

Members of this Honourable House will recall that on the 22nd of April, 1981 when I outlined the terms of the Agreement entered into between this Government and the International Monetary Fund for the provision of an Extended Fund Facility Arrangement for Jamaica, I indicated that among the priority objectives of the administration would be the promotion of increased economic activity, and to this end, adjustments in existing tax policy as it relates to the industrial and agricultural sectors would be initiated which would remove disincentives to production and investment and be supportive of the productive efforts of these sectors.

2.- Accordingly, the following proposals representing the first phase of a comprehensive review of the tax structure are intended to complement the other initiatives for economic recovery. The measures seek to encourage increased production in the area of agriculture, to mobilize savings for capital formation and to protect the revenue.

3. In summary, the proposals are:-

(i) Tax Incentives for Agriculture:

The Agricultural Incentives Act is to be amended in order to -

- (a) include a wider range of crops within its scope;
- (b) increase the existing tax holiday period from 5 years to 9 years on the basis of the amount of "local value added";
- (c) exempt from stamp duty, customs duty and retail sales tax, trucks used for agricultural purposes.

(ii) Tax Exemption in respect of Interest Income:

The Income Tax Act is to be amended to provide that -

- (a) the full amount of interest income from shares in Building Societies, Credit Unions or other Co-operative Societies will be exempt from tax;
- (b) the interest income from Fixed Term Deposits held for not less than one year in a Commercial Bank or any institution operating under the Protection of Depositors Act, the Building Societies Act, any Credit Union or other society registered under the Co-operative Societies Act, or any other institution approved by the Minister of Finance will be exempt from tax.

(iii) Tax/Duty Exemption: Trucks Used for Non-Agricultural Purposes:

The Retail Sales Tax Act and the Stamp Duty Act are to be amended to permit trucks intended to be used for non-agricultural purposes to be imported free of retail sales tax and stamp duty.

(iv) Measures Designed to Reduce Tax Avoidance and Evasion:

The Income Tax Act is to be amended to provide that -

- (a) a notice of objection to an assessment will not be treated as valid unless a proper return of income is made;
- (b) "Hobby Farmers" will not be allowed to set-off farming losses against income from sources other than farming.

(v) Examination of Containerized Merchandise:

The Customs Act is to be amended to make provision for the designation of container stations; and administrative procedures will be established to rationalise the existing inspection system for containerized merchandise.

4. Details of the measures to be implemented are set out in Appendices I - IV attached.

EDWARD SEAGA

Prime Minister & Minister of Finance  
& Planning

27th May, 1981

Tax Incentives for Agriculture

The tax incentives for agriculture are contained in two statutes, namely,

- (i) the Agricultural Incentives Act, which exempts profits from income tax and allows duty-free importation of agricultural equipment and spare parts during a 5-year tax holiday period; and
- (ii) the Income Tax Act, under which agricultural companies are subject to company profits tax at the preferentially low rate of 25% instead of the normal 35% rate, and 40% investment allowances for capital expenditure on farm buildings and on machinery or plant are granted.

The agricultural sector has a vital role to play in the overall strategy for economic recovery and in order to induce the flow of fresh investment into that sector, it is proposed to enhance the effectiveness of the tax incentives now being offered by amending the Agricultural Incentives Act in order to -

- (a) expand the scope of the Act, which now prescribes only 10 crops, and provide for the inclusion of as wide a range of crops as is deemed desirable to facilitate the new initiatives;
- (b) extend the existing 5-year tax holiday to 9 years on the basis of the amount of "local value added" in the process of production. In broad terms, the amount of "local value added" is the aggregate of the domestic inputs, such as raw materials, wages and interest on capital borrowed locally, expressed as a percentage of gross sales made during the relevant fiscal year. On this basis, the new tax holiday periods will be as set out below:

Classification of Enterprise	Amount of local value added	Period of Benefit enjoyable as to Income Tax or Customs Duty
Group I	50% or more	9 years
Group II	25% or more, but less than 50%	7 years
Group III	10% or more, but less than 25%	5 years

- (c) include trucks among the items of farm equipment which the recognised farmer will be permitted to import free of customs duty, retail sales tax and stamp duty.

At present, a truck is subject to customs duty, stamp duty and retail sales tax amounting to 85% of the CIF value of the vehicle. For example, a Hino LB-500 truck the CIF value of which is \$36,142 would be sold to the farmer for \$78,391, made up as follows:-

CIF value	...	\$ 36,142.000
Customs duty (45%)	...	<u>16,264.00</u>
		52,406.00
Stamp duty (10%)	...	
Stamp duty (10%)	...	<u>5,240.00</u>
		57,646.00
	...	
Mark-Up (20%)	...	<u>11,529.00</u>
		69,175.00
Retail Sales Tax (13.322884%)		<u>9,216.00</u>
RETAIL PRICE	...	<u>\$78,391.00</u>

Under the foregoing proposal, the farmer would save \$35,021 consisting of customs duty, stamp duty, retail sales tax and a portion of the dealer's mark-up, as follows:-

CIF value	...	\$ 36,142.00
Mark-Up (20%)	...	<u>7,228.00</u>
RETAIL PRICE	...	<u>43,370.00</u>

A person seeking tax benefits under the amended Act would follow the basic procedures already embodied in the Act and apply to the Minister of Agriculture for designation as a recognised farmer and for the relevant enterprise to be designated an approved agricultural enterprise.

Consequently, a person who qualifies as a recognised farmer would be entitled to import trucks free of all taxes and duties for use in an approved agricultural enterprise.

Trucks used for non-agricultural purposes:

The importers of trucks to be used for non-agricultural purposes will also be granted tax concessions. In such cases, however, the exemption will apply only to stamp duty and retail sales tax, since the Common External Tariff permits exemption from customs duty only in relation to trucks used for agricultural purposes.

The estimated revenue foregone under the tax/duty concessions applicable to trucks used for agricultural as well as non-agricultural purposes is \$4m.

The necessary legislative amendments will be made effective from the 1st October, 1981.

APPENDIX II.

Tax Exemption in respect of Interest Income:

The mobilization of savings and the measures designed to ensure that the level of consumption is kept within the productive capacity of the economy are also crucial elements in the process of economic recovery.

It is, therefore, proposed to grant additional tax incentives to induce an increase in savings.

At present, one of the main inducements to savings is the provision in the Income Tax Act which entitles an individual to receive, free of income tax, interest income not exceeding \$600 in any year of assessment paid in respect of shares held in a Building Society or any society registered under the Co-operative Societies Act. It is proposed to allow an individual to increase the level of his tax-free investment by -

- (i) removing the present limit of \$600 in respect of interest income from shares held in a Building Society, Credit Union or other society registered under the Co-operative Societies Act;
- (ii) allowing an additional tax exemption in respect of interest received in any year of assessment on a Fixed Term Deposit maintained for a term of not less than one year in a Commercial Bank, or any institution operating under the Protection of Depositors Act, the Building Societies Act, any Credit Union or other society registered under the Co-operative Societies Act, or any other institution approved by the Minister of Finance.

The provision will apply to investments made on or after the 1st of July, 1981.

Measures Designed to Reduce Tax Avoidance and EvasionModification of Appeal Procedures.

Under the Income Tax Act, corporate bodies and self-employed individuals are required, before the 15th of March in every year of assessment, to compute the amount of the estimated tax for the year and pay the tax to the Collector of Taxes in four equal instalments.

Where the taxpayer fails to comply with the Act, the Commissioner is empowered to assess the taxpayer who, if he disputes the assessment may, within 30 days from the date of the service of the notice of assessment, apply to the Commissioner, by notice of objection in writing, to review and to revise the assessment made.

This right to object is being used by taxpayers to delay or defer settlement of their tax liabilities. The main area of delay is in the submission of proper returns of income in cases where the Commissioner assesses taxpayers who neglect to render returns. As a consequence, the Commissioner becomes involved in time-consuming correspondence while the bulk of the tax liability remains unpaid.

The Act is, therefore, to be amended to provide in effect that a notice of objection shall not be valid unless accompanied by a return of the income, the assessment of which is in dispute. If the return is not forwarded to the Commissioner within 90 days of the notice by the Commissioner requiring the taxpayer to render such return, the Commissioner will be empowered to confirm the assessment as final and binding on the taxpayer.

Provision is also to be made that the Commissioner may, on the application of the taxpayer, extend the time for delivery of the return to such later date as he may specify in writing.

The foregoing provisions are to apply to objections made on or after the 1st October, 1981.

"Hobby Farmers"

Following on the increase in tax benefits under the Agricultural Incentives Act for bona fide farmers, the opportunity is being taken to curb abuses practised by persons who, with the sole object of avoiding tax, use the provisions of the Income Tax Act to set-off "farming" losses against income from other sources.

Provision is, therefore, to be made that losses arising from farming may be set-off only against future income from that source.

This provision will apply to losses made on or after the year of assessment commencing on the 1st of January, 1982.

Establishment of Container Stations:

The volume of containerized merchandise arriving in Jamaica especially by ocean carrier has created severe enforcement problems for Customs in recent years. Due to inadequate facilities at piers, it has not been possible to carry out effective examination of merchandise without imposing economic hardship on importers and without interfering with the expeditious movement of containerized shipments to their destination.

2. At present, Regulation 41 of the Customs Regulations, 1955 gives the Collector General discretion to remove goods imported in containers from a Customs area to another place where examination is carried out during the prescribed official hours. The importer whose goods are subject to removal is required to pay a minimum charge for the services provided as well as reasonable charges for the transportation or subsistence (or both) of any officer detailed for the examination. The procedure is similar for the examination of containerized merchandise outside of official hours at the importer's private premises, except that containers with either one item or more than one item of merchandise consigned to more than one company or individual are not normally permitted to be examined outside of official hours.

3. A rationalisation of the existing system is now to be accomplished by the establishment of a regular containerized station and the Customs Act is to be amended accordingly.

4. In order to ensure that the container stations are operated satisfactorily, guidelines are to be established. These guidelines will include:-

- (i) a customs inspection unit for container stations consisting of two or more inspectors;
- (ii) Customs inspectors selected on the basis of integrity, qualification and experience;
- (iii) the conduct of the activities by these inspection units on a full-time basis;
- (iv) provisions for the examination of every container;
- (v) the establishment of records of maintenance controls.

5. The advantages of the establishment of a container station include:-



APPENDIX IV

- (i) the protection of revenue and detection of illegal importations;
- (ii) the expeditious movement of containerized shipments to destination thus facilitating -
  - (a) prompt receipt of raw materials by manufacturers; and
  - (b) release of the personal effects of returning Jamaicans;
- (iii) easier security survey -
  - (a) by safeguarding cargo against sabotage, loss, theft and damage;
  - (b) by enforcing personnel identification system;
  - (c) of designated perimeters, area, structures and activities;
  - (d) by facilitating easier apprehension of intruders.
- (iv) handling of items of cargo requiring special control because of their value or sensitive nature.

Selection of container station

The location of the container station will depend, among other things, on its proximity to the port of entry for containers and the existence of adequate infrastructure.

The Authorities concerned are now examining certain available sites with a view to selection at the earliest date possible.