

OMNIBUS INCENTIVE LEGISLATION

Introduction

- 1.** It has long been recognised that an important part of securing growth will require tax reform. The current taxation system operates as a high tax regime co-existing with a system of negotiated exclusions for certain aspects of particular sectors. These cover Tourism, aspects of Manufacturing and Agriculture, Free zone, Petroleum and Shipping activities to name a few.

- 2.** Members will recall that in its deliberations on the Green Paper the Special Committee of Parliament on Tax Reform had recognised that a critical component of this reform process has to encompass an overhaul of the existing tax incentives system. The Green Paper on Tax Reform proposed to change this system by committing to lower rates across the board and incentivising production whether the firms were large, medium-size or small.

3. The legislation that I have laid today: **Fiscal Incentives [Miscellaneous Provisions] Act 2013**; and **Income Tax Relief Act [Large-scale Projects and Pioneer Industries] Act 2013** – together with **Customs Tariff [Revision][Amendment] Resolution 2013** and **Stamp Duty [Amendments of Schedule] Order 2013** to be tabled later provide the framework for the new Omnibus Incentive Regime. Critically, the tabling of the bills today meets an important structural benchmark agreed with the IMF that involved a deadline for the preparation and tabling of legislation providing for a consolidated, generalised incentives regime.

4. I want to express my personal gratitude and indeed that of the country for the work undertaken by the Incentives Working Group which was charged with the responsibility to make recommendations to inform the preparation of this body of legislation. The Group was chaired by Mr. Dennis Morrison and comprised Hon. Shirley Tyndall O.J., Mr. Joseph Mayer Matalon, Mr. Christopher Bicknell, Mr. Glen Lawrence, Mr. Keith Collister and Mr. Lloyd Goodleigh. Their work was

supported by technicians from the Ministry of Finance. The IWG held extensive discussions and consultations with members of the private sector.

5. I am satisfied that this body of work has advanced the tax reform process and established a platform for growth and incentivising of production. However we recognise that other areas of tax reform require attention. Here I am referring to areas such as compliance, the efficiency of tax administration and overtime the harmonization of rates across taxation types.

Objectives of the Reform

The incentive reform is guided by the following main objectives:

□□ Elimination of existing sector-based incentive programmes

The Jamaican economy has not been well served by the existing regime of sector-based incentives. In particular the

consensus has been that such incentives may have been partly responsible for Jamaica's lacklustre track record of growth by encouraging misallocation of limited economic resources.

□□ Transition to a generally competitive business tax regime

The fundamental shift in policy direction calls for a generally competitive regime of corporate taxation that provides broad-based incentives for investment and employment creation.

□□ Provision of generalised incentives for employment and capital investment

The new incentive regime focuses on the granting of incentives to the primary inputs to production:

- It incentivises investment through streamlined and modernized capital allowances that more closely accord with the useful lives of assets;

- It incentivises the employment of labour through the instrument of Employment Tax Credits;

□□ Introduction of a Rules based and non-discretionary System

One of the most often-cited criticisms of the current incentives regime is the extent to which the application and approval processes represented hurdles to business persons. These hurdles were most likely to be overcome by those with “access” to the government functionaries responsible for processing or approval of applications. The new regime will be rules based and non-discretionary, and therefore accessible to all Jamaicans thereby levelling the playing field.

□□ Incentivisation of compliance

Currently, Jamaica’s compliance rates across various tax types does not compare favorably with peer countries. Access to fiscal incentives generally ought to apply only to compliant taxpayers. In that regard, the system has been

designed to reward only those who are compliant, and who pay their fair share of taxes.

□□ Minimisation of tax-induced increases in production cost/cost of doing business

There are a number of instances in the current tax code where the incidence of taxation has actually served to increase the cost of doing business thereby adversely affecting the competitiveness of our productive sectors. The design of the incentives regime has, therefore, as far as possible sought to minimise the imposition of tax-induced cost increases on productive inputs.

6. The Fiscal Incentives [Miscellaneous Provisions] Act 2013 sets out the reforms to be carried out to corporate tax including the introduction of an Employment Tax Credit (ETC), changes to the capital allowance regime, and revision of provisions governing the utilisation of tax losses. It also deals with “grandfathering” and transitional arrangements relating to the change from the old to the new incentives regime. The **Income Tax**

Relief Act [Large-scale Projects and Pioneer Industries] Act 2013 sets out provision for designation of large scale projects and pioneer industries that would qualify for tax credit under the Income Tax Act.

Other elements of the framework for the new Omnibus Incentive Regime will be covered under legislation to be tabled shortly and which I intend to debate at the same time that we will be debating the bills laid today. These are **[Customs Tariff [Revision][Amendment] Resolution 2013 and Stamp Duty [Amendments of Schedule] Order 2013]**.

These replace the myriad pieces of legislation put in place since the 1940s and that underpin a system which lacks administrative coherence and generates significant tax expenditures.

7. This new regime is only one piece, albeit an essential component, of the broader tax reform exercise being undertaken, and which is guided by the principle of ensuring growth with equity, transparency and

simplicity. By providing a competitive general tax regime that incentivises productive activity across all sectors, it has the potential to stimulate investment and improve the overall business environment. In short, the overriding objective of this element of the reform is to stimulate business activity and put people to work.

8. The modern framework that will govern the new Omnibus regime will bring obvious benefits in terms of more efficient allocation of resources. Rather than a system with a few tax-preferred sectors that enjoy negotiated concessions while the non-preferred sectors are subject to higher effective tax rates, the new generalised regime will allow for uniformly reduced rates for all tax-compliant corporate entities and individuals involved in productive activity. This should also serve to enhance the competitiveness of the overall economy.

GRANDFATHERING AND TRANSITIONAL ARRANGEMENTS

The tax incentives reform regime that I have outlined represents one dimension of a fundamental shift in how the state interacts with the private sector to support business activity and economic growth. These changes will take time to be completely absorbed, and transitional arrangements have therefore been provided. These arrangements are as follows:

- Beneficiaries under existing incentive laws which will be repealed, will continue to enjoy the terms and conditions provided for under those repealed enactments, for the duration of their remaining concession periods.
- These continuing beneficiaries may, with certain conditions, elect to give up their current entitlements and enjoy the new tax incentive credits and other benefits under the reformed incentive regime.
- Particular care has been taken, in the design of transitional provisions, to reduce the scope for abuse as persons seek to avail themselves of the benefits of

the new regime, for example in the claiming of new initial capital allowances for capital expenditure incurred before the effective date of the new regime.

Junior Market of the Jamaica Stock Exchange

Members will recall that in my closing budget speech in June 2012, I gave a commitment on behalf of the Government of Jamaica for the continuation, **FOR A LIMITED TIME**, of the special scheme of income tax incentives to companies listed on the Junior Market of the Jamaica Stock Exchange. This commitment will be maintained, however, in light of the tax reform measure I have highlighted above, which will serve to provide a more competitive tax environment for businesses across-the-board, arrangements will have to now be made for the gradual phasing of this special scheme.

Mr. Speaker, these transitional arrangements are as follows:

- Companies listed on the exchange prior to January 1, 2014 will continue to enjoy their current benefits for the remainder of their unexpired incentive period.
- Between January 1, 2014 and December 31, 2016, companies that list on the Junior Market will be entitled to enjoy full relief from income for a period of five years from the date of listing.
- As an administrative matter, Mr. Speaker, to help to ensure proper control of this transitional taxation regime, a mechanism will be developed to allow for the capping of the tax expenditures that will arise from the operation of this special scheme of tax relief.

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