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CARICOM Tax Harmonisation

Gloria Eduardo

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10 Articles

1. Capital allowances
2. Interest
3. Losses
4. Pensions
5. Insurance premium tax

10 Articles (cont'd)

6. Minimum corporation tax
7. Mergers and splitters
8. Disposal and acquisition of assets
9. Agreement for extra-regional financing with implications for withholding taxes
10. Exploration and research expenses

Article I – Capital allowances

- Protocol – capital allowances on pooled assets at 4 rates for plant and machinery and 2 for buildings; no initial allowances; reducing balance or straight line?
- Barbados – initial allowances (20%/40%), investment allowances (20%/40%), annual allowances (various), manufacturing allowances; straight line method
- Trinidad - capital allowances on pooled assets at 4 rates; initial allowances for manufacturing entities; reducing balance method

Article I – Capital allowances (cont'd)

- Antigua – initial allowances (20%), annual allowances (various); reducing balance method
- St. Lucia - initial allowances (20%), annual allowances (various); reducing balance method
- Jamaica - initial allowances (12 1/2%/20%), investment allowances (20%/40%), annual allowances (various), special capital allowances and special annual allowances

Article II – Interest

- Protocol – deduction of interest, but only of paid within one year for an arms length transaction and two years for a non arms length transaction
- Barbados – same as protocol
- Trinidad – deductible if incurred in production of assessable income and withholding tax has been accounted for

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Article II – Interest (cont'd)

- Antigua – only interest paid to banks and financial institutions is deductible, not interest on loans from owners, shareholders, directors, etc.
- St. Lucia - deductible if incurred in production of assessable income, but not on loans by shareholders to controlled companies
- Jamaica – interest paid is deductible

Article III - Losses

- Protocol – Indefinite carry forward, but restriction on setoff to 50% of taxable income
- Barbados – 9 year carry forward, but no restrictions on setoff except for rental of residential properties
- Trinidad – Indefinite carry forward and no restrictions on setoff except against income from employment or profession

Article III - Losses (cont'd)

- Antigua – 6 year carry forward, but restriction on setoff to 50% of taxable income
- St. Lucia – 6 year carry forward, but restriction on setoff to 50% of taxable income
- Jamaica – Indefinite carry forward and no restrictions on setoff

Article IV - Pensions

- Protocol – deduction for contributions to an approved pension fund
- Barbados – deduction for contributions to an approved pension fund of up to 15% of an employee's pensionable emoluments
- Trinidad – deduction for contributions to an approved pension fund

Article IV – Pensions (cont'd)

- Antigua – deduction for contributions to an approved pension f
- St. Lucia – deduction for contributions to an approved pension f
- Jamaica – deduction for contributions to an approved pension fund of up to 10% of an employee's pensionable emoluments

Article V – Insurance premium tax

- Protocol – insurance premium tax at a rate of x%
- Barbados – premium taxes at rates of 3%/5% on life insurance premiums, 3.75% on property insurance premiums and 3% on other general insurance premiums
- Trinidad – premium taxes at 6% on property insurance premiums

Article V – Insurance premium tax (cont'd)

- Antigua – premium taxes at 3% on life and general insurance premiums, excluding motor premiums
- St. Lucia – premium taxes at rates of 1.5%/3% on life insurance premiums and 3%/5% on general insurance premiums
- Jamaica – premium taxes at 3%/4% on life insurance premiums

Article VI – Minimum corporation tax

- Protocol – x% of gross receipts to be used as a credit against final corporation tax liability
- Barbados – none
- Trinidad – Business levy of 0.2% on gross sales and receipts
- Antigua – none
- St. Lucia – none
- Jamaica – none

Article VII – Mergers and splitters

- Protocol – change of more than 50% in underlying control or ownership and change in nature of business, losses cannot be carried forward
- Barbados – none
- Trinidad – change of more than 50% in underlying control or ownership, losses cannot be carried forward unless revenue is satisfied that change was not done for tax avoidance purposes

Article VII – Mergers and splitters (cont'd)

- Antigua – none
- St. Lucia – none
- Jamaica – some restrictions exist on utilization of tax losses where there has been a change in control and in the nature or conduct of a trade or business within a three year period

Article VIII – Disposal and acquisition of assets

- Protocol – assets disposed or acquired other than by way of an arms length transaction deemed to be at market value; otherwise tax written down value applies
- Barbados – tax written down value only applies where there is a succession of a business
- Trinidad – no similar provision, although revenue may impose market value if transaction deemed to be for the purposes of avoiding tax

Article VIII – Disposal and acquisition of assets (cont'd)

- Antigua – no similar provision, although revenue may impose market value if transaction deemed to be for the purposes of avoiding tax
- St. Lucia – tax written down value applies for capital allowances purposes
- Jamaica – similar to protocol

Article IX – Extra-regional financing and withholding taxes

- Protocol – withholding tax on interest paid to non-resident financial institutions or persons at a rate not exceeding 20%
- Barbados – non-treaty rate 15%; treaty rates vary from 0% to 15%
- Trinidad – non-treaty rate 20%; treaty rates generally 10% or 15%

Article IX – Extra-regional financing and withholding taxes (cont'd)

- Antigua – non-treaty rate 20% for individuals and 25% for corporations; CARICOM treaty rate 15%
- St. Lucia – none
- Jamaica – non-treaty rate 25% for individuals and 33 1/3% for corporations; treaty rates vary from 7.5% to 15%

Article X – Exploration and research expenses

- Protocol – expenditure on exploration and research incurred prior to commencement of business activity deducted over 5 years or more; expenditure incurred during operations of business treated as revenue expenses
- Barbados – qualifying capital expenditure can be accumulated or capitalized and deducted at specified rates
- Trinidad – pre-trading costs only deductible if part of cost of plant and machinery; costs incurred after commencement of activity deductible if incurred in the production of income or are part of cost of plant and machinery

Article X – Exploration and research expenses (cont'd)

- Antigua – pre-trading costs amortised over a period of 5 years; costs incurred after commencement of activity deductible if incurred in the production of income or are part of cost of plant and machinery
- St. Lucia – deductible if incurred for the purpose of producing assessable income
- Jamaica – allowances can be claimed on expenditure on mines and wells; expenditure on scientific research not of a capital nature can be deducted as an expense

Proposed Caricom Tax Protocol

Article I – Capital allowances

Capital Allowances

CLASS A: Plant and machinery – 10 per cent

CLASS B: Plant and machinery – 25 per cent

CLASS C: Plant and machinery – 50 per cent

CLASS D: Plant and machinery – 100 per cent

Proposed Caricom Tax Protocol

Article I - Capital allowances (cont'd)

Capital Allowances cont'd

CLASS E: Buildings

Estimated life >50 years – 1%

Estimated life < 50 years – 2%

CLASS F: Where capital allowances are used as incentives, the class should allow for the application of a basis other than useful life in determining the rate to be applied.

Proposed Caricom Tax Protocol

Article II - Interest

Allowed as a deduction

- Provided interest paid or payable on loans for the acquisition of capital provided that such capital is used for the production of chargeable or assessable income.
- Not allowed as a deduction where the interest is not paid within 2 years with respect to arms length transactions.
- Within 1 year with respect to non-arms length transactions.

Proposed Caricom Tax Protocol

Article III - Losses

- Allowed as a deduction in respect of the loss incurred in a basis or income year the amount of such loss against other income.
- Can be carried forward and set off against income of subsequent years provided the amount of loss allowed in any year does not reduce the tax by an amount in excess of 50% of the tax payable before the allowance of the loss brought forward.

Proposed Caricom Tax Protocol

Article IV - Pensions

- Amounts paid into an approved fund shall be allowed as a deduction.
- No deduction allowed in respect of any amount paid as pension from current revenues.

Proposed Caricom Tax Protocol

Article V - Insurance Premium Tax

An insurance premium tax must be levied at a given rate that is applied to the gross premiums of the insurance company conducting the business

Proposed Caricom Tax Protocol

Article VI - Minimum Corporation Tax

Member states have an option of adopting a minimum corporation tax (CMCT)

The MCT if adopted shall be:

- At a given rate on the gross receipts of a company for each year of income and may be used as a credit to final corporation tax liability for that particular year.
- The MCT shall not be refundable and shall not be carried forward to future liability.

Proposed Caricom Tax Protocol

Article VII - Mergers and Splitters Division

Where there has been a change of more than 50% in the underlying ownership or control of a company and

1. Where conditions obtain which are consistent with tax avoidance; or
2. Where there is change in the nature of a business

Any losses which exist at the time of the transaction shall not be carried forward

Proposed Caricom Tax Protocol

Article VIII - Disposal and acquisition of assets

Where on an amalgamation, reconstruction or merger of a company

1. Assets are disposed of or acquired other than by way of a transaction at arms length, the asset shall be deemed to have been disposed of or acquired at market value
2. The assets are disposed of or acquired at arms length the written down value shall apply

Proposed Caricom Tax Protocol

Article IX – W/Tax on extra-regional financing

Where an interest makes an interest payment to a non-regional financial institution or person there shall be applied a withholding tax at a rate not exceeding 20%

Proposed Caricom Tax Protocol

Article IX - Exploration and research expenses

Where exploration and research expenses are incurred

1. Prior to the commencement of business activities, such expenditure shall be written off over a period of 5 years or more
2. During the operations of a business, such expenditure shall be treated as a revenue expense

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