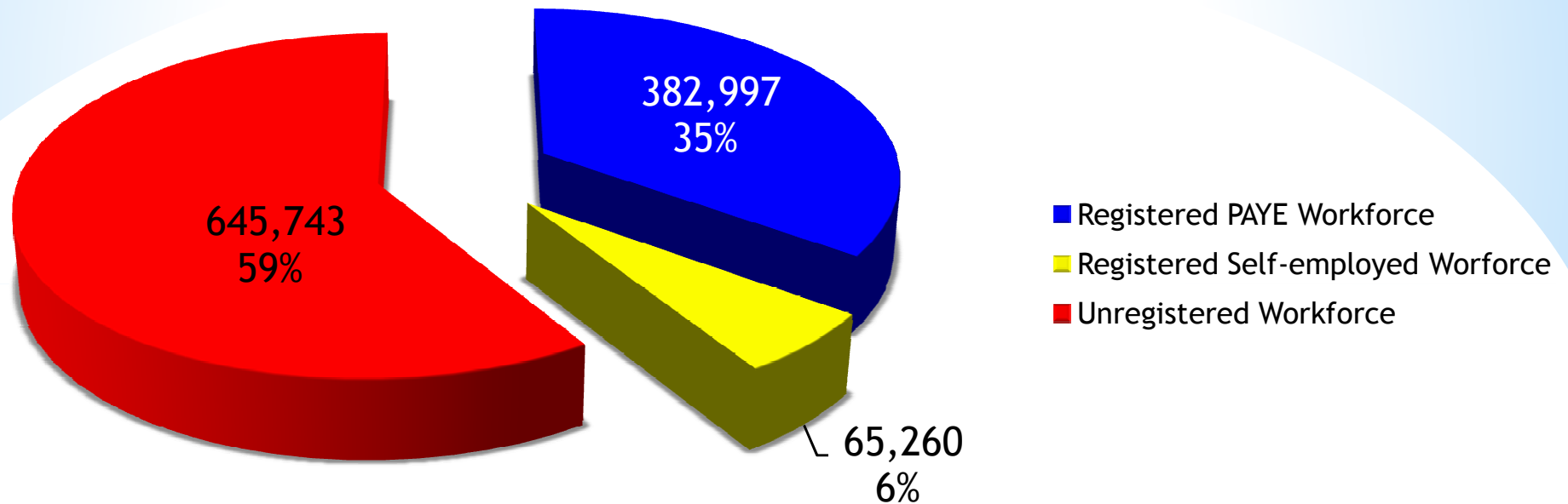
# Challenges Inherent in the Current Tax Regime

- \* **Myriad incentives, exemptions, concessions and waivers** significantly narrow the tax base
- \* **High tax rates** and onerous compliance burdens encourage evasion
- \* **Cumbersome tax system** creates loopholes and inefficiencies
- \* **Culture of non-compliance, corruption**
  - \* Manipulation of rules to avoid tax
- \* **Limited resources** to pursue non-compliant

# CORPORATE INCOME TAX COMPLIANCE IN JAMAICA



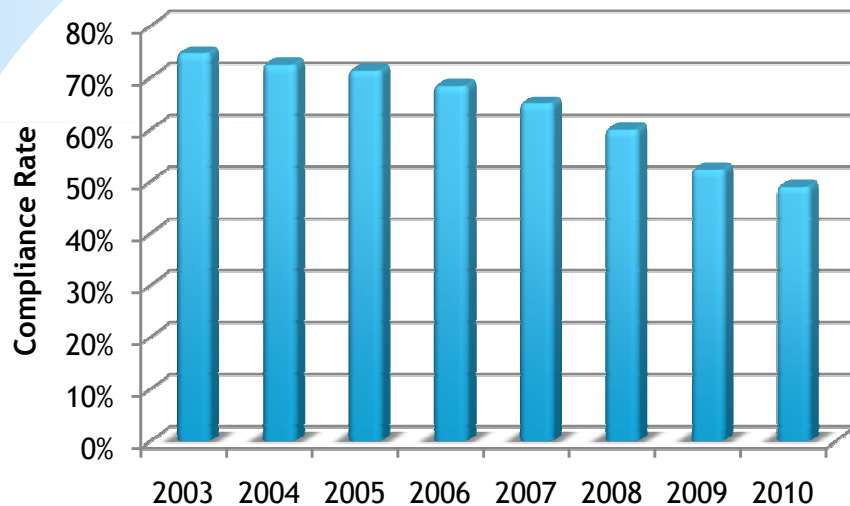
# PAYE COMPLIANCE IN JAMAICA



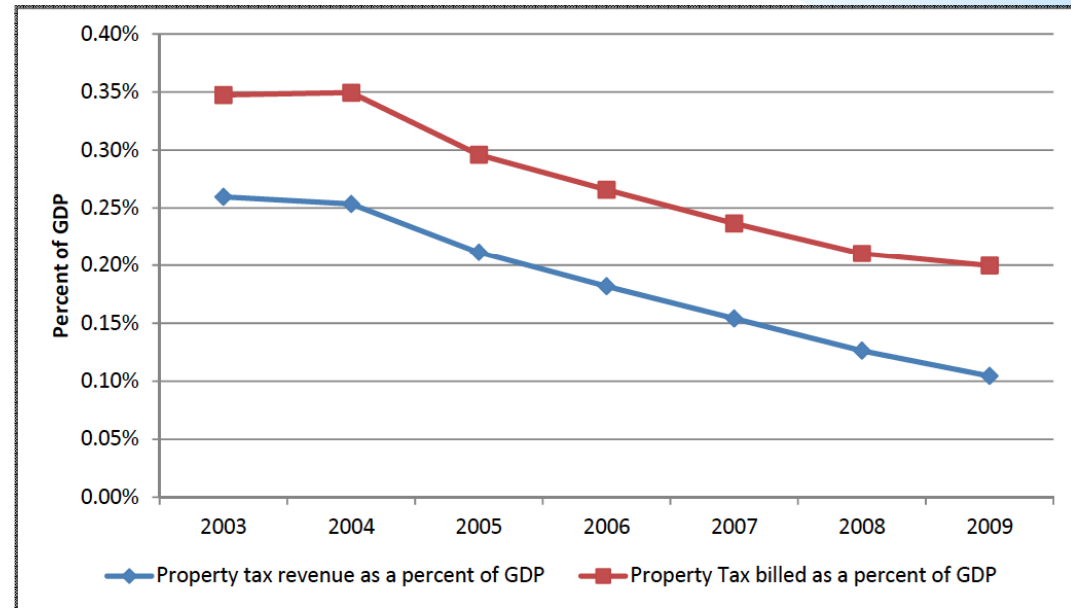
- **Registered Pay-As-You-Earn (PAYE) workers bear the brunt of Personal Income Tax**
- Of these, approx 130,000 are government employees
- Indicates a majority of employees and self-employed individuals not in the tax net

# PROPERTY TAX COMPLIANCE IN JAMAICA

Low and Declining Property Tax Compliance Rates 2003-2010



Property Tax as a % of GDP

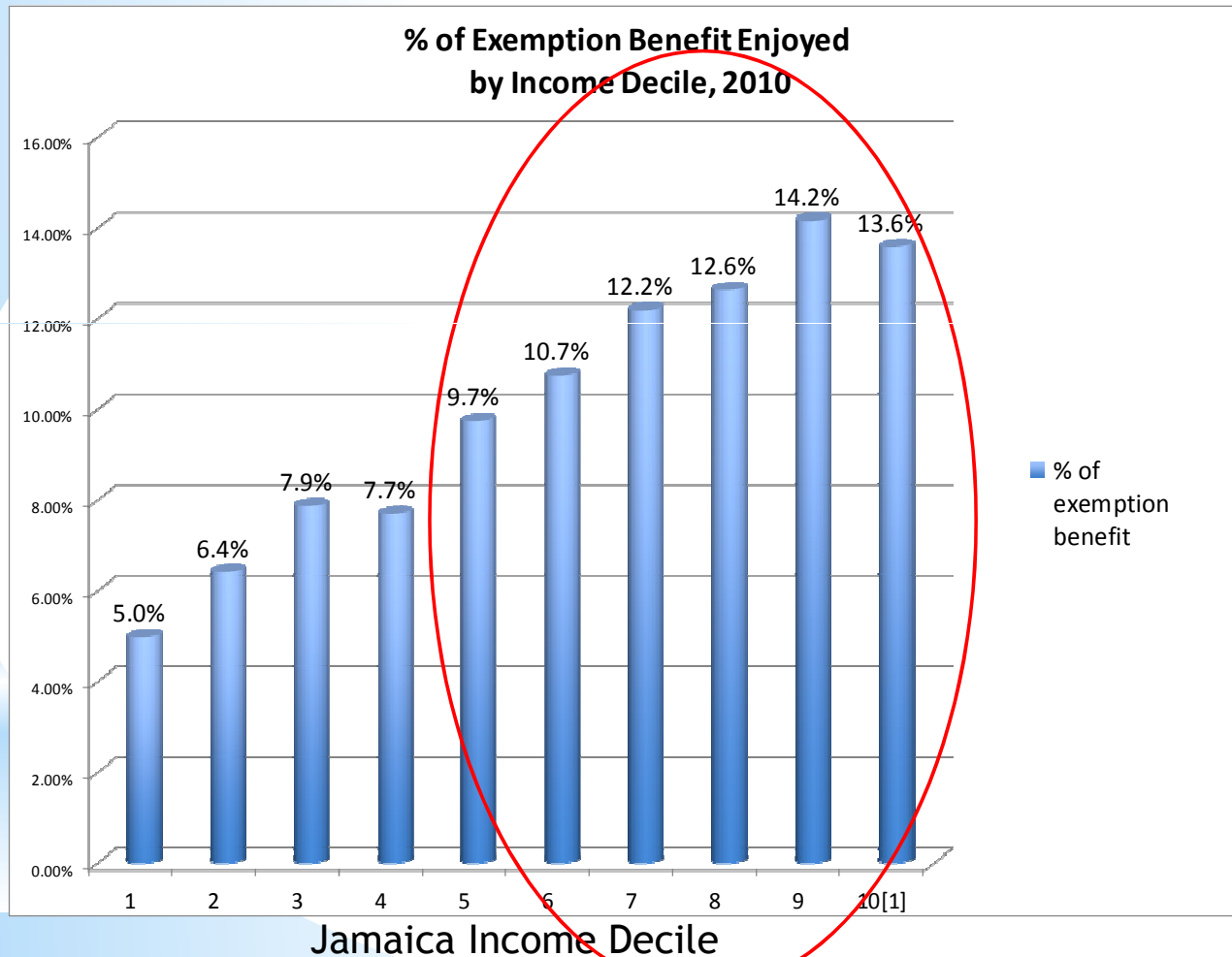


Combination of:

- Low and declining compliance rates
- Lack of regular valuation/Indexation



# EXEMPTIONS INEFFECTIVE AND OPEN TO ABUSE



- \* Mostly middle and upper-income citizens benefit from GCT exemptions
- \* Out of \$100 of revenue that GOJ gives up through exemptions
  - \* Only ~\$11 actually benefits the poorest 20% of population
  - \* While ~\$28 benefits the wealthiest 20% of the population
- \* Exemptions also provide an opportunity for the fraudulent misclassification of taxable goods at the point of importation and at wholesale/retail

# GCT EXEMPTIONS FAIL JAMAICA

- \* At the current GCT rate of 17.5%, exemptions which we propose be removed, 'cost' Jamaica ~\$22.6B
- \* The rationale for most of these exemptions is to provide relief for the vulnerable but Middle and Upper Income Jamaicans benefit more from this exemption
- \* estimated price impact on previously exempt items = 6% - 9%
- \* At the proposed GCT rate of 12.5%, a more targeted mechanism for the vulnerable would cost \$2b to more than offset the current level of benefits to the poorest 40% of the population
- \* Significantly these exemptions also present opportunities for tax evasion through misclassification and misreporting - a further hidden cost of maintaining these exemptions

- ***Jamaica's fiscal situation could be eased significantly if we all paid our fair share and established targeted mechanisms to protect the vulnerable***
- ***So that 'playing by the rules benefits individuals, companies and Jamaica'***

# TIME FOR ACTION

- \* Today we face perhaps our greatest economic challenge as a country since independence
- \* While we celebrate 50 years of political independence in 2012, we are yet to achieve true economic independence in which all Jamaicans have a stake
- \* It is in recognition of our own role in past failed efforts to comprehensively reform our tax regime that the private sector has come together to address this issue in the national interest
- \* For too long national objectives have been subordinated to short-term political, sectoral and other special interest agendas promoted by powerful persons with “access”
- \* We urgently need national solutions that PUT JAMAICA FIRST

# OVERALL GOAL OF PROPOSED REFORM

Jamaica to have a competitive general tax system that:

- \* ...is *equitable*
- \* ...is a catalyst for development and *promotes economic growth*
- \* ...is characterised by *simplicity* and *competitive rates*; and
- \* ...is administered in an *efficient* and *effective* manner

# PSWG's PROCESS IN FINALISING PROPOSALS

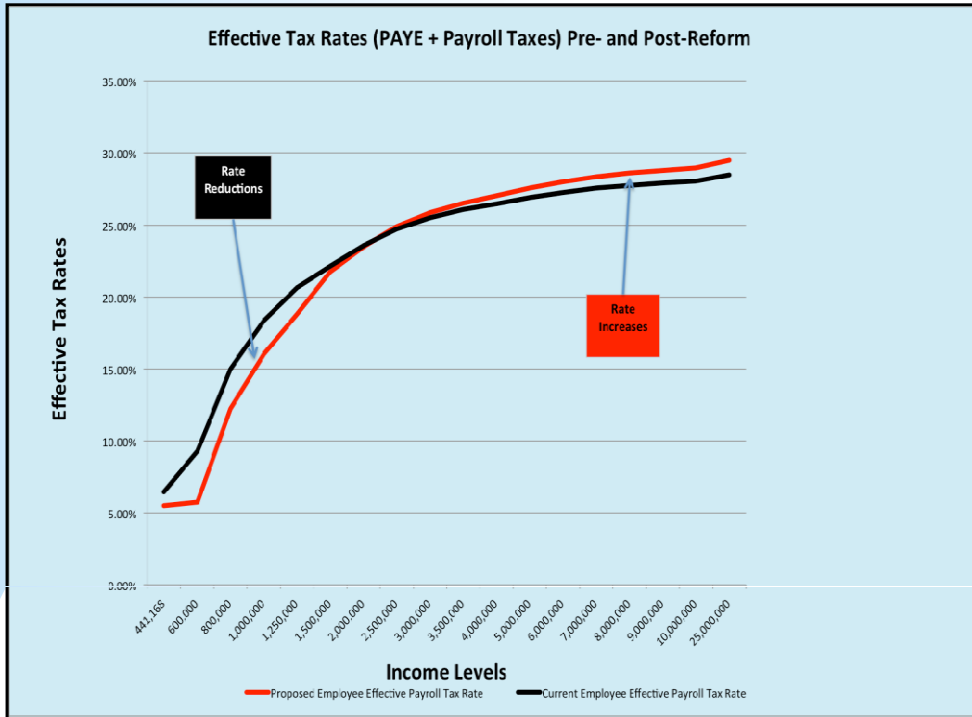
- \* While this proposal emanates from a significant representation of the Jamaican private sector, we put it forward as a contribution to the process of **national consensus** on this critically important public policy issue
- \* Extensive consultation within the private sector to arrive at **unprecedented consensus**
  - \* United in national interest
  - \* Subordination of sectoral interests - every group gave up something to achieve the 4 objectives in accordance with pre-agreed guiding principles
  - \* A few Associations continue to deliberate internally
- \* Engaged with a variety of **civil society groups** to include their perspectives
  - \* The PSWG also invited Mr. Lloyd Goodleigh to observe and participate in the deliberations on behalf of the Labour Unions
- \* **Broad cooperation** was also received from the Ministry of Finance (MoF), Tax Administration Jamaica (TAJ), Jamaica Customs, the Ministry of Labour and Social Security (MLSS) and the Planning Institute of Jamaica (PIOJ)
- \* The Inter-American Development Bank (IDB) also contributed to the process by funding the services of an economist who conducted **economic modelling** support to inform PSWG deliberations

# FORMAT OF PROPOSED REFORMS

**The reform package comprises 145 measures divided into 3 tiers**

- \* 29 First Tier measures comprise macro policy adjustments, ideally implemented from April, 2012
  
- \* This First Tier set of measures are linked to detailed:
  - \* Policy measures (54 Second Tier measures)
  - \* Administrative measures (62 Third Tier measures)
  
- \* 2nd and 3rd Tier measures are to be implemented in a short time frame (6-12 months) after April 2012 to positively impact economic growth
  
- \* These measures are presented as a comprehensive suite rather than as individual measures or a menu of options to choose from
  - \* Proposal obviously open to discussion but integrity of the 'whole' is critical as it is designed to act as catalyst to stimulate the economy, while creating greater equity and more efficiently protecting the most vulnerable

# Key Reforms: Personal Income & Payroll Taxes



## MEASURES

- Increase Threshold/Income Exemption
- New Lower Rate of 15% up to \$1.1 million
- Common tax base for all payroll taxes
- Removal of Salary Cap + Rate Reduction for NIS
- PAYE Employment Tax Credit



## IMPACT

- More Progressive/Greater Equity
- 267,000 PAYE Wage Earners Enjoy Reduced Tax Liabilities ~ \$2.8 Billion
- Employer incentives for new job creation:
  - Reduced Payroll Taxes at lower income levels ~\$1.1 Billion
  - New Employment Tax Credit Scheme
- Significantly Lower Compliance Burdens

Income Bands	Income Bands	Number of Taxpayers	Avg Proposed Employee Payroll Taxes(1)	Current Average Employee Payroll Taxes(1)	Employee Average Difference	Aggregate Employee Revenue Difference(2)	Aggregate Employer Statutory Deductions Difference(3)	
-	441,168	106,257	12,443	14,592	(2,149)	(228,375,017)	(222,365,148)	
441,168	600,000	36,725	29,528	47,622	(18,094)	(664,505,825)	(174,029,716)	
600,000	800,000	36,405	85,213	104,601	(19,388)	(705,814,790)	(234,757,656)	
800,000	1,000,000	29,046	141,859	162,563	(20,704)	(601,373,423)	(237,824,101)	
1,000,000	1,250,000	23,076	207,378	227,731	(20,353)	(469,670,683)	(177,918,003)	
1,250,000	1,500,000	16,919	291,709	296,899	(5,190)	(87,806,311)	(69,915,834)	
1,500,000	2,000,000	19,498	399,048	400,230	(1,181)	(23,032,154)	23,637,879	
2,000,000	2,500,000	11,661	535,757	531,833	3,924	45,756,738	93,510,903	
2,500,000	3,000,000	7,144	683,028	673,604	9,424	67,325,703	109,680,971	
3,000,000	3,500,000	4,469	828,655	813,793	14,862	66,426,056	101,026,013	
3,500,000	4,000,000	2,997	988,507	967,675	20,832	62,428,920	91,591,700	
4,000,000	5,000,000	6,130	1,199,691	1,170,973	28,718	176,046,608	251,815,519	
5,000,000	6,000,000	3,093	1,483,674	1,444,350	39,323	121,622,919	170,784,799	
6,000,000	7,000,000	1,409	1,813,446	1,761,808	51,639	72,769,926	100,954,522	
7,000,000	8,000,000	1,157	2,114,727	2,051,837	62,890	72,780,511	100,266,383	
8,000,000	9,000,000	315	2,461,974	2,386,116	75,857	23,891,025	32,732,560	
9,000,000	10,000,000	289	2,762,072	2,675,007	87,064	25,158,504	34,350,111	
10,000,000	25,000,000	729	5,267,504	5,086,876	180,628	131,735,714	177,680,475	
<b>Grand Total</b>		<b>307,320</b>				<b>(1,914,635,581)</b>	<b>171,221,378</b>	

*Reduction in lower income PAYE deductions of \$3.8 Billion*

→ (1,116,810,458)

→ (2,780,578,204)

**Total "Giveback" (3,897,388,662)**

# Key Reforms: General Consumption Tax

Income Bands	Number of Taxpayers	NET IMPACT - INCOME TAX AND GCT REFORM (12.5%)	
-	441,168	106,257	-0.3%
441,168	600,000	36,725	-3.2%
600,000	800,000	36,405	-3.9%
800,000	1,000,000	29,046	-2.8%
1,000,000	1,250,000	23,076	-3.7%
1,250,000	1,500,000	16,919	-0.6%
1,500,000	2,000,000	19,498	-0.5%
2,000,000	2,500,000	11,661	-1.2%
2,500,000	3,000,000	7,144	-0.9%
3,000,000	3,500,000	4,469	-0.7%
3,500,000	4,000,000	2,997	-0.6%
4,000,000	5,000,000	6,130	-0.4%
5,000,000	6,000,000	3,093	-0.3%
6,000,000	7,000,000	1,409	-0.2%
7,000,000	8,000,000	1,157	-0.1%
8,000,000	9,000,000	315	0.0%
9,000,000	10,000,000	289	0.0%
10,000,000	25,000,000	729	0.2%

## MEASURES

- Reduced GCT rate from 17.5% to 12.5%
- Eliminate discretionary waivers
- Broaden tax base to include all but a handful of items
- Include Tourism at the new standard rate of 12.5%
- Increase GCT Registration threshold for suppliers of goods to \$5 million
- Allocate greater resources for social protection



## IMPACT

- More Progressive/Greater Equity
- PAYE Population better off except at the highest income levels
- Vulnerable protected through direct targeted expenditure
- Significant compliance dividend likely



# Key Reforms: Social Interventions

Estimated Impact of GCT reforms on cost of consumption baskets of the first 4 deciles (40% of the Population):

DECILES	Increase in total purchases (All Jamaica) with GCT @ 12.5%
1	395,094,503
2	448,170,909
3	539,937,381
4	429,633,358
<b>TOTAL</b>	<b>1,812,836,151</b>

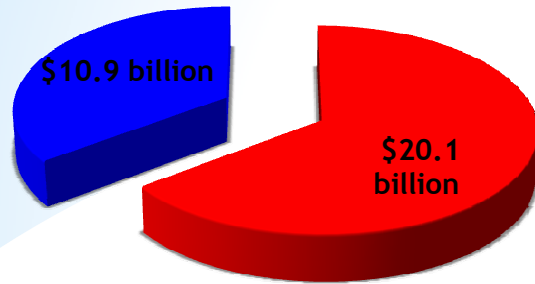
Possible Mitigation Measures

## Allocation of \$2 Billion to expand Social Safety Net Provisions:

- Programme of Advancement Through Health and Education (PATH)
  - Similar to internationally acclaimed 'Bolsa Familia' programme in Brazil
  - PATH is considered an international 'exemplar' in targeting and administrative efficiency
  - Reform eligibility criteria/targeting mechanisms
  - Expand scope of 'basic benefit' to offset cost increases in consumption basket
  - Undertake measures to reduce the level of 'stigma' attached to PATH benefit participation
- Expansion and better coordination of 'pro-employment' social intervention programmes
  - ILO World of Work Report 2011 recommends "strengthening pro-employment programmes funded from a broader tax base"
  - 'Steps to Work,' 'JEEP,' NYS, CSJP, CAP, YUTE
- Transportation subsidies in urban areas
- Enhanced School Feeding Programme
- Earned Income Tax Credit for the 'working poor'

# Key Reforms: Corporate Income Tax

Pre-Reform Corporate Taxes Payable 2010 (\$31 billion)



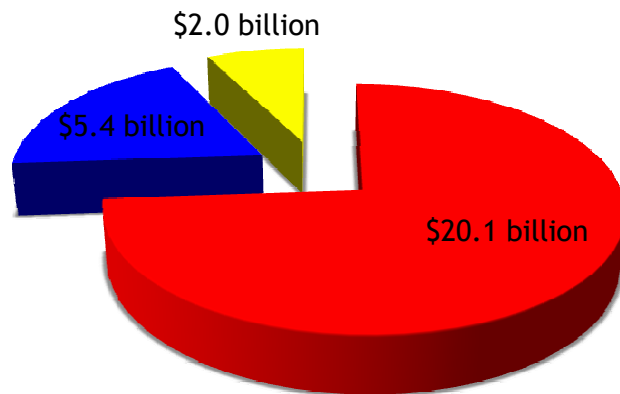
■ Highly Regulated Entities ■ Other Companies

## MEASURES

- Cease granting of Incentives involving 'tax holidays' except in limited circumstances (e.g. charitable organisations)
- 'Highly Regulated Entities' (who collectively contribute 67% of all corporate tax revenues) **agree** to pay the current CIT rate of 33 1/3% for a transition period
- All other companies to be taxed at an aggregate rate of 25% (same as top rate of PIT) as follows:
  - 15% CIT at the Company Level
  - 10% Dividend Withholding Tax
- Introduce a Minimum Income Tax (MIT) payable by all companies registered in Jamaica at the higher of:
  - 0.5% of Revenue
  - \$100,000



Post-Reform Corporate Taxes Payable 2010 (27.5 billion)



■ Highly Regulated Entities ■ Other Companies ■ Min. Income Tax

## IMPACT

- Net Reduction in Corporate Tax Take by \$3.5 billion or 11.3%
- Local and foreign direct investment highly incentivised within a generally competitive tax regime- "Jamaica is open for business"
- Deferral of tax via 10% Dividend Withholding incentivises reinvestment of profits in expansion and job creation
- Greater incentives for compliance and formality
- CGE Modeling suggests that revenue loss of \$3.5 billion will be transformed to a revenue gain of \$6.5 billion (a swing of \$10 billion) within 3-5 years

# Key Reforms: Corporate Income Tax (cont'd)

## International Perspectives on Corporate Taxation

### World Bank Doing Business/Paying taxes 2011:

#### *“Tax Rates Matter.”*

*“The size of the tax costs for business matters for investment and growth. Keeping tax rates at a reasonable level can encourage the development of the private sector and the formalisation of business.”*

#### *10 Top Ranked Countries:*

##### *Corporate Tax Rates*

1. Maldives	0.0%
2. Qatar	10.0%
3. Hong Kong	16.5%
4. Singapore	17.0%
5. Ireland	12.5%
6. UAR	0.0%
7. Saudi Arabia	17.0%
8. Oman	12.0%
9. Mauritius	15.0%
10. Canada	15.0%

### Journal of Public Economics 2004 study “Tax structure and economic growth:”

In a study of 79 Countries the authors found that:

*“increases in corporate tax rates lead to lower future growth rates within countries. The coefficient estimates suggest that a cut in the corporate tax rate by 10 percentage points will raise the annual growth rate by one to two percentage points.”*

# Economic Stimulus Effects

- ***Tax Rate Reductions:*** A 28% reduction in the standard rate of GCT (i.e. from 17.5% to 12.5%), the introduction of a reduced PIT rate of 15% (i.e. 40% less than the current PIT rate) and a 54% reduction in the standard CIT rate (from 33 $\frac{1}{3}$ % to 15%)
- ***Making formal employment more affordable:***
  - Relief of J\$3.84 billion to 268,000 PAYE workers
  - A 2% reduction in statutory contributions payable (i.e. thereby making the formal employment of labour less expensive)
  - Implementation of a 25% PAYE tax credit incentive programme specifically designed to stimulate the creation of new jobs reported through the payroll tax system, and to encourage companies to bring casual/contract workers into the PAYE system.
- ***Injection of stimulus monies into the economy:***
  - Repayment/monetisation by GOJ of the very significant withholding and other tax arrears outstanding (preliminary estimate J\$15 billion +)
  - Allocation of J\$2 billion of budgeted expenditure to a Social Fund to support society's most needy
  - Allocation of J\$500m to support capacity building within the MSME sector

# Economic Stimulus Effects (cont'd)

- ***Enhancing cost competitiveness of Jamaican businesses:***
  - abolition of Advanced GCT/customs user fee/ environmental levy/standards compliance fee (SCF) regimes which are all non-recoverable
  - imposition of an Advanced Tax Payment (ATP) regime which is fully recoverable by compliant registered taxpayers
  - removal of customs duty and ASD (i.e. significant non-recoverable taxes) from critical productive inputs, and the reduction in employer contributions for lower paid workers
  - Imposition of GCT on goods that are currently exempt enables local producers of these goods to fully recover GCT on their inputs (which currently must be absorbed and added to their cost structure)
- ***Enhancing linkages with local agriculture and manufacturing:***
  - The PSWG proposes to establish a Linkages Committee comprised of representatives from the public sector along with the various industry sectors, which will provide a forum to strengthen linkages among sectors.

# Key Reforms: Administration & Enforcement

62 administrative reform recommendations, including:

- Compulsory Income Tax filing requirements for all locally registered Companies (including their shareholders and directors) **97**
- Compulsory Income Tax Filing Requirements for individuals engaged in a trade, profession or business **97**
- Introduce anti-avoidance measures to counteract the the formation of multiple companies with a view to tax evasion **99**
- Design and implement a Unified Tax Return (UTR) to facilitate monthly filing and payment of GCT data (including imported services), payroll data (for employers) and withholding tax data **112**
- Introduce mandatory filing of a Return of Third Party Information (TPI), due for filing at the same date as one's Income Tax Return **117**

# Key Reforms: Administration & Enforcement (cont'd)

- Amend banking laws to facilitate reporting of interest income (associated TRN and dollar amount) in filings by financial institutions and companies. **119**
- Publish list of tax offenders (subject to undertaking careful due diligence and materiality threshold) **126**
- Impose criminal penalties for non-filing, and criminal sanctions (**including jail time**) against large tax evaders (i.e. “making an example”) **128/129**
- Enhance enforcement measures at ports of entry **131-139**
- Enhance Property Tax enforcement measures **140-145**

## **NOTE:**

At the request of TAJ in 2010, USAID funded support for the purpose of drafting proposals to strengthen the assessment, collection, and enforcement authorities of the TAJ. Arising from this activity there is a new draft proposed Tax Administration Act that:

- Standardizes application of penalties
- Strengthens the legal basis of enforcement in a single law
- Includes a taxpayer bill of rights
- Includes GOJ responsibility to taxpayers

**We strongly recommend early consideration and enactment of this legislation**

The PSWG proposal submitted to the *Parliamentary Committee on Tax Reform*, encompasses reform that will enable Jamaica to implement a competitive general tax system that:

- \* ...is ***equitable***
- \* ...is a catalyst for development and ***promotes economic growth***
- \* ...is characterised by ***simplicity*** and ***competitive rates***; and
- \* ...is administered in an ***efficient*** and ***effective*** manner



**THANK YOU**

**WE WELCOME  
YOUR QUESTIONS**