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An Individual Income Tax?**

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CAN DEVELOPING COUNTRIES IMPOSE AN INDIVIDUAL INCOME TAX?

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1. Introduction

The individual income tax (IIT) is widely used in most all countries around the world, and is often a major source of revenues for the government. So the short answer to the title question is “of course”.

However, the more fundamental issue is the type of IIT that developing countries are in practice able to impose. In particular, will the IIT that emerges in developing countries meet the usual canons of a “good” tax – equity, efficiency, and adequacy? We argue in this paper that it is unlikely that a developing country can actually administer a broad-based, “global” individual income tax, in which income from all sources is aggregated and is subject to a single rate structure (after adjustments for personal exemptions and deductions). Instead, we argue that the most suitable form of the IIT that most developing countries are likely to be able to achieve – at least at this point in time – is one characterized by a “schedular” approach to income taxation, in which each of the main types of income flows (e.g., wages and salaries, dividends, interest, rent) is subject to separate rate schedules that are not typically graduated. Such a narrower, and less ambitious, scope for an IIT seems better able to achieve the goals of equity, efficiency, and adequacy in the taxation of individual income.

We make this argument by first looking at the world-wide practice of income taxation over the last several decades. Information from Government Finance Statistics on the shares of individual income taxes in Gross Domestic Product (GDP) indicates a slight upward trend in the importance of the IIT for some – but not all – countries. We then focus on one developing country in particular. The Government of Jamaica has worked hard to reform its individual income tax, and has made significant progress in expanding the base, lowering marginal tax rates, and simplifying the structure of the tax. During this time, the IIT has shifted from a global income tax to one that more that has important schedular elements. Even so, there is at least suggestive evidence that there remain massive amounts of evasion/avoidance in the Jamaican IIT, that its distribution of tax burdens is much less progressive in fact than in principle, and the tax likely generates significant

distortions in behavior. In short, despite the major efforts of the Government of Jamaica in addressing the shortcomings of the IIT, the tax is one that is still plagued by avoidance and evasion and one that still introduces significant inequities and inefficiencies. Even so, it should be emphasized that there have been major achievements by the Government of Jamaica in the reform of the IIT, and we argue that these achievements have come largely as a result of a move toward a more schedular approach to income taxation. We conclude by suggesting that Jamaica should continue its move toward a schedular approach to individual income taxation. More generally, we argue that the individual income tax should remain in most developing countries' tax portfolios, but that a schedular approach to income taxation is likely to be the most appropriate road for developing countries to travel, especially given the emerging forces that reduce the ability of governments to collect income taxes.

2. A Framework for Analysis: Characterizing and Implementing a “Good” Tax System

It is useful at the start to discuss the canons of a “good” tax system because these criteria help frame the discussion of the type of individual income tax that developing countries are able to impose. We have numerous goals for taxes:

- Cto be fair
- Cto be nondistorting
- Cto generate adequate revenues
- Cto be simple
- Cto help stabilize the economy
- Cto promote economic growth.

Still, a careful examination of these factors (Alm 1996) suggests that they mainly involve tradeoffs among three criteria:

- How does the choice affect the distribution of the burden of taxation among individuals, where the burden is defined broadly in terms of the tax burden and the compliance cost burden on taxpayers (*equity*)?
- How does the choice affect the decisions of individuals and firms, where the decisions are defined broadly in terms of the responses of the agents to the entire tax, compliance, and enforcement parameters (*efficiency*)?

- How does the choice of taxes affect the yield of the tax collections, where the yield is defined broadly in terms of the gross collections in excess of administrative and enforcement costs (*adequacy*)?

(Note that we do not define a separate criterion for simplicity. Instead, simplicity is implicitly considered in its effects on the other three dimensions of a desirable tax system.) Consequently, analysis of taxation requires balancing the tradeoffs between equity, efficiency, and adequacy, where each is broadly defined and commonly measured.

Consider the application of each criterion to the individual income tax, beginning with equity. What is a “fair” tax system? There are various notions of a “fair” distribution of taxes:

- Taxes are fair if people pay taxes in accordance with their ability to pay, with those people having equal ability paying the same taxes (or “Horizontal Equity”) and those having greater ability paying more taxes (or “Vertical Equity”). This is called the “Ability-to-Pay Principle”.
- Taxes are fair if people pay taxes in accordance with the benefits they receive from government expenditures. This is called the “Benefit Principle”.

These notions depend on one's own values and these values differ for different people, so there is not much that we can say in general about what is a “fair” tax. Still, it seems obvious that one's notion of a fair tax will depend in some way on how taxes affect the distribution of income; that is, is the distribution of tax burdens progressive, proportional, or regressive?

A second criterion is efficiency. When a tax is imposed, agents respond by changing their behavior to avoid paying the tax. The tax therefore distorts the behavior on both sides of the market by changing the prices faced by economic agents, causing agents to change their behaviors solely because of the tax. This change in behavior is a distortion from the tax, and leads (in most cases) to a loss in efficiency. To minimize these distortions, taxes should be imposed on those agents or activities where any changes in behavior are smaller. Keeping marginal tax rates low, tax bases broad, and taxes simple also reduces distortions.

As for adequacy, a government must generate sufficient revenues from its various tax instruments to pay for the goods and services that it wishes to provide to its citizens. In this regards, the government must consider the responses of demanders and suppliers when estimating

the revenues from the tax. Because most any tax will lead to a lower quantity bought and sold, the revenues will be less than predicted if these responses are not considered. In general, a tax imposed on a responsive base will collect fewer revenues than predicted; similarly, to collect more revenues, taxes should be imposed on agents or activities where responses are lower. Also, on administrative grounds, governments should impose taxes on bases that easily identified and monitored; that is, the costs to the government of collecting taxes need to be considered, and the costs to taxpayers of paying taxes need also to be considered. In this regard, reducing administrative and compliance costs requires doing such things as:

- Keeping taxes simple, because complicated taxes require skilled – and expensive – people to administer
- Collecting taxes from a few “points”, because the more agents from which a tax is collected, the more people must be watched and monitored
- Using withholding at source
- Levying only a few taxes
- Exempting low-income households and firms
- Keeping tax structures in place without frequent change
- Using presumptive taxes
- Imposing taxes on a broad base
- Imposing taxes at a low rate.

Achieving adequacy also requires that the tax administration enforce the tax laws (e.g., locate and register taxpayers, use computers where possible, develop adequate audit procedures, enforce penalties, provide services to taxpayers to make it easier for them to comply).

When it comes to the IIT, a classic tax policy question is: “Why have an individual income tax?” There are a variety of ways for the government to raise revenue, with the IIT only one potential type of tax instrument. Proponents of the IIT typically list the following reasons for having the tax:

- It is income elastic; that is, its revenues grow in proportion to income.
- It is progressive in its distribution of tax burdens.
- It can be relatively neutral in its effects on economic decisions, thus reducing distortions in the economy.

Those who are less taken with these virtues of the individual income tax also make strong arguments against the income tax:

- Because it is income elastic, revenues may decline during economic downturns.
- “Bracket creep” due to inflation results in potentially increased tax burdens with no change in real income, and a progressive rate schedule means that taxes will grow faster than real income.
- The tax is often used to give special preferences to certain groups or certain income types, thus disrupting the equity and efficiency advantages of the tax.
- Taxpayers (employers, employees, and self-employed) often feel that compliance with the tax is cumbersome and expensive.
- The tax may require a high level of administration, which imposes costs on the government tax agency.

Even so, the IIT is a staple feature of most tax systems. The next section discusses the practice of income taxation around the world.

3. Individual Income Taxation around the World

Individual income tax systems can be broadly classified into three main types (Goode 1984). A “global” income tax combines incomes from all sources into a single aggregate measure of income, adjusts this aggregate measure for such items as personal exemptions and deductions, and then applies a single rate or a graduated rate structure to determine the tax liability. In a “schedular” income tax, each of the main sources of income is subject to a separate tax; the tax rates across these different income flows can differ, but are not imposed at graduated rates, and personal exemptions and deductions are typically not allowed. There can also be “mixed” systems, which combine elements of both global and schedular income taxes.

Global systems tend to be found now mainly in developed countries, although in several countries – France, Belgium, and France – global systems have emerged only since the 1950s. The individual income tax systems in developing countries are often driven mainly by colonial history. Global systems tend to be found in former British colonies (e.g., Jamaica), while schedular systems are more common in Francophone Africa and some Latin American countries.

The advantages often claimed for a global system are that a global tax is thought to be most closely in line with the Ability-to-Pay Principle of equity in taxation; that is, a global tax is better able to achieve equity in the distribution of its tax burdens because it is imposed on a comprehensive definition of income that reflects individual circumstances via deductions and exemptions. Further, a global tax on something close to “comprehensive income” is seen as a more neutral tax because a broad-based income tax reduces the incentives for income-shifting activities, thereby reducing the efficiency costs of the tax. Finally, a global income tax imposed on a broad-based definition of income has greater revenue potential than one imposed on a narrower base. A schedular tax is often justified more on the basis of ease of administration. Withholding at source at the main types of income flows – wages and salaries, interest, dividends, rents, and so on – largely eliminates the necessity of individual returns. This administrative advantage comes at the expense of equity and efficiency considerations.¹

What is the current practice of individual income taxation? Table 1 provides some information on the overall level of taxation in OECD countries and in a selected sample of developing countries for two recent subperiods, 1986-1988 and 1996-1998. As shown there, the overall level of burden, expressed as a share of GDP is roughly double in the OECD countries than in the developing countries in both subperiods. There is also a tendency for the overall level of taxation to rise, but this tendency is small for both groups of countries. This evidence is consistent with the notion that higher levels of economic development are associated with higher levels of taxation (Bahl 1971; Tanzi 1987; Tanzi 1992; Burgess and Stern 1993).²

Of more relevance here, the individual income tax is of considerably more importance in tax revenues in developed than in developing countries. For OECD countries, the IIT averages less than 1/3 of total revenues; for developing countries the fraction is closer to 1/9. More generally,

¹ For further discussion of global versus schedular income tax systems, see Plasschaert (1976, 1977, 1978, 1980). For more general discussions of the administrative dimension of taxation, see Goode (1981), Bird (1989), and Bird and Casangera de Jantscher (1992).

² See Appendix Table A for the practice of individual income taxation in Caribbean countries.

taxes on consumption (e.g., value added taxes, sales and excise taxes, taxes on trade) are of much greater relative importance in developing than in developed countries, while taxes on income. Even so, the IIT has tended to decline in relative importance in OECD countries, at the same time that it has increased slightly in importance for developing countries.

Table 1. The Importance of the IIT in Tax Revenues (as percent of GDP)

	1986-1988		1996-1998	
	Total Taxes	Individual Income Taxes	Total Taxes	Individual Income Taxes
OECD Countries:	36.8%	11.4%	38.1%	10.9%
America	30.9	11.4	32.8	12.6
Pacific	30.8	13.4	31.9	11.7
Europe	38.6	11.5	40.1	11.0
Developing Countries:	17.7	1.9	18.4	2.5
Africa (10)	19.4	3.1	20.0	4.0
Asia (10)	16.2	2.0	17.7	2.9
Middle East (8)	16.8	1.2	18.1	1.5

Source: Computed by authors from various issues of *Government Finance Statistics*.

In the United States (as in most developed countries), the individual income tax is a major source of revenues for the central government. The IIT in the U.S. is imposed on income aggregated over all sources of income (e.g., a global income tax). The evidence on the IIT for the U.S. is that:

- The IIT is borne largely by the individual, with a somewhat progressive pattern of incidence.
- The IIT has a number of distorting effects on individual behavior (e.g., labor supply, saving, portfolio choice, tax preferences, tax avoidance/evasion, family structure).
- The IIT imposes significant administrative and compliance costs.
- The vast bulk of the tax is collected from employer withholding at source on wages.

This last observation may be somewhat surprising. Even though the U.S. is widely seen as having the most effective tax administration in the world, as recently as the 1980s well over 90 percent of all IIT collections came from source withholding. This percentage has declined somewhat in the last decade, and has sometimes fallen to roughly 80 percent of IIT revenues. Nevertheless, it

remains the case that most individual income tax revenues arise from employer withholding on wage and salary income. At this point, such evidence is merely suggestive that a “scheduler” income tax may be appropriate in countries without the tax collection machinery present in the U.S.

Similar evidence is hard to come by for many other countries. Even so, and despite the predominance of global income tax systems in developed countries, the U.S. General Accounting Office (1996) provides evidence that thirty-four countries employ variants on an individual income tax system in which individuals are not required to file end-of-year returns.³ Such “no-return” or “final withholding” tax systems vary significantly, but many share some common characteristics. For example, most all countries use employer withholding on wages and salaries. Also, taxes on interest and dividend incomes are exempt or limited; in many cases interest and dividend income is taxed at a flat rate, with the tax withheld by the financial institution or the company. Finally, the unit of taxation is the individual, so that a spouse who elects final withholding must file as an individual rather than jointly. Put differently, there is much evidence of individual income tax systems that have important schedular components. The next section discusses the experiences of one country, Jamaica, that has had the tradition of a global income tax but that has also moved toward a more schedular approach to taxation over the last two decades.

4. The Jamaican Experience with Individual Income Taxation

The individual income tax in Jamaica has long been one of the major workhorses of the Government of Jamaica revenue system. In fiscal year 2002-03, the Pay-as-you-earn (PAYE) portion of the income tax accounted for 21.7 percent of total government tax revenues. Only the

³ According to the General Accounting Office (1996), the countries include: Argentina, Austria, Chile, Colombia, Costa Rica, the Czech Republic, the Dominican Republic, Ecuador, Egypt, Germany, Hungary, Indonesia, Iran, Ireland, Japan, Kenya, the Republic of Korea, Luxembourg, Malawi, Mexico, Morocco, the Netherlands, Nigeria, Panama, Papua New Guinea, Peru, Poland, Romania, the Russian Federation, South Africa, Tanzania, Turkey, Uganda, and the United Kingdom.

general consumption tax (at 27.4 percent of total tax revenue) is as important a tax revenue source in Jamaica. This general pattern has not changed much since the 1980s.

The individual income tax is governed by the Income Tax Law of Jamaica, which is the same law that covers the corporate income tax and the taxation of interest and dividends. We focus on the income taxes directly accruing to individuals (including sole proprietors and other self-employed individuals), as well as capital income taxation for individuals.

The law granting an income tax was passed in 1919, and the first general income tax took effect in 1920. The tax had a basic threshold (or zero rate), and the rate structure was progressive from 1 to 10 percent of the tax base (Mendes and McLean 2003). The modern income tax was legislated in 1955, and in 1976 the Income Tax Act came into effect. The IIT was subject to a major reform in 1986, when the current flat-rate income tax became effective and numerous credits (e.g., “allowances”) were replaced by a standard deduction.

In this section, we discuss the evolution of the IIT in Jamaica over the last two decades. Our basic points are simple. Despite the major efforts of the GOJ in addressing the shortcomings of the IIT, the tax is one that is still plagued by avoidance and evasion and one that still introduces significant inequities and inefficiencies. Even so, there have been major achievements by the GOJ in the reform of the IIT, and these achievements have come largely as a result of a move toward a more schedular approach to income taxation. Further improvements in the IIT likely require further moves toward schedular taxation.

The Jamaica Individual Income Tax Prior to the 1986 Reform

At the time that tax reform efforts began in the early 1980s, the individual income tax was the largest and most productive source of revenues for the GOJ, and certainly its most visible. In 1983, the IIT was the largest single revenue source, with revenues of 28.9 percent of all government revenues and 7.6 percent of GDP. The IIT had evolved over time, typically by piecemeal changes that had led to increasingly higher tax rates on an increasingly smaller tax base. In theory, the IIT

that had emerged was highly progressive, due to its global definition of income, its graduated rate structure, and its use of numerous tax credits that attempted to take into consideration the special circumstances of individual taxpayers. In practice, however, the progressivity was dramatically reduced by many and various loopholes that enabled individuals to avoid and evade taxes on a massive scale. As a result, the tax produced far less revenue than it might have, its impact on the distribution of tax burdens was arbitrary, capricious, and unfair, and it was widely seen as the source of severe distortions in individual behaviors.

These problems eventually led the GOJ to introduce in 1986 a major reform of the income tax. However, before the reform package could be designed, it was essential for the GOJ to have an accurate picture of the workings of the tax. Efforts to inform the tax reform process led to the following picture of the IIT, based largely on information surrounding 1983 and stemming from the work of Alm and Bahl (1985) and Alm, Bahl, and Murray (1991) with the Income Tax Department of the GOJ.

At that time, two types of individuals paid the tax: those with income only from wages and salaries, and those with income from any source in addition to wages and salaries (e.g., interest, rent, dividends). The first group of taxpayers had taxes withheld by their employer under the Pay-As-You-Earn (PAYE) system, and these individuals were not required to file an income tax return unless some error was made in withholding. The second type of income recipient, often referred to as the “self-employed”, also had PAYE taxes withheld on wage income, if any such income was earned and if the employer was registered. In addition, these individuals were required to file a tax return upon which all income was totaled and income taxes on total income were paid. In practice, over 90 percent of IIT revenues came from employer withholding. Although the specific features of the base and rate structure of the income tax have changed considerably over time, the broad outline of the tax has remained largely the same.

On paper, the IIT in 1983 was broad-based, with only interest income exempt, and the tax rate structure was high and steeply progressive, rising from a marginal tax rate of 30 percent on the

first J\$7000 of taxable (or “statutory”) income to 57.5 percent on all income above J\$14,000.^{4 5}

However, in practice the base and progressivity of the IIT were reduced by several factors.

First, an individual’s tax liability could be reduced to zero by the application of up to sixteen tax credits of various amounts, for such purposes as personal and child tax credits, alimony, medical expenditures, the employment of household helpers, and participation in savings and life insurance programs. Second, there was a well-entrenched system in which employers provided nontaxable fringe benefits called “allowances” to their employees; among the more popular allowances were those for housing, transportation, utilities, and entertainment. Such allowances were supposed to be included in taxable income under the Income Tax Act. However, in practice no taxes were imposed on the allowances. Indeed, the allowances were often paid simply in cash, with little verification of the actual individual expenditure. Third, income earned from “overtime” activities received preferential treatment. Overtime income was taxed at the lowest marginal tax rate of 30 percent, even if the individual’s total income placed him or her in a higher bracket. Fourth, the tax base was reduced by individuals who filed tax returns but who underreported taxable income (termed “underreporters”); the base was also reduced by individuals who simply did not file any tax return (“nonfilers”).

Of course, the difficulty here was to quantify the magnitudes of these actual and potential tax bases. The GOJ had little information even on the size of the actual tax base (e.g., the PAYE and the self-employed taxpayers). It had no information on the magnitude of the base erosion via credits, allowances, overtime, underreporting, and nonfiling. To make these estimates, Alm and Bahl (1985) and Alm, Bahl, and Murray (1991) worked with the GOJ to assemble a variety of original data bases that allowed them to estimate the magnitudes of these actual and potential bases.

⁴ The exchange rate between Jamaican and U.S. dollars was 1.93 in 1983, 3.94 in 1984, and 5.56 in 1985. The current exchange rate is J\$55 = US\$1.

⁵ There was also an extensive system of wage-based payroll taxes and contributions, which in their entirety could increase the marginal tax rate on wage income to well in excess of 70 percent. This system was remained largely unchanged since the 1980s.

For example, Alm and Bahl (1985) and Alm, Bahl, and Murray (1991) estimated the size of the actual tax base via several random samples of individual and firm taxpayer records and returns. These returns also allowed them to estimate the extent of base erosion via the use of tax credits and of overtime income. The extent of allowance use was estimated via a special survey of public and private sector employers, conducted by the GOJ.

Estimating tax evasion was much more difficult. The extent of underreporting was estimated using information provided by the Audit Department of the Income Tax Department. All audited tax returns were first collected; these returns gave information both on items reported by the taxpayer, as well as information on post-audit, or “true”, return items as determined by the tax auditor. Statistical techniques were then used to estimate the extent of underreporting by all self-employed taxpayers.

As for nonfiling, the extent of nonfiling was estimated in several steps. First, a “master list” of names was compiled for various occupations from various third party sources of information (e.g., telephone directories, trade association lists, firm registration lists from the Small Business Association of Jamaica or from the Ministry of Health). These occupations included service stations, customs brokerages, auto repair, auto parts, hair care, real estate, contractors, transport operators, and spirits outlets; they also included accountants, architects, attorneys, doctors, optometrists, and veterinarians. Second, a stratified random sample of names was drawn from this master list, and these names were then taken to the Income Tax Department to determine whether these individuals filed any tax returns and paid any income taxes. Third, the characteristics of those from the master list who filed returns were used to impute the characteristics of those who did not file any returns.

These procedures should be viewed with some caution. Nevertheless, the picture that emerges from these various estimates is a consistent and plausible one. Tables 2 and 3 give some of the results of these procedures. As shown in Table 2, the statutory distribution of tax burdens appeared on the surface to be quite progressive. The average tax rate rose monotonically (after the

first income class), reaching 43.7 percent. When the self-employed and the PAYE taxpayers were examined separately, the progressivity appeared even more apparent. Self-employed taxpayers tended to be higher income than PAYE taxpayers (J\$11,012 versus J\$7530), and the average tax rates for the self-employed ranged from 0 to 52.2 percent versus 6.9 to 40.0 percent for PAYE taxpayers. This progressivity was also increased by the use of tax credits (Table 2). Tax credits reduced the tax liabilities across all income groups, but lowered them by greater proportionate amounts in lower brackets.

Table 2. Distribution of Income and Taxes for Taxpayers, 1983
(J\$ amounts in thousands of Jamaican dollars)

	Tax Returns	Statutory Income (J\$)	Tax Credits (J\$)	Taxes Paid (J\$)	Average Tax Rate
Under J\$2000	26,640	J\$28,023.0	J\$6863.3	J\$2083.5	0.074
2001-4000	44,365	136,653.1	32,250.5	8745.4	0.064
4001-6000	58,097	293,202.4	60,124.9	27,835.9	0.095
6001-8000	49,300	339,036.7	61,033.1	41,459.5	0.122
8001-10,000	37,469	332,894.5	55,116.6	50,909.0	0.152
10,001-12,000	28,157	307,933.4	45,206.7	58,170.9	0.189
12,001-14,000	15,922	207,348.7	25,682.5	47,098.6	0.227
14,001-16,000	7973	119,501.2	12,293.2	31,876.9	0.267
16,001-18,000	5284	89,643.7	8163.4	26,061.3	0.290
18,001-20,000	4411	84,011.8	6524.2	27,607.6	0.318
20,001-25,000	4735	104,003.5	7504.5	36,039.1	0.346
25,001-30,000	1691	46,153.2	2118.8	18,728.7	0.405
30,001-50,000	1243	45,310.4	1600.9	18,523.3	0.409
Over 50,000	583	47,331.6	716.3	21,883.1	0.437
Total	285,870	2,181,047.2	325,198.9	417,022.8	0.191

Source: Alm, Bahl, and Murray (1991).

However, avoidance and evasion activities seriously compromised this apparent progressivity. As shown in Table 3, overtime income was calculated to equal J\$96.7 million, or nearly 5 percent of statutory income for all PAYE taxpayers. Of more significance, undeclared income of non-filing self-employed individuals was estimated to equal J\$583.8 million, or over one-fourth of the official tax base, which resulted in an estimated loss of IIT revenues of J\$162 million. Underreported income of self-employed taxpayers was estimated to equal J\$112.3, an

amount that reduced revenues by over J\$50 million. Untaxed allowances were also quite significant, estimated to equal J\$246.6 million with an implied revenue loss of J\$117 million.

Overall, fully taxed income of self-employed and PAYE taxpayers was roughly J\$2.1 billion; total comprehensive income was more than J\$1 billion greater. The actual tax base was only two-thirds of its potential, with the major sources of tax base erosion stemming from the failure of many self-employed individuals to file any tax return and from the use by many taxpayers of untaxed allowances. The failure to tax all of these potential bases led to an estimated revenue loss of J\$349 million, or an amount equal to 84 percent of the IIT revenues actually collected (J\$417). Recall that the tax credits generated another J\$325.2 million loss in tax revenues. The total revenue erosion therefore exceeded J\$674 million, an amount equivalent to 1.6 times the amount actually collected. Given the patterns of tax base erosion, this revenue loss was essentially a transfer from lower income to higher income individuals.

The impact of this base erosion on the presumed progressivity of the IIT was even more striking. Recall that the average tax rate on statutory income increased steadily as statutory income increased (Table 2). However, when the average tax rate is calculated by dividing taxes paid by comprehensive income, a very different picture emerges. As seen in Table 3, the average tax rate now rose somewhat in comprehensive income rises initially, but then fell substantially for the top income classes. The IIT therefore changed from an apparently progressive tax to one that was highly regressive, largely because the tax base erosion occurred much more frequently in higher

Table 3. Actual and Potential Tax Base, 1983

(J\$ amounts in thousands of Jamaican dollars)

	Fully Taxed Income of Self-employed and PAYE Taxpayers ^a	Overtime Income of PAYE Taxpayers	Undeclared Income of Nonfiling Self-employed Individuals	Underreported Income of Self-employed Taxpayers	Allowances of PAYE Taxpayers	Total: Comprehensive Income	Statutory Income/ Comprehensive Income	Taxes Paid/ Statutory Income	Taxes Paid/ Comprehensive Income
Under J\$2000	J\$28,023.0	J\$0	J\$2585.3	J\$0	J\$1340.8	J\$31,949.1	0.877	0.074	0.065
2001-4000	136,653.1	0	45,508.2	0	6922.9	189,084.2	0.723	0.064	0.046
4001-6000	293,202.4	0	70,744.2	1775.3	17,100.9	382,821.9	0.766	0.095	0.073
6001-8000	337,386.1	1650.6	79,868.3	10,538.3	25,099.6	454,543.3	0.742	0.122	0.091
8001-10,000	323,852.0	9042.5	44,065.4	10,338.0	30,116.4	417,413.9	0.776	0.152	0.122
10,001-12,000	297,063.4	10,869.8	82,593.8	18,790.6	32,181.9	441,499.8	0.673	0.189	0.132
12,001-14,000	193,234.4	14,114.3	48,940.6	13,463.5	27,452.2	297,204.8	0.650	0.227	0.158
14,001-16,000	110,572.0	8929.2	22,697.4	7580.4	19,486.4	169,675.1	0.652	0.267	0.188
16,001-18,000	79,753.5	9890.2	26,270.4	5405.2	18,051.4	139,370.3	0.572	0.290	0.187
18,001-20,000	77,889.1	6122.7	20572.8	3926.6	17,370.1	125,881.2	0.619	0.318	0.219
20,001-25,000	92,581.3	11,422.2	24,007.6	7149.7	26,525.6	161,686.8	0.573	0.346	0.223
25,001-30,000	42,522.1	3631.1	21,530.8	4715.4	9266.2	81,665.4	0.521	0.405	0.229
30,001-50,000	35,713.9	9596.4	29,436.4	10,942.6	8056.3	93,745.3	0.381	0.409	0.196
Over 50,000	35,900.9	11,430.8	64,941.8	17,696.0	7210.0	137,179.5	0.262	0.437	0.160
Total	2,084,347.4	96,699.8	583,763.2	112,321.6	246,590.2	3,123,720.6	0.668	0.191	0.134

^a Fully taxed income equals statutory income of self-employed and PAYE taxpayers (Table 2) less overtime income of PAYE taxpayers (Table 3).

Source: Alm, Bahl, and Murray (1991).

income classes. Hidden in these estimates was substantial variation within income classes in the proportion of income that was fully taxed. For individuals in the PAYE sector, the bulk of their income was fully taxed; individual with equal comprehensive income who were self-employed were much better able to reduce their tax liabilities through nonfiling and underreporting.

In short, tax base erosion reduced tax revenues and introduced substantial horizontal and vertical inequities into the tax system. In combination with the presumed distorting effects of high marginal tax rates on individual behavior, there was a strong case for major reform of the IIT.

The 1986 Reform

Based in part on these analyses of the individual income tax, the Government of Jamaica introduced in January 1986 a major reform of the income tax. The 1986 reform had several components:

- all tax credits were eliminated, replaced by a standard deduction of J\$8580
- with some exceptions, allowances were made fully taxable under the IIT
- the preferential treatment of overtime income was eliminated
- interest income (above a threshold level) was made taxable
- a flat rate tax rate of 33 1/3 percent replaced the previous progressive rate structure.

(There were also major reforms of the company income tax and of the system of indirect taxation.

See Bahl (1991) for further discussion.)

The impact of these reforms was examined five years later by Bahl et al. (1992). They based their analyses on 1988 wage and allowance information generated from an unbalanced stratified sample of firms, followed by a random selection of employees from each firm and then adjusted to represent the population of employees. For microsimulation analyses of subsequent years, these data were then “aged” to reflect changes in income and in the number of taxpayers over time.

Among other things, Bahl et al. (1992) calculated the average tax rate (or PAYE taxes paid divided by PAYE income) by income class. They found that lower income classes paid zero taxes (due to the threshold), and also that the average tax rate rose steadily above J\$10,000 to roughly 25 percent; that is, the statutory tax burden now looked very progressive, in contrast to the pre-reform IIT. However, Bahl et al. (1992) also discovered that, even in the short time frame since the 1986 IIT reform, allowances had crept back into the system, especially allowances for housing, laundry, meals, and uniforms (Table 4). Of perhaps more interest, many (though not all) of these allowances did not have PAYE taxes withheld on them. For example, 96 percent of those individuals receiving the laundry allowance were not taxed on it; in contrast, 97 percent of those receiving the entertainment allowance were taxed on the allowance. Bahl et al. (1992) also found that the average value of allowances generally increased with income, so that higher income individuals benefited more than lower income individuals in their receipt of allowances. This result suggested that the re-emergence of allowances in the IIT was beginning to compromise the presumed progressivity of the tax, similar to the effects of allowances in the pre-reform income tax.

Table 4. Allowances in the Jamaica IIT, 1988

Type of Allowance	Number of Individuals Receiving Allowance	Average Size of Allowance by Those Receiving Allowance (J\$)	Total Amount of Allowance (thousands of J\$)
Car	7,465	J\$4697	J\$35,062.3
Club	71	13,778	984.85
Credit Card	412	6,363	2,621.8
Education	115	2,987	344.4
Entertainment	134	3,969	530.5
Holiday	425	1,245	529.0
Housing	41,039	6,794	278,826.2
Laundry	74,149	1,517	112,512.9
Meals	35,514	2,641	93,808.3
Travel	13,993	4,619	64,626.6
Uniforms	74,036	1,359	100,613.2
Utility	5,319	2,417	12,851.4

Source: Bahl et al. (1992).

Further Changes Since 1986

A number of additional changes in the individual income tax have occurred over time, as summarized Box 1.

Box 1. Some Recent Changes to the Jamaica Individual Income Tax

PAYE Threshold Increases:

- Raised to J\$10,400 on January 1, 1989
- Raised to J\$14,352 on January 1, 1992
- Raised to J\$18,408 on January 1, 1993
- Raised to J\$22,464 on January 1, 1994
- Raised to J\$35,568 on January 1, 1995
- Raised to J\$50,544 on January 1 1996
- Raised to J\$80,628 on January 1 1997
- Raised to J\$100,464 on January 1, 1999
- Raised to J\$120,432 on January 1, 2001

Other PAYE Provision Changes:

- Tax on benefits of concessionary loans, beginning January 1, 1992
- Income tax rate reduced from 33 1/3 to 25% beginning January 1, 1993
- An increase in pensioners allowance from \$15,000 to \$45,000, 1994/1995
- An increase in the maximum tax-free lump sum payable from the Superannuation Fund from \$50,000 to \$120,000, 1994/1995
- Increase in the value of the taxable benefit where a motor vehicle is provided for the use of an employee as of May 1, 1996 Reduction in the personal income tax on dividends for publicly listed companies from 25 percent to 20 percent (January 5, 2001), 20 percent to 10 percent (2001/2002), and 10 percent to 0 (April 2002).

Other Changes in Individual Taxation:

- Income of service companies treated as income of person who incorporates the company effective July 1, 1995.
- Accommodation for principal member (January 1, 1996). Previously an employee provided with accommodation by the employer the taxable benefit was either the annual value of the accommodation or 15 percent of the value of total emoluments whichever is lower. It was observed that where an employee usually a principal member had other income (e.g., dividends, interest, or income from other companies), it was possible for such a person to receive no emoluments or low emoluments from the company providing the accommodation. In such circumstances, there was a small amount of taxable benefit or no benefit at all. Where the value of accommodation was greater than the total emoluments, it was proposed to apply the 15 percent provision to the average of the sum of the value of accommodation plus the total emoluments.

Changes in Taxation of Interest:

- Implementation of 25 percent withholding tax on interest (1992)
- Income tax of 25 percent on returns from bank type saving/deposits of certain life insurance policies (1993/1994).

- Tax on Interest on certain financial instruments (TB, CD, and similar instruments) to be deducted at source (April 28, 1994).
- Withholding of tax from interest payments at source by stockbrokers, dealers, and other persons registered under the Securities Act, adding them to the list of prescribed persons (April 8, 1998).
- Only 15 percent of tax on interest required to be withheld at source. Additional taxes to be filed are 10 percent for the individual and 18.3 percent for corporations (1999/2000).
- An increase in the withholding tax on interest from 15 percent to 25 percent (2000/2001).

Source: Ministry of Finance and Planning, Taxation Division and Taxpayer Assessment and Audit Department.

The Current Jamaican Individual Income Tax

At present, the IIT in Jamaica is levied at a flat rate of 25 percent on wages and emoluments, interest, dividend, pensions, trusts, and annuities; the original flat rate of 33 1/3 percent imposed in 1986 was dropped to 25 percent in 1993.⁶ There is a standard deduction (or threshold) for taxation that is applied for each taxpayer, and the current level is J\$120, 432, which is about 75 percent of the per capita gross national income of Jamaica in 2002. The tax is relatively simple. There are some allowances and some treatments specific to capital income and self-employed, but the number of allowances and the extent of specialized treatment are relatively small compared to the pre-1986 reform. Table 5 gives the revenues from the IIT over the last decade. Note that total collections are dominated by PAYE taxes and by interest taxes, both of which stem from source withholding.

Table 5. Individual Income Tax Receipts by Component and by Fiscal Year
(J\$ amounts in millions of Jamaican dollars)

⁶ The tax rate for companies is 33 1/3 percent.

	Fiscal Year										
	1992-1993	1993-1994	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001	2001- 2002	2002-2003
Individual Income Taxes:											
PAYE Taxes	J\$3,407.5	J\$4,715.7	J\$6,780.7	J\$9,269.1	J\$11,907.3	J\$13,174.7	J\$15,027.9	J\$14,226.0	J\$16,515.4	J\$18,907.2	J\$22,285.6
Tax on Dividends	176.7	218.2	369.8	478.0	483.2	361.7	745.9	1,168.1	853.6	607.9	134.8
Tax on Other Individuals	322.6	423.3	583.1	578.6	630.7	740.7	842.5	836.8	925.8	854.4	1,113.7
Tax on Interest	1,267.6	1,402.2	1,883.6	1,665.6	2,381.9	2,149.7	1,924.9	6,161.3	9,535.1	8,462.8	9,121.5
Total: IIT	5,174.4	6,759.4	9,617.2	11,991.3	15,403.1	16,426.8	18,541.2	22,392.2	27,829.9	28,832.3	32,655.6
Income and Profits Taxes	7,885	10,896	15,377	18,889	21,564	23,297	25,843	29,390	35,457	35,516	40,567
Total Tax Revenues	19,050	28,948	38,072	50,263	55,109	59,224	66,970	75,962	87,074	90,568	102,859
Total Revenues	23,557	33,614	44,596	58,576	63,003	66,426	74,102	90,828	107,692	109,721	118,458

Source: Ministry of Finance and Planning.

The taxable basis of Jamaica's income tax includes emoluments, defined by law to include:

- wages, salaries, and fees
- provisions or payments for living accommodation, entertainment, utilities, domestic, or other services
- all other benefits, perquisites, and facilities
- all sums paid to a person by an employer for reimbursable and non-reimbursable expenses
- all annuities, pensions, superannuations, or other allowances payable for past service
- any payment of money or other consideration made to the holder or past holder of any office or employment related to the termination of that office or employment (other than due to death).

Final tax payments are due by March 15 for the preceding calendar year. Taxpayers make this final declaration using form IT01 for individuals (for self-employed taxpayers), IT03 (for unincorporated bodies other than life assurance), IT04 (for life assurance), and IT05 (for employees with PAYE and other income, pensioners, and the like). Form IT07 is used for making quarterly estimated payments.

While the Income Tax Law covers all income subject to tax, in practice the tax is more of a schedular tax than a global tax since most tax revenue is received through withholding at source on the different types of income. There are a number of distinct pieces: the PAYE component, the withholding tax on interest, the withholding tax on dividends, the tax on the self-employed,

and the tax on other types of income. Wage income is largely withheld at source and remitted directly to the Government by employers. Income taxes on interest and on dividends are withheld at source by financial institutions and companies. The self-employed are required to make final estimated payments quarterly, and also to make a final payment by March 15. The system of flat tax rates and source withholding makes filing a tax return unnecessary for a large portion of the population. Only individuals with multiple sources of income or those who are over-withheld are likely to file a tax return. In fact, there are very few returns filed each year. In addition, it should be noted that allowances are applied against a base of all income and not to separate forms of income.

However, even though the basic structure of the tax is straightforward, the administration of what are effectively separate income taxes tends to complicate the income tax system. The tax is not without other problems as well, as has become evident in a new tax reform effort initiated by the GOJ and for which we are working with the GOJ. The remainder of this section discusses some of the issues and problems that our recent work on this reform effort has uncovered.

Nonfiling and Underreporting. There is much anecdotal evidence of a compliance problem with the self-employed. Indeed, investigative efforts within the Income Tax Department seem if anything to have declined from the already low levels of the 1980s, so that it seems unlikely that either filing or reporting would have improved over time. Recall that failure to tax nonfiling of self-employed individuals and underreporting of self-employed taxpayers resulted in an estimated revenue loss of J\$213 million in 1983, relative to total individual income tax collections of \$417 million in that year; that is, nonfiling and underreporting led to a loss of roughly one-half of actual income tax collections.⁷ If one extrapolates the 1983 estimates of revenue loss to 2002-2003 IIT collections, then nonfiling and underreporting generate a revenue loss of one-half of total IIT collections of J\$32,655.6, an amount equal to roughly J\$16 billion. Even if one removes the withholding tax on interest (or J\$9,121.5 million) from the base

⁷ This estimate ignores any revenue losses in 1983 from tax credits, overtime, and allowances.

estimates on the grounds that it is difficult to evade income taxes on interest, the revenue loss still exceeds J\$11 billion. The failure to reduce tax evasion also generates inequalities and inefficiencies in the income tax system.

Allowances and Other Methods of Tax Avoidance. Not all income is legally taxable. In particular, the growth of nontaxable incomes appears to have increased in recent years. There are a number of allowances that have made their way back into the system since the 1986 reform, and these complicate the system and encourage tax evasion and/or avoidance activities. There is a wedge between the corporate and individual income tax rates that may encourage companies to move from corporate to non-corporate status.

Nonindexation. The threshold allowance for individuals is not indexed for inflation, which makes its impact on the equity of the system somewhat arbitrary.

Data Issues. There are also many data issues that make the analysis of the IIT a challenge. To successfully evaluate tax policy and carry out administration, the payment, recording, and auditing systems need to collect and produce accurate data regarding such things as the number of taxpayers, tax liabilities, payments, arrears, interest and penalties, and the like. The starting point of such an information system is often a “Taxpayer Registration Number” (TRN). The TRN number database is developed by taxpayers registering for “something” (e.g., GCT registration, housing benefits, social insurance benefits, incorporation) in the tax system, and includes individuals as well as legal entities such as corporations and sole proprietors. The TRN for individuals begins with a “1” while that for entities begins with a “0.” Individuals and representatives of companies are supposed to register at an office of Inland Revenue, and must do so prior to receiving the relevant housing or social insurance benefits, filing a GCT form or income tax return, and so on. Fiscal Services receives the TRN data from Inland Revenue.

However, while new TRNs are often added to the database, it is our understanding that the file is not regularly purged, so that many inactive taxpayers remain on the database; that is, the TRN database does not represent a population of taxpayers but rather a population of

taxpayers who were in the system at some point. Obviously, those individuals and companies working outside the tax system often have no TRN. Also, companies may register multiple times if they have multiple branches or subsidiaries. Individuals may register dummy companies in expectation of eventually owning a business. We have even been told that students, as an exercise, may register dummy companies. None of these entries are regularly cleaned off the roles.

The TRN data include a status variable (“Active or Closed”), which is understood to mean whether or not the entity is still operating. However, this variable is not updated unless an entity makes that happen, which we understand is very rare. The data also contain information on the nature of business and the organization type; the former includes a detailed list of industries, and the latter include eight categories (e.g., limited company, partnership, non-profit organization, trust, government, statutory body, other, and sole-proprietor).

For purposes of our work on the ongoing tax reform project, we have been given access to two TRN files. The first contains 180,536 records on all business TRNs, corporations, sole proprietorship, and so on. In the best of circumstances, this file should include only active businesses. Unfortunately, as noted above, this file does not represent the population of businesses because some are not active (and yet not listed as closed), some are dummy companies, and some businesses still fail to register. We have also received a second TRN file that contains TRNs for companies that were registered for GCT purposes only (49,311 observations). Again, a significant number of inactive companies are included, but we cannot determine definitively which are and which are not active.

We have also received a number of micro data files that contain detailed tax information for the individual income tax. Unfortunately, relatively few individuals and even fewer sole proprietorships file tax returns. Additionally, the data cover multiple years, and it is not obvious when the returns are actually filed. Table 6 summarizes some of the information from these files.

In total, the information contained in these returns is a fraction of what is reported in the budget even if all years are included.

Table 6. Results from the Income Tax Files (J\$ dollar amounts in Jamaican dollars)

File	Number of Returns	Dates Covered in File	Wages	Housing Allowances	Interest, Dividends, Annuities	Dividends	Interest	(Net) Tax Payable
IT-01 Self-employed (2001-2002)	21,608	1/1999 – 1/2003	3,097,625,586	31,702,226	242,639,333			704,180,996
IT-05: Individuals (PAYE, Pensioners) (2001-2002)	27,811	1/1992- 1/2003	8,645,880,910	52,942,836		81,077,688	608,513,630	80,410,670

File	Number of Returns	Dates Covered in File	Withholding	Total Employees	(Net) Tax Payable
IT-06: Employer's Declaration PAYE (2001-2002)	9,738	1/1990- 1/2003		195,727	2,600,154,802 (10% of the total reported in the budget)

Source: Computations by authors.

We have also tried matching the TRN files with these Income Tax files, knowing that we did not have the population in the TRN file but had an upper bound. We found some matches, but many returns from the TRN files had no match in the IT files for any year in the file.

Overall Incidence of the Current Income Tax System. Even so, we have been able to use one database, the Emoluments Survey (2001), to estimate the burden of taxation under the current IIT for the year 2001. Table 7 reports these results. Income classes are defined as broadly as possible, and so include all reported wages and salaries, commission, bonus, gratuities and productivity incentives, and all allowances. We include both the in-kind and cash amounts reported for these components of income. We also include two measures of tax liabilities. The first is the actual reported withholding from the Emoluments Survey (2001). The second is calculated using a microsimulation model, which calculates taxable income as the sum of reported cash and in-kind emoluments and then applies the appropriate standard deduction and

retiree allowances. We compare the estimated liability to the actual reported withholding.⁸ As shown there by the estimated liability burden and the reported liability burden, the average tax rates rise with income, indicating a modestly progressive individual income tax.

Table 7. Distribution of Income and Taxes, 2001 Emoluments Survey

Income Class (J\$, annual)	Number of Employees	Gross Emoluments (J\$ millions)	Estimated Tax Liability	Reported Tax Withheld	Estimated Liability Burden (percent)	Reported Liability Burden (percent)
< \$50,000	9,562	J\$321	J\$0.20	J\$0.45	0%	0.14%
50,000-100,000	24,306	1,852	13.0	44.6	0.7	2.4
100,000-120,432	16,257	1,777	0	24.8	0	1.4
120,432-150,000	19,717	2,661	31.9	56.0	1.2	2.1
150,000-250,000	58,827	11,594	798.0	849.0	6.9	7.3
250,000-500,000	76,077	26,897	3,532.0	3,585.0	13.1	13.3
500,000-1,000,000	53,624	36,700	6,174.0	6,190.0	16.8	16.9
1 million – 5 million	26,092	43,839	9,153.0	9,111.0	20.9	20.8
Greater than 5 million	419	2,936	665.0	665.0	22.6	22.6
Total	284,885	128,577	20,375.0	20,526.9	15.8	16.0

Source: Calculated by authors from Emoluments Survey (2001).

However, there is little question that even this progressivity is being compromised by the re-emergence of largely untaxed allowances. Further, the GOJ has made few efforts to bring nonfilers into the tax net, and its audit investigations of those who file tax returns has declined even from the low levels of the 1980s. In short, despite the significant reform achievements of the GOJ in the last two decades, many of the problems with the IIT that prompted the 1986 reform and that are driving the current reform efforts remain unresolved.

5. Conclusions

What is the form of the IIT that emerges from this perspective? It is risky to make general statements. Indeed, it is certain that tax rules would vary, perhaps significantly, across

⁸ Unfortunately, we do not have data to determine whether the actual amount withheld is close to true liability

different countries. Still, we argue that an “optimal” individual income tax in most developing countries would look something like the following:

The individual income tax should be imposed at constant marginal tax rates on broadly defined, and schedularly defined, tax bases with minimal use of special tax incentives and with similar tax rates imposed on the different schedular bases.

Why? Constant marginal tax rates reduce compliance costs by reducing the incentive to engage in tax shifting schemes; for related reasons, they reduce administrative costs. Broadly defined tax bases allow lower marginal tax rates to generate a given level of revenue, and so reduce the distorting effects of taxes on behavior, including behavior related to noncompliance. Importantly, we argue that income taxes in most countries can only be effectively collected by source withholding, thereby lowering compliance and administrative costs and encouraging broad-based coverage. This is most effectively administered by a schedular system of income taxation.

Recent trends and developments also help reinforce this perspective. As emphasized by Tanzi (2000), Alm, Holman, and Neumann (2003), and others, fiscal systems face a wide range of new developments, most of which are related to a broad notion of “globalization” and most of which reduce the ability of tax systems to generate tax revenues. These “fiscal termites” include such factors as:

- the growth of E-commerce, and the corresponding decline in paper trails that allow transactions to be followed
- the substitution of “real” money by electronic money, which also makes it difficult to follow transactions, especially those involved in international transactions
- the growth of transfer pricing within multinational companies, which can lead to grossly understated prices on transactions and which can also make it difficult to trace transactions
- the increasing use of offshore financial centers and of new financial instruments
- the difficulty (and/or the unwillingness) to tax highly mobile financial capital and highly mobile skilled individuals.

These kinds of developments make it increasingly difficult for all countries to tax income on a global basis. They pose a special challenge for countries without a sophisticated tax administration. In the face of these challenges, it seems likely that countries – especially

developing countries – will need to find new technologies that can be applied to the ways in which taxes are collected. It also seems likely that countries may be forced, however reluctantly, to a schedular income tax system.⁹ As one example, the Government of Jamaica has moved somewhat along this path in the last several decades. For many countries this may well be the best avenue by which individual incomes can be taxed in the future.

⁹ In fact, there are now calls for even countries like the U.S. to consider a no-return tax system. See Turnier and Little (2004).

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APPENDIX A: Individual Taxes in Caribbean Countries

COUNTRY	SUBJECT/OBJECT TAXED	TAX RATE	TAX DEDUCTION/CREDIT	TAX ADMINISTRATION	OTHER
Antigua and Barbuda	<p>Subject Taxed: Income from employment and investment is tax-free for individuals who are resident in Antigua and Barbuda (A&B). Individuals are generally resident if their permanent place of abode is A&B and if they are physically present in A&B for not less than 183 days in the income (calendar) year. Temporary residents are taxed only on income arising in A&B.</p> <p>Object Taxed:</p> <p>Gross Income:</p> <p>Employee Gross Income: Income earned by the resident of A&B is not taxable. Nonresidents and temporary residents are taxed on income arising in A&B, including the value of benefits (i.e., houses, cars, and other benefits or allowances) received locally, whether or not in cash.</p> <p>Capital Gains (CGs) and Investment Incomes (IIs): There is no separate CGs tax, and CGs are not included in or taxed as ordinary income. IIs for the A&B residents are not taxable. Nonresidents and temporary residents are taxable on IIs arising in A&B.</p>	<p>Individual Income Tax Rates: There is a provision for tax on temporary residents of A&B. CI ≤ EC\$500 = 2.5% 500 < CI ≤ 1,000 = 5% 1,000 < CI ≤ 1,500 = 7.5% 1,500 < CI ≤ 2,000 = 10% 2,000 < CI ≤ 2,500 = 12.5% 2,500 < CI ≤ 3,000 = 15% 3,000 < CI ≤ 4,000 = 20% 4,000 < CI ≤ 5,000 = 25% 5,000 < CI ≤ 7,500 = 30% 7,500 < CI ≤ 10,000 = 35% 10,000 < CI ≤ 15,000 = 40% 15,000 < CI ≤ 20,000 = 45% 20,000 < CI ≤ 30,000 = 50% 30,000 < CI = 55% (CI= Chargeable income)</p> <p>For persons granted by permanent residence scheme, when a pension arises in a country with which A&B has a tax treaty, that pension will be taxed at 5% and foreign tax deducted at source from the pension will be reclaimable. Individuals who have been granted residence under the Permanent Residence Scheme pay an annual levy of US\$20,000.</p> <p>CGs and IIs: A nonresident liable for income arising in A&B at rates as listed below. Interest, rent, and annuities and other annual payments = 20% Payments of a nature other than interest, rent or annuities = 25%. The Commission of Inland</p>	<p>Personal Allowances: Nonresidents and temporary residents are not entitled to claim any allowances in arriving at taxable income.</p> <p>Tax Credits: Relief from double taxation is given on Commonwealth income or in accordance with the provisions of a relevant treaty.</p>	<p>Returns: Nonresidents and temporary residents are required to file a tax return for income arising in A&B. The tax year for individual is the calendar year.</p> <p>Payment of Tax: Withholding tax is applicable on payments to nonresidents that may be regarded as income arising in A&B.</p>	<p>Sources: Pricewaterhouse Coopers, Individual Taxes 2003-2004</p>

		<p>Revenue is seeking to assess withholding tax on dividends at a rate of 255.</p> <p>Other Taxes: Unincorporated business and individuals carrying on any economic activities are required to pay tax monthly on gross income there from at the rate of 2% on income in excess of EC\$4,167 per month. This does not apply to income received by an individual from employment.</p> <p>Statutory Payroll Deductions:</p> <ol style="list-style-type: none"> 1. Social security: Employee=3% of chargeable income up to EC\$4,500/month. Employer=5% of chargeable income up to EC\$4,500/month. 2. Medical benefits: Employee=3.5% of chargeable income. Employer=3.5% of chargeable income. 3. Education levy: CI ≤ EC\$6,500 = 0% 6,500 < CI ≤ 60,000 = 2.5% 60,000 < CI = 5% <p>CI for the purpose of calculating the education levy does not include most allowances.</p>			
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Bahamas	The income tax is not imposed on individuals or corporations in the Commonwealth of the Bahamas	NA	NA	NA	Sources: Pricewaterhouse Coopers, Individual Taxes 2003-2004
Barbados	<p>Subject Taxed: An individual who is both resident and domiciled in Barbados is taxed on worldwide income. Individuals who are resident but not domiciled in Barbados are taxed on income derived from Barbados and on income from any other sources outside Barbados, to the extent that a benefit is received in Barbados. An individual become resident by spending in the aggregate more than 182 days in Barbados in an income (calendar) year or by being ordinarily resident in Barbados in the relevant income year. An individual is considered to be ordinarily resident who has permanent accommodation available for personal use in Barbados and gives notice to the commissioner of Inland Revenue of intent to reside in Barbados for a period of at least two consecutive income years. In general, a nonresident individual is not entitled to personal deductions against income and is taxed only on income arising in or remitted to Barbados.</p>	<p>Individual Income Tax Rates: TI ≤ Bds\$24,200 = 22.5% 24,200 < TI = 40% Local interest income is subject to a final tax of 12.5% when paid to resident individuals (15% when paid to nonresident individuals).</p> <p>National Insurance and Social Security: The employee's share is 8.5% on earnings of up to a maximum of Bds\$3,100/month, with the employer paying 9.75%. Self-employed individuals make contributions quarterly of 13% on earnings of up to a maximum of Bds\$3,100/month.</p> <p>Local Taxes on Income: There are no local taxes on income.</p>	<p>Business Deductions: Where an individual is carrying on a trade, business, profession, or vocation, expenses are generally deductible if they are incurred for the purpose of producing assessable income for the enterprise. Employees may deduct only unreimbursed expenditures incurred for travel and entertainment in the performance of their duties. Depreciation of a motor vehicle is not deductible. Moving expenses to or from Barbados paid by an employer are not taxed.</p> <p>Non-business Expenses; Deductions are allowed for the following:</p> <ol style="list-style-type: none"> 1. Savings with a cooperative society. 2. Bonuses converted into shares of the employing company. 3. Bonuses paid by companies that do not offer shares to those employees converted into bonds, debentures, or stock of the Government of Barbados or invested in mutual funds. 4. Payments under deed of 	<p>Returns: All individuals who carry on business (whether or not assessable income has been derived during the income year) or earn assessable income in excess of Bds\$15,000 (in the case of pensioners over age 60, Bds\$30,000) are required to file a separate income tax return. The tax year for individuals is the calendar year, and returns are filed by the following April 30.</p> <p>Payment of Tax: Income is normally withheld from salaries under the PAYE system, and interest is payable to the taxpayer on overdue tax refunds. Individuals who have income from business or rents in excess of 25% of their total assessable income are required to make three prepayments of tax on June 15, September 15, and December 15, each representing 25% of the income tax payable on the proportion of such income to total assessable income for</p>	Sources: Pricewaterhouse Coopers, Individual Taxes 2003-2004

	<p>Object Taxed: Gross Income: Employee Gross Income: Income includes salary, bonuses, commissions, and the value or all other benefits, whether or not in money, including housing. Cash housing allowances are treated as salary. The provision of rent-free accommodation gives rise to a taxable benefit to the employee up to a maximum of Bds\$48,000/year. There are special concessions for appropriately qualified foreign employees of corporations engaged in the international financial services sector, whereby up to 35% of their remuneration may be exempt from tax, if approved by the relevant government minister.</p> <p>CGs and IIs: Capital gains, interest, dividends (except dividends received from local companies and those resident in certain other CARICOM countries), rents, royalties, personal fees, business profits, and annuities are not subject to tax in Barbados, as is any type of investment income brought into Barbados by short-term residents. One-half of amounts received as royalties are exempt from tax.</p>		<p>covenant.</p> <ol style="list-style-type: none"> 5. Contributions to a registered retirement plan and contributions to a registered retirement plan savings plan. Where contributions are made to both plans, the combined contributions are limited to certain amount. 6. A housing allowance for repairs, renovations, mortgage interest, and water and energy saving devices for residents of owner-occupied houses. 7. An additional housing allowance for retrofitting an owner-occupied house with roof straps and window shutters. 8. Purchase of new shares in a public company and/or a mutual fund. <p>All expenses deducted are subject to limitation to certain amounts or percentages.</p> <p>Personal Allowances: Residents of Barbados can claim the following allowances: Individual = Bds\$15,000 Individual over age 60 and in receipt of a pension = Bds\$30,000. Individuals whose spouse had no income and who either fully supported or habitually lived with the spouse= Bds\$3,000 Children (maximum of two) = Bds\$1,000 each</p>	<p>the previous income year.</p>	
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			<p>Tax Credits: Relief for double taxation is given on Commonwealth income or in accordance with the provisions of any relevant double taxation treaty. Full credit is given for tax withheld at source on dividends from preferred shares issued before January 1, 1975. Dividends on ordinary shares or preferred shares issued to individuals after January 1, 1975, paid to individual out of pre-July 1992 retained earnings are grossed up by 15% and included in taxable income. A 15% dividend tax credit is permitted on this income. Those periods from post July 1992 profits are subject to a final tax of 12.5%. A credit for net foreign currency earnings is available on earnings from construction projects or professional services undertaken outside of the Caribbean Community (CARICOM). The credit varies depending on the percentage of foreign currency earnings to total earnings, but ranges from 35 to 93% of tax otherwise payable on such foreign currency earnings. Interest paid to pensioners aged 60 years and over is not subject to tax. A reverse tax credit of Bds\$500/year has been granted to any employed individual who</p>		
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Bermuda	The income tax and taxes on capital gains are not imposed on individuals in Bermuda	NA	NA	NA	Sources: Pricewaterhouse Coopers, Individual Taxes 2003- 2004
British Virgin Islands	<p>Subject Taxed: A British Virgin Islands (BVI) resident is liable to income tax on worldwide income. A nonresident is liable for BVI income tax on BVI-source income only. The BVI income Tax Ordinance defines a resident as “an individual resident in the territory.” There are no established criteria to determine whether a person is resident for this purpose. Factors taken into consideration in determining residency include:</p> <ol style="list-style-type: none"> 1. An individual’s immigration status. 2. How many days per year the individual is physically present in the BVI. 3. Where the individual’s main place of residence can reasonably be said to be located. <p>CGs and IIs: There are no taxes on capital gains. No withholding taxes are applied to dividends or interest, regardless of whether the taxpayer is resident or nonresident. Dividend and interest income is taxable to</p>	<p>Individual Income Tax Rates: Resident individuals are subject to BVI income tax on their taxable income at the following rates. $TI \leq US\\$3,000 = 0\%$ $3,000 < TI \leq 7,500 = 6\%$ $7,500 < TI \leq 15,000 = 10\%$ $15,000 < TI \leq 22,500 = 15\%$ $22,500 < TI = 20\%$ Nonresident individuals are taxed on BVI-source income at the normal sliding-scale rates.</p> <p>Social Security Taxes: The employee and employer are taxed at 4% and 4.5%, respectively, on employee earnings up to a maximum of US\$23,400.</p> <p>Withholding Tax on Rents and Royalties: A withholding tax of 14% is payable on any rent, annuity, or other annual payment made to individual nonresidents (15% for companies). This requirement also extends to royalties.</p>	Costs and expenses incurred in the production of income are deductible, but no personal allowances are granted.	Employers must deduct income tax from employees’ wages in accordance with the tax tables on a PAYE basis. The tax withheld must be paid to Inland Revenue not later than 15 days after the end of the month in which the wages were paid. Late payments are subject to penalties ranging from 5 to 30%.	Sources: Pricewaterhouse Coopers, Individual Taxes 2003- 2004

	resident taxpayers as ordinary income, except dividends earned from companies registered in the BVI under the provisions of the Companies Act and bank deposit interest from banks registered in the BVI.				
Costa Rica	<p>Subject Taxed: Income taxes on individuals in Costa Rica are levied on local income respectively of nationality and resident status. For individuals domiciled in Costa Rica, any income obtained within the boundaries of Costa Rica is considered local income. For nonresident in Costa Rica, any income derived from business, capital invested goods sold or services rendered within Costa Rica is considered of local source and therefore taxable. However, nonresidents are liable only for the applicable withholding taxes, depending on the nature of the local income. Independent of nationality, an individual who is self-employed and has been living in Costa Rica more than 6 months of a taxable year and must file a regular income tax return is considered resident. This period may be shorter if the person is employed and subject to payroll withholding taxes.</p> <p>Object Taxed: Gross Income: Employee Gross Income:</p>	<p>Individual Income Tax Rates: Tax rates for self-employed individuals, based on annual taxable income, are: $TI \leq CRC1,316,000 = 0\%$ $1,316,000 < TI \leq 1,965,000 = 12\%$ $1,965,000 < TI \leq 3,278,000 = 13\%$ $3,278,000 < TI \leq 6,569,000 = 24\%$ $6,569,000 < TI = 30\%$ Tax rates for employed individuals, based on monthly salary, are shown in the table below, individuals who are both self-employed and employees may not take the CRC1316,000 deduction: $TI \leq CRC296,000 = 0\%$ $296,000 < TI \leq 445,000 = 10\%$ $445,000 < TI \leq 750,000 = 15\%$ $750,000 < TI \leq 1,500,000 = 16.5\%$ $1,500,000 < TI = 18\%$</p> <p>CGs and IIs Taxes: Gains on the transfer of real estate are taxed at 1.5%. The patrimony of commercial corporations (assets minus liabilities) is taxed at 0.1% for one year. This tax will be applied on the excess of CRC35,000,000. Domiciled individuals are subject to a 16.5% tax on interest on bearer documents except for those bearer</p>	<p>Business Deductions: A domiciled individual, whether or not a national, whose only source of income is a salary for personal services cannot deduct business expenses, regardless of whether they are reimbursed or not. However, self-employed individuals and those whose source of income is from commission (sales), fees, and so on, may deduct up to 25% of gross income as a deduction without itemizing expenses, or may elect to itemize the expenses incurred in producing the gross income. Itemized deductions must be substantiated to the authorities upon request.</p> <p>Non-business Expenses: The amount of legal annual bonus (Christmas bonus) that does not exceed one-twelfth of net salary (which is one-thirteenth of gross salary) is exempt from income taxes.</p> <p>Personal Allowances: Individuals are permitted the personal income in the form of tax credit, shown below: Spouse = CRC830/month or</p>	<p>Returns: Only self-employed individuals who receive commissions, fees, royalties, or other forms of income for services rendered and those who receive interest or rental income from local sources must file a tax return that corresponds to a 12-month period ended on September 30. If both spouses earn income they must submit individual returns, in which case the personal child credit can be taken by only one of the spouses. The present legislation does not contemplate joint filing.</p> <p>Payment of Tax: Employees who receive salaries and other similar or complementary remunerations or benefits must pay a monthly income tax that is withheld by the employer from monthly payroll. Individuals need not file an annual tax return for this type of income. Self-employed individuals are required to make quarterly</p>	<p>Sources: Pricewaterhouse Coopers, Individual Taxes 2003-2004</p>

	<p>Individuals domiciled in Costa Rica are taxed on salaries, commissions, fees, and any other form of remuneration for services rendered, plus any interest and rental income received from local sources. Any income earned abroad while in residence in Costa Rica is not taxable.</p> <p>CGs and IIs: At present there is no CGs tax on the sale of real estate or securities (paragraph f, article 8 of the Costa Rican Income Tax Law).</p>	<p>documents registered at the local stock exchange, in which case the tax is 8.8%. This tax is withheld at source of payment. Income on investments from a foreign source is not taxable. Foreign-domiciled individuals are subject to withholding taxes at the rates shown below:</p> <p>Interest = 16.5% Dividends = 16.5% Directors' fees, etc = 16.5% Salaries = 11.0% Fees = 17.5%</p> <p>Since rental income denotes a permanent physical establishment in Costa Rica, the landlord must file a regular tax return indicating total income less permitted expenses; the net income is subject to tax regular individual graduated rates.</p> <p>Social Security Taxes: An individual's share of social security taxes is 9% on total remuneration, which in the case of salary is deducted from the individual's payroll payment. Self-employed individuals' participation in the social security system can range from 9 to 15% tax on income.</p> <p>Local Taxes on Income: None of the provinces or municipalities imposes any income taxes on individuals within its jurisdiction.</p>	<p>CRC9,960/year Child (each)=CRC560/month or CRC6,720/year</p> <p>The child allowance is permissible only if the child is minor, is unable to work, or is a university student under 25 years of age.</p> <p>Tax Credits: There are no tax credits allowed to individuals for taxes paid to foreign governments.</p>	<p>payments of estimated taxes, which are computed on the average of the last three fiscal years, and a final payment two and a half months after the end of the fiscal year.</p>	
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<p>Dominican Republic</p>	<p>Subject Taxed: The Dominican Republic follows a territorial concept for the determination of taxable income. Only Dominican-source income is subject to tax. Residents and nonresidents are taxed differently. Persons are resident in the Dominican Republic if they live in the country for more than 182 days during a calendar year.</p> <p>Object Taxed: Gross Income: Employee Gross Income: Broadly, the entire remuneration for personal services rendered in the Dominican Republic is subject to tax. However, the employer is liable to pay tax (on a monthly basis) with regard to compensation in kind, as forth by the Tax Code. Such compensation includes, inter alia, housing, living allowances, and automobiles.</p> <p>CGs and IIs: CGs are taxed at a flat rate. Interests from time deposits, saving accounts, and other sources that are received from financial institutions in the Dominican Republic are tax-exempt. Cash dividends to resident and nonresident individuals are subject to withholding tax. Foreign</p>	<p>Individual Income Tax Rates: Personal income is taxed at the following rates: TI <= CRC138,420 = 0% 138,420 < TI<=230,701 = 15% 230,701 < TI<= 346,051 = 20% 346,051 < TI = 25%</p> <p>CGs and IIs Income Taxes: CGs are taxed at a rate of 25%. Cash dividends to resident and nonresident individuals are subject to withholding tax of 25%.</p> <p>Social Security Taxes: Starting from February 2003, new law introduces three insurance schemes: 1. Old-age, disability, and survivor-ship insurance 2. Family health insurance. 3. Occupational hazard insurance. Old-age, disability, and survivorship insurance replace the former pension regime. It uses a capitalization system for dependent employees, whereby social security contributions are accumulated in individual accounts belonging to every affiliate. Those accounts will be managed by public and private entitled called: Administradoras de Fondos de Pensiones” (AFPs). The scope of the system covers legal residents in the Dominican Republic (nationals and foreigners) and Dominicans residing abroad. Both the employer and the employee</p>	<p>Business Deductions: In general, all expenses incurred in the production of taxable income are deductible.</p> <p>Non-business Expenses: Non-business expenses are not deductible.</p> <p>Personal Allowances: Residents are entitled to a standard deduction of RD\$11,535 per month (RD\$138,420 annually). Christmas bonuses are tax-exempt.</p>	<p>Returns: Spouses are required to file separate income tax returns covering their respective incomes. Income from property held in common is included in the return of the husband. Individuals are required to file a personal tax only when income from source different from the salaries, wages, and bonuses (where the employer withholds tax) is received.</p> <p>Payment of Tax: Employers are required to withhold income tax on salaries, wages, and bonuses. Only a personal standard allowance of RD\$138,420 per year is allowed for withholding purposes. This standard allowance is adjustable per year based on the country’s inflation. Individuals and undivided estates advance income tax for the current year equal to 100% of the income tax calculated for the precedent fiscal year, to be distributed as follows: sixth month=50% ninth month=30% twelfth month=20%. For income arising from trade activities, the payments are made following the mechanism applied to</p>	<p>Sources: Pricewaterhouse Coopers, Individual Taxes 2003-2004</p>
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	<p>investment and financial income of Dominican residents are subject to tax after the third year or taxable period of being considered as residents.</p>	<p>finance the system. The base contribution is 10% of the quotable salary of the employee, up to a ceiling of 20% minimum salaries in the case of pensions and 10% minimum salaries in the case of the family health insurance. Law 77-01 provides a financing schedule for the next 5 years. For the old-age, disability, and survivorship insurance, the employee's contribution amounts to 1.98%, with 5.02% to be contributed by the employer for year 2003. For family health insurance, the amounts to be contributed are 2.7% by employee and 6.3% by the employer. All those percentages are calculated on the quotable salary of the employee.</p> <p>The occupational hazard insurance is totally covered by the employer, who pays an average contribution of 1.2% of the applicable wages.</p> <p>Technical education tax: A payroll-based contribution is imposed on employees and employers toward the financing of a program for technical instruction and training of workers. The contribution of employers is 1% of total monthly payroll; for employees, it is 0.5% of bonuses received. No other taxes on income are levied.</p>		<p>corporations.</p>	
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<p>Guyana</p>	<p>Subject Taxed: Income is taxable when it accrues in or is derived from Guyana, whether or not the individual is resident in Guyana. Earned income derived from sources outside Guyana is taxable only if it is received in Guyana by a resident individual. Unearned income derived from sources outside Guyana is taxable, whether received in Guyana or not, on individuals who are ordinarily resident or domiciled in Guyana only if it is received in Guyana. Individuals are resident in Guyana if they reside there permanently or, being in Guyana, intend to reside there permanently, except for such temporary absence as the Commissioner of Inland Revenue may deem reasonable and not inconsistent with the claim of such individuals to be resident in Guyana. An individual who resides in Guyana more than 183 days in a calendar year is considered as resident for tax purposes.</p> <p>Object Taxed: Gross Income: Employee Gross Income: An employee is taxed on income received for services performed in Guyana whether or not the income is received in</p>	<p>Individual Income Tax Rates: Income tax on an individual's chargeable income is payable at the rate 20% on the first G\$134,000 (G\$110,000 effective January 1, 2003). Chargeable income over that amount is taxed at the rate of 33.33%. There are special rates applicable to income arising from gold and diamond mining.</p> <p>GCs and IIs Tax Rates: CGs tax is chargeable at the rate of 20% on gains exceeding G\$1,000 where disposal of the assets occurs within 1 to 25 years of their acquisition. Tax at 15% (20% effective from April 1, 2003) is withheld from gross distributions and bank interest arising in Guyana to nonresidents and from bank interest in Guyana to residents. Such income, unless an election is made, is exempt from further taxation on resident. Tax at 15% (20% effective from April 1, 2003) is withheld from discounts earned on treasury bills. Withholding tax is payable at rates of 15% (20% effective April 1, 2003) on gross distributions and dividend payments and at 10% (20% effective April 1, 2003) on other specified payments made to nonresidents. Residents are exempt from income tax/withholding tax on dividends received from a resident company.</p>	<p>Business Deductions: Generally, all outgoings and expenses incurred wholly and exclusively in the production of income are deductible. However, for nonresidents, certain expenses are not allowable, for example, property rental expenses. In circumstances where expenses and consequently profits cannot be readily ascertained. The Commissioner (or a judge on appeal) may determine a fair and reasonable percentage of turnover of the business done by a nonresident person in arriving at taxable income.</p> <p>Non-business Expenses: Expenses of a private, domestic, or capital nature are expressly excluded from deduction. Personal expenses, including home mortgage and improvement interest, life insurance and super-annuation premiums. Charitable donations are no longer deductible.</p> <p>Personal Allowances: A basic allowance of G\$216,000 (G\$240,000 effective from January 1, 2003), is deductible in determining taxable income. The allowance is apportioned according to the individual's earning period.</p> <p>Tax Credits:</p>	<p>Returns: Each individual is required to file a separate return. Tax returns must be filed in specific form by April 30 of the year following the calendar year-end or accounting year-end. Tax returns are filed for income earned in a calendar year (which coincides with the tax year), except in the case of a sole trader or a partnership where filing is done according to the accounting terminal date approved by the Inland Revenue.</p> <p>Payment of Tax: There is payroll withholding of income tax under the PAYE system. Withholding tax is deducted at source on bank interest paid to residents and on gross distribution, bank interest and other specified payments made to nonresidents. Income tax on other income is paid in quarterly installments in the year in which the income arises. Any shortfall of taxes deducted at source or paid in quarterly installment should be met by April 30 following the year of income.</p>	<p>Sources: Pricewaterhouse Coopers, Individual Taxes 2003-2004</p>
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	<p>Guyana. Employment compensation includes all benefits and allowances derived from employment, except allowances for medical or dental expenses or for a passage to or from Guyana and allowances for subsistence, travel, company car, entertainment, security, or expense if explained to the satisfaction of the commissioner.</p> <p>CGs and IIs: Residents and noresidents are subject to CGs tax on net gains derived from Guyana, except for CGs on the disposal of shares or stock in public companies, which are exempt from taxation for any person. Residents who are ordinarily resident or domiciled in Guyana are also subject to CGs tax on gains arising outside of Guyana, while residents who are not ordinarily resident in Guyana or domiciled therein are subject to tax only to the extent the gain is received in Guyana. Short-term gains (arising within 12 months) are subject to tax as ordinary income. Gains on disposal of assets occurring more than 25 years after acquisition are exempt from taxation. There are certain minimal exemptions on disposal of</p>	<p>Social Security Taxes: There is a social security tax, referred to as “national insurance contributions,” which is deducted at source and to which employees contribute 4.8% of their gross wages and employers contribute 7.2% of their employees’ gross wages. There is a maximum total rate of G\$9,622 (G\$10,103 effective from January 1, 2003) per month for monthly income in excess of G\$80,180 (G\$84,188 effective from January 1, 2003).</p> <p>Local Taxes on Income: There are local taxes on income.</p>	<p>Credit is granted to residents for taxes paid in foreign countries in accordance with the relevant double taxation treaties. Where no treaties currently exist, there are provisions for the unilateral granting of relief from double taxation.</p>		
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	<p>personal assets. The market value at January 1, 1991 of assets held prior to that date is taken into consideration when computing CGs.</p> <p>Its arising outside of Guyana to a nonresident are not taxable in Guyana. A resident who is not ordinarily resident or domiciled in Guyana is taxable only to the extent that such income is received in Guyana. Tax on interest is a flat rate. Certain categories of taxpayers are exempt from taxation on bank interest. Taxpayers who are working painters, sculptors, or authors are assessed over a two or three-year period on income arising from the sale of work, depending on the period of production.</p>				
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<p>Honduras</p>	<p>Subject Taxed: Honduras taxes its citizens and residents on their worldwide income. Nonresidents are taxed on their compensation attributable to services and income from other sources paid from Honduras.</p> <p>Object Taxed: Gross Income: Employee Gross Income: A resident alien is taxed at graduated rates. Nonresident aliens are taxed on salary and other income earned from sources located within Honduras. They are not taxed to the extent their compensation relates to services performed and compensated outside Honduras. Nonresident alien employees are not taxed on bonuses, and the 14th-month salary payable by law in June.</p> <p>CGS and IIs: A nonresident alien is taxed on Honduras-source capital gains in the taxable year in which the gain occurs.</p>	<p>Individual Income Tax Rates: TI ≤ Lps.70,000 = 0% 70,000 < TI ≤ 100,000 = 10% 100,000 < TI ≤ 200,000 = 15% 200,000 < TI ≤ 500,000 = 20% 500,000 < TI = 25% A nonresident alien's income from Honduras-source interest, dividends, rents, and royalties is subject to 5, 15, 30, and 25% tax, usually withheld at source, and such income is not thereafter subject to graduated rates.</p> <p>Social Security Taxes: The maximum social security tax is Lps.252/year, or 3.5% on the first Lps.600 of monthly income. The excess over Lps.600 is tax exempt.</p> <p>Local Taxes on Income: While, in general, there are no local taxes on Honduras, a minor personal municipal tax on an individual's income is imposed.</p>	<p>Business Deductions: A resident alien in business can deduct expenses incurred in producing income and certain unreimbursed employee expenses. A nonresident alien has no business deductions. Properly documented expenses incurred in the practice of a liberal profession are deductible. Medical, dental, and health-related expenses are deductible up to an amount not higher than Lps.20,000 annually.</p> <p>Non-business Expenses: A resident alien can deduct interest; certain state and local taxes; and, subject to limitations, theft and casualty losses and charitable contributions. Contributions to the State of Honduras and its municipalities and to educational and sport-promoting institutions that are legally registered are deductible up to an amount not higher than 10% of net taxable income. A nonresident alien cannot deduct non-business expenses.</p> <p>Personal Allowances: Resident aliens cannot claim personal allowances, but the first Lps.70,000 of income is not taxable. Nonresidents cannot claim any personal allowances.</p>	<p>Returns: Husbands and wives should file individual returns if both are either citizens or residents and both earn income. Generally, the Revenue Service prefers that resident alien taxpayers file returns on a calendar-year basis. Nonresident alien taxpayers usually do not file returns.</p> <p>Payment of Tax: There is income tax withholding from payroll income. A taxpayer who is a proprietor is not subject to withholding but will be required to make quarterly payments of estimated tax.</p>	<p>Sources: Pricewaterhouse Coopers, Individual Taxes 2001-2002</p>
<p>Jamaica</p>	<p>Subject Taxed: In general, Jamaica taxes its citizens and residents on their</p>	<p>Individual Income Tax Rates: (Fiscal year 2001) On the first J\$120,432, 0%</p>	<p>Business Deductions: To the extent not reimbursed, individuals (resident or</p>	<p>There are six taxation departments: 1. Tax Administration</p>	<p>Sources: Pricewaterhouse Coopers,</p>

	<p>worldwide income. A non-domiciled individual working in Jamaica is taxed on the compensation attributable to the Jamaican services and other Jamaican-source income. Individuals are treated as being resident in Jamaica for a tax year if they satisfy any one of several conditions:</p> <ol style="list-style-type: none"> 1. They spend at least 6 months in Jamaica in the tax year or visit Jamaica with the intention of remaining there permanently and have actually been in the island for 6 months in the tax year. 2. They (or their spouses) have a place a place of abode available for their use in Jamaica, and they visit the island at any time during the tax year, no matter how short the stay. 3. They habitually visit Jamaica for substantial periods. The Commissioner of Income Tax would probably regard periods totaling 3 months as substantial and visits occurring in 4 consecutive years as habitual. <p>An individual not domiciled in Jamaica is taxable in Jamaica on any Jamaican-source income and, where resident, on remittances of foreign income to the island.</p> <p>Object Taxed:</p>	<p>On excess over J\$120,432, 25%.</p> <p>CGs and IIs Tax Rates: Although no tax is levied on CGs, there is a tax of 7.5% of the consideration paid on the transfer of certain assets, for example, land and company securities (including stock). The tax is limited to 37.5% of the CGs. Resident individual recipients of unfranked dividends and interest are subject to 25% withholding tax at source (corporate recipients, 33 1/3%). Franked income is distributions received by a corporate body subject to income tax that is resident in the island and from which distribution tax has been deducted at source. Dividends from listed companies: Between the period June 1, 2000 and April 1, 2001, dividends paid by a Jamaican corporation whose shares are quoted on the Jamaican Stock Exchange were taxed at the rate of 20%. Since April 1, 2001, similar dividends have been taxed at the reduced rate of 10% and are now taxed at the rate of 0% from April 1, 2002. Long-term saving accounts: Certain categories of interest income earned on long-term savings accounts (LSAs) were made tax exempt. These are:</p> <ol style="list-style-type: none"> 1. Interest paid or credited in respect of investments or deposits made by individuals with prescribed person if: 	<p>nonresident) can deduct all expenses that are incurred wholly and exclusively by them in earning their income, for example, business-related travel, automobile, and entertainment expenses. Expenses for travel to and from work are not deductible. There are no standard deductions or deductions for expenses that are wholly personal.</p> <p>Non-business Expenses: Social security and superannuation contributions to approved pension schemes are deductible in determining taxable income, as is interest paid in acquiring income. Approved charitable contributions, restricted to 5% of taxable income, are also deductible.</p> <p>Personal Allowances; There are no personal allowances.</p> <p>Tax Credits: Foreign tax paid on income that is not taxed in Jamaica is not available as a credit against the individual's Jamaican tax liability on other income.</p>	<p>Services Department (TASD); deals with administrative issues.</p> <ol style="list-style-type: none"> 2. Taxpayer Audit and Assessment Department (TAAD); deals with the audit and assessment functions of income tax, general consumption tax (GCT/VAT), stamp duty, and transfer tax. 3. Taxpayer Appeals Department (TAD); processes appeals to decisions made by tax commissioner. 4. Revenue Protection Department (RPD); investigates customs breaches and fraudulent acts in respect of the various tax acts. 5. Inland Revenue Department; deals with all compliance and tax collection functions. 6. The customs Department. <p>Returns: Husbands and wives generally file separately and must elect in writing to be jointly assessed. Such a choice is unlikely to be beneficial. The income tax uses calendar year. Taxpayers normally file their return on a calendar year basis, but a fiscal-year basis may be approved by the</p>	<p>Individual Taxes 2003-2004</p>
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	<p>Gross Income: Employee Gross Income: An individual resident but not domiciled in Jamaica is taxed on the emoluments (salary, living allowances, benefits in kind, car, etc.) paid for work done for or on behalf of Jamaica, regardless of where payment is made and regardless of whether the emoluments are remitted to Jamaica. Income for services rendered outside Jamaica is not taxed if the services are not related to Jamaica. Benefits, whether in cash or kind, payable for services rendered are taxable. Accommodation is ascribed a maximum taxable value of 15% of total taxable emoluments/other than the value of the accommodation. If the cost or market value of the accommodation exceeds other emoluments, the value is 15% of the average of other emoluments including those paid by connected parties and annual cost/market value of accommodation. The taxable benefits arising from the private use of a company car ranges from J\$30,000 to J\$140,000 and is determined by references to the cost, the age and the relative percentage of private and business use. Persons to whom allowances for laundry and uniforms (up to</p>	<p>a. The deposit remains for a minimum of 5 years without any withdrawal from the principal sum invested. b. The deposit or investment (other than interest accrued or credited) does not exceed J\$1 million in any year. c. The account is not transferable, except on the death or bankruptcy of the depositor or investor. d. Not more than 85% (75% after July 2001) of the interest accrued in any year is withdrawn during that year.</p> <p>2. Benefits derived from investments in certain life insurance policies may also be exempt from income tax if specified criteria are satisfied.</p> <p>Social security taxes: Effective February 1996, there was an increase in the insurable wage ceiling under the National Insurance Act, resulting in a new maximum J\$120.25 per week or J\$6,250 per year.</p> <p>Other Taxes on Income: The National Housing Trust contributions and the Education Tax, which are payroll taxes, are each payable by employees at the rate of 2% on taxable compensation for employment in the island. They are not deductible for income tax purposes. The expatriate employees are entitled to</p>		<p>Commissioner of Income Tax.</p> <p>Payment of Tax: There is withholding of income tax from salaries. If withholding is not possible, for example, because the employer is not resident in Jamaica, the taxpayer will be required to make payment of estimated tax in quarterly installments. Income tax returns must be filed by March 15 in the year following the year of assessment.</p>	
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	<p>a specified limit) can be paid tax-free, must be designated by the Commissioner of Income Tax. Tax reimbursement is exempt from tax, provided it does not exceed the excess of Jamaican taxes paid over the tax liability on the same amount of income in the recipient's home country.</p> <p>CGs and IIs: No tax is levied on capital gains. An individual resident but not domiciled in Jamaica is taxed in Jamaica on investment income arising outside Jamaica to the extent that the income is remitted to Jamaica.</p>	<p>claim a refund of their National Housing Trust contribution when leaving the island permanently.</p> <p>Concessionary Loans: There is a taxable benefit on loans made to employees, as well as directors, of specified financial institutions where the interest on those loans at less than market value. Market value is prescribed by the Minister of Finance and is currently 18%.</p>			
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<p>Panama</p>	<p>Subject Taxed: Panama's tax system is based on a territorial concept of income. Citizens and residents are taxed on income earned from Panama sources. Nonresidents are taxed only on income from Panama sources. Tax levied on any type of income paid to a nonresident, must be withheld by the payers. Citizens, residents, and nonresidents are not taxed on exempt income (e.g., interest on Panamanian government securities and interest on savings account and time deposits maintained with banks established in Panama). According to this territorial principle of taxation, compensation received in respect of duties performed wholly overseas will not be subject to Panama individual income tax. The system for determining this exempt income is consider income related to the days spent outside Panama on job-related duties as foreign source, so that is not liable tax.</p> <p>Object Taxed: Gross Income: Employee Gross Income: An employee is taxed on compensation earned for work done in Panama, regardless of where payment is made or</p>	<p>Individual Income Tax Rates: B/.5,250 < TI <= 4,000 = 4% 4,000 < TI <= 6,000 = 6.5% 6,000 < TI <=10,000 = 11% 10,000 < TI <=15,000 = 16.5% 15,000 < TI <=20,000 = 19% 20,000 < TI <=30,000 = 22% 30,000 < TI <=40,000 = 27% 40,000 < TI <=50,000 = 30% 50,000 < TI <=200,000 = 33% 200,000 < TI = 30%</p> <p>Notes: The numbers and percentages in this table will be changed during the year 2003 because of the fiscal reform that will take effect in April 2003.</p> <p>CGs and IISs Taxes: II from a Panama source, such as dividends, is subject to a 10% withholding tax. However, dividends on bearer shares are subject to 20% withholding tax.</p> <p>Social Security Taxes: Social security tax is assessed at a rate of 7.25% on wages and other compensation paid, including compensations-in-kind. There is no maximum limit on the taxable amount.</p> <p>Educational Insurance Taxes: Educational insurance tax is assessed at the rate of 1.25% on salaries and wages paid. There is no maximum limit on the taxable amount.</p>	<p>Business Deductions: Unreimbursed items such as moving expenses, business-connected travel expenses, and business entertainment expenses are not deductible against the employee's compensation income. A fixed allowance (representation expenses) can be given to employees as a part of salary. This allowance is considered to be gross taxable income, and the taxpayer may deduct 25% of this allowance as expenses up to a maximum of B/6,000 per year. Representation expenses are not subject to social security and educational insurance taxes for either the employee or employer.</p> <p>Non-business Expenses: Interest paid on mortgage loans for homes of for home improvements on residence located in Panama is deductible; the maximum deduction allowed is B/.15,000 annually, provided the interest payment does not classify as preferential interest for new homes. Interest paid on loans for financing education is deductible if duly documented. The educational insurance tax is deductible. Medical expenses are deductible, provided they were incurred in Panama and are duly documented. Donations to local educational and charitable institutions are deductible,</p>	<p>Returns: Husbands and wives can file joint returns. Joint filling is not advantageous if both spouses earn separate income, because the tax rates are graduated. The only advantage of filing a joint return for a couple with a single source of taxable income is that in a joint return, there is an exemption of B/.1,600, while in a single return, the exemption is B/.800. All taxpayers, except employees having only one source of income wages, salary, or other remuneration for personal services and whose monthly income tax is deducted by the employer, must file a tax return on a calendar-year basis. Employees having only one source of income from personal services who want to take advantage of non-business expenses must file a tax return. Employees who receive representation expenses are also required to file a tax return. Tax returns and estimated income for the current year must be filed on forms prescribed and supplied by the Income Tax Department.</p> <p>Payment of Tax: There is income tax</p>	<p>Sources: Pricewaterhouse Coopers, Individual Taxes 2003-2004</p>
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	<p>received. Compensation includes salary, premiums, profit distributions, living allowances, and housing allowances. Tax reimbursements, benefits in kind, house, car, retirement benefits, and any other compensation in kind. There is no concession to a foreign employee.</p> <p>CGs and IIs: CGs on the sale of real estate located in Panama and on securities not registered with the National Securities Commission are taxable. CGs arising from the sale of real estate are subject to a specific tax rule. CGs from the sale of shares, bonds, and other securities represent an integral part of the taxpayer's gross income, unless these securities are exempt.</p>	<p>Local Taxes on Income: There are no local taxes on income.</p>	<p>provided the deductions are authorized by the law establishing such institutions or by the Income Tax Department. Dues paid to nonprofit associations or organizations in Panama are also deductible.</p> <p>Personal allowances: An individual who is married is entitled to a personal exemption of B/.800; married couples filing a joint return are entitled to an exemption of B/.1,600. An additional exemption of B/.250 is granted for each dependent. These exemptions are applicable in determining taxable income.</p> <p>Tax credits: No tax credits are allowed for income taxes paid to foreign countries.</p>	<p>withholding from wages, salaries, and other remuneration for personal services. The total amount of the taxpayer's estimated income tax is payable annually in three equal installments on June 30, September 30, and December 31. If the estimated amount paid exceeds the actual amount computed at the end of the year, the excess is applied against the current year's estimated income tax or against taxes due in subsequent years. If there is still an overpayment after applying the excess to the estimate for the current year, a refund may be obtained, provided the tax authorities determine that no additional tax is due.</p>	
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<p>Puerto Rico</p>	<p>Subject Taxed: All bona fide residents of Puerto Rico (regardless of citizenship) are subject to Puerto Rico income tax on their worldwide income at graduated rates. Generally, a bona fide resident for income tax purposes is a person residing in a “bona fide” dwelling in Puerto Rico for a period of 183 days or more. Nonresident individuals are taxable only on their income from sources within Puerto Rico and on gross income effectively connected with the operation of a trade or business within Puerto Rico.</p> <p>Object Taxed: Gross Income: Employee Gross Income: In general, all compensation for personal services rendered within Puerto Rico, of whatever kind and in whatever form or place paid, is includable in gross income. If services are paid for with property other than money, the fair market value of the property is included in gross income. Other compensation, such as housing allowances, school allowances, cost of living allowances, and tax reimbursement, is also generally included.</p>	<p>Individual Income Tax Rates: Fiscal Year 2002:</p> <ol style="list-style-type: none"> Married person living with spouse and filing a joint return, married person not living with spouse, single person, head of household, estate, or trust: $TI \leq US\\$2,000 = 7.5\%$ $2,000 < TI \leq 17,000 = 11\%$ $17,000 < TI \leq 30,000 = 16.5\%$ $30,000 < TI \leq 50,000 = 29.5\%$ $50,000 < TI = 33\%$ Married person living with spouse and filing separately: $TI \leq US\\$1,000 = 7.5\%$ $1,000 < TI \leq 8,500 = 11\%$ $8,500 < TI \leq 15,000 = 16.5\%$ $15,000 < TI \leq 25,000 = 29.5\%$ $25,000 < TI = 33\%$ <p>Alternative Minimum Tax: Taxpayers with AGI of uS\$75,000 or more are subject to an alternative minimum tax at the following rates: $US\\$75,000 < AGI \leq 125,000 = 10\%$. $125,000 < AGI \leq 175,000 = 15\%$. $175,000 < AGI = 20\%$</p> <p>Additional Tax: Taxpayers with taxable income in excess of US\$75,000 are subject to a 5% additional tax on excess; for married individuals living with their spouse and filing separate returns, the additional tax will be 5% on the excess over \$37,500. This additional tax is limited in 2002 to US\$6,655 plus 33% of taxpayer’s personal exemption</p>	<p>Business Deductions: Resident individuals can deduct, to the extent not reimbursed, ordinary and necessary business expenses in connection with a trade or business, subject to a limitation of U.S.\$1,500 or 3% of adjusted gross income (AGI) from salaries, whichever is lower. In the case of married persons living together who opt to file separate returns, the limitation would be U.S.\$750 or 3% of AGI from salaries, whichever is lower, for each. Nonresident individuals can deduct such expenses to the extent they are connected with income that is effectively connected with the operation of a trade or business within Puerto Rico.</p> <p>Non-business Expenses: The law provides an option to itemize deductions or to claim a standard deduction. The standard deduction for 2002 is:</p> <ol style="list-style-type: none"> US\$3,000 for married individuals filing a joint returns. US\$2,000 for single individual and married individual living separately. US\$2,600 for heads of households. US\$1,500 for married individuals filing separate returns. <p>Resident individuals can deduct</p>	<p>Returns: Husbands and wives living together may elect to file separate or joint returns. Taxpayers may file their returns on a calendar or fiscal year basis. Resident individuals must file a Puerto Rico return if gross income for the taxable year exceeds the personal exemptions and standard deductions allowed. Nonresident U.S. citizens must file a Puerto Rico return if their Puerto Rican-source income exceeds the personal exemption, unless the tax has been fully paid at source. Nonresident aliens must file a Puerto Rico return for their Puerto Rico=an-source income regardless of the amount, unless the tax on such income has been fully paid at source. Tax returns are due by the 15th day of the fourth month following the close of the taxable year in the case of residents and nonresident U.S. citizens, and by the 15th day of the sixth month following the close of the taxable year for nonresident aliens.</p> <p>Payment of Tax: Wages and salaries of resident individuals are</p>	<p>Sources: Pricewaterhouse Coopers, Individual Taxes 2003-2004</p>
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	<p>CGs and IIs: Resident individuals are subject to tax at the graduated rates on net income from CGs, interest, dividends, rents, and distributions of partnership profits from sources within and without Puerto Rico. Nonresidents engaged in a trade or business in Puerto Rico are taxed on their net income from Puerto Rican-source capital gains and investment income at the same rates as resident individuals. Nonresident U.S. citizens not engaged in a trade or business in Puerto Rico are subject to Puerto Rican taxes on net income from Puerto Rican-source CGs, interest, dividends, rents and distributions of partnership profits at the same rates as resident individuals.</p>	<p>and credits for dependent.</p> <p>CGs and IIs Tax Rates: Puerto Rico’s tax laws accord favorable tax treatment to long-term CGs versus ordinary income by allowing the excess of net long-term CGs over net short-term capital losses to be taxed at a fixed 20% rate (10% in some instance). Otherwise, the taxpayer may opt to include this gain as part of gross income in the income tax return for the year in which the gain is recognized and pay a tax in accordance with normal tax rates. Interest income received from banks and thrift institutions in Puerto Rico, to the extent it exceeds an annual exclusion amount of US\$2,000, is eligible for a flat 17% tax in lieu of taxation at graduated rates, provided the payer is authorized in advance to withhold the 17% at source. Dividends received from Puerto Rican corporations, as well as from foreign corporations that have derived 80% or more of their gross income during the preceding three-year period from Puerto Rican sources, other than dividends paid from certain tax-exempt income, are eligible for a flat 10% tax in lieu of taxation at graduated rates, provided the tax is withheld at source, as generally required by law. Nonresident nit engaged in a trade or business within Puerto Rico are subject to</p>	<p>as itemized deductions property tax on residential property, fees paid on automobile license plates, casualty losses to the taxpayer’s principal residence, and, subject to limitations, mortgage interest, rent paid on a house constituting the taxpayer’s principal residence. Certain costs for education of dependents in elementary or secondary schools (including interest paid on student loans at university level), medical expenses, charitable contributions, interest paid on student loans, and childcare expenses. Additional deductions (that can be claimed even if the taxpayer elects to claim the standard deduction) include, subject to certain limitations, interest on an automobile loan, contributions to IRA accounts, contributions to government pension plans, two wage earners’ deductions, and deductions for veterans, young people who work, and ordinary and necessary expenses. Nonresident U.S. citizens are allowed to deduct most of the non-business deductions in the same proportion that Puerto Rican-source AGI bears to total AGI from all sources. Nonresident aliens are generally not allowed any of the non-business deductions listed above.</p> <p>Personal Allowances:</p>	<p>subject to withholding tax. Generally, if taxpayers have sizable income not subject to withholding tax, they will be required to make quarterly payments of estimated tax. Any income taxes due after estimated payments are to be paid in full on or before the 15th day of the fourth month following the close of the taxable year (April 15 for calendar-year individual taxpayers).</p>	
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		<p>Puerto Rican taxes on the gross income from such sources at a flat rate of 29% or at a higher graduated rate if that rate exceeds the flat rate of 29%, except that the flat 10% tax rate is applicable to certain dividends, as described above for resident individuals.</p> <p>Social Security Taxes: The U.S. social security combined tax rate of 7.65% applies in Puerto Rico in the same manner and uses the same wage base and tax rates as in the United States.</p> <p>Local Taxes on Income: There are no local taxes on individual income.</p>	<p>Resident individuals and nonresident U.S. citizens are allowed as a deduction a personal allowance as follows:</p> <ol style="list-style-type: none"> 1. US\$1,300 if single or married not living with spouse. 2. US\$3,000 (per couple) if married and filing a joint returns or head of household. 3. US\$1,500 if married and filing a separate return. 4. US\$1,600 allowance is allowed for each dependent who is a university student (not over 26 years of age). 5. US\$1,300 allowance is allowed to all other dependents. <p>No personal allowances are granted to nonresident alien individuals.</p> <p>Tax credits: A foreign tax credit is available to all individuals (both U.S. citizens and aliens) resident in Puerto Rico. However, for aliens, there is a requirement that the foreign country of citizenship must grant a similar credit to U.S. citizens residing in that country.</p>		
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<p>St. Lucia</p>	<p>Subject Taxed: St. Lucia income tax is imposed on the following:</p> <ol style="list-style-type: none"> 1. Income of an individual ordinarily resident in St. Lucia that accrues to the individual directly or indirectly from all sources whether in or outside St. Lucia. 2. Income of an individual resident but not ordinarily resident in St. Lucia that accrues to the individual directly or indirectly from all sources in St. Lucia and income accrued from sources outside St. Lucia to the extent that the income is remitted to St. Lucia. 3. Income arising in St. Lucia to a nonresident, and income accrued from sources outside St. Lucia to the extent that the income is received in St. Lucia. <p>An individual is regarded as resident in St. Lucia if one of the following applies:</p> <ol style="list-style-type: none"> 1. The individual's permanent place of abode is in St. Lucia and the individual is physically present for some period of time in the income year. 2. The individual is physically present in St. Lucia for not less than 183 days in the income year. 3. The individual is physically 	<p>Individual Income Tax Rates: (Starting from January 1, 2000) $TI \leq EC\\$10,000 = 10\%$ $10,000 < TI \leq 20,000 = 15\%$ $20,000 < TI \leq 30,000 = 20\%$ $30,000 < TI = 30\%$</p> <p>Social Security Taxes: The individual's share of national Insurance Scheme contributions (for retirement, sickness, and disability benefits) is 55 of gross salary up to maximum contribution of EC\$150 per month (i.e., on a monthly salary of EC\$3,000).</p> <p>Local Taxes on Income: There are no local taxes on income.</p>	<p>Business Deductions: Employees may deduct expenses incurred wholly and exclusively in the performance of the duties of their employment, but only to the extent that these expenses are not reimbursed by the employer.</p> <p>Non-business Expenses: Non-business expenses are not deductible.</p> <p>Personal Allowances: In determining chargeable income, a resident individual, upon due claim, is allowed the following deductions: Personal allowance=C\$16,000 Spouse allowance=1,500* Maintenance or alimony (under court order)=full amount. Child allowances=1,000–2,000 Higher education=5,000 Life insurance, other retirement benefits: Premiums paid in St. Lucia (max)=8,000 Premiums paid outside St. Lucia (max)=3,000 Owner-occupied property: Mortgage interest (max)=15,000 Property taxes=actual Insurance premiums=actual Upkeep and maintenance=actual Donation to charitable, religious, educational institutions (under deed of covenant for at least three years) =** Medical expenses=actual Purchase of shares in building or</p>	<p>Returns: Separate returns are required from married persons where the other spouse has income in that spouse's own name. For employed persons, the taxable year is the calendar year.</p> <p>Payment of Tax: There is withholding of tax from salaries. Employed persons must file returns within three months of the end of the income year, and any additional tax assessed is payable upon filing.</p>	<p>Sources: Pricewaterhouse Coopers, Individual Taxes 2003-2004</p>
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	<p>present in St. Lucia for a continuous period of less than 183 days in the year of income but is resident in the immediately preceding or succeeding year of income.</p> <p>Object Taxed: Gross Income: Employee Gross Income: Employees resident in St. Lucia are taxed on their salary and on the value of any allowances or benefits, whether in cash or otherwise, received from an employer. Taxable benefits include employer-provided automobile and housing (except where representative occupation can be established) but do not include travel and entertainment allowances where the employee substantiates expenditure in the performance of duties to the extent of the allowances.</p> <p>CGs and IIs: CGs are not taxable to individuals ordinarily resident in St. Lucia. IIs in the form of dividends and bank interest from corporation or banks in St. Lucia are exempt from income tax. For individuals not ordinarily resident in St. Lucia (i.e., those present for a short term), such income, if arising outside St. Lucia, is taxable only to the extent that it is remitted to St. Lucia.</p>		<p>cooperative societies=up to 3,600</p> <p>Notes: * Reduced dollar-for dollar to the extent the spouse's assessable income exceeds EC\$1,500. ** Actual, but may not exceed 25% of assessable income.</p> <p>Tax Credits: A tax credit for foreign tax paid is granted where income accrues to a resident in St. Lucia when that income has been taxed in another country with which there is no treaty or where the income is not covered by the applicable treaty. This credit is the lesser of the tax payable in the other country or the tax charged in St. Lucia.</p>		
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<p>Trinidad and Tobago</p>	<p>Subject Taxed: Individuals who are domiciled and resident in Trinidad and Tobago are taxed on their worldwide income whether or not such earnings are remitted to Trinidad and Tobago. A nonresident is taxed on income arising from employment in Trinidad and Tobago wherever received, subject where applicable to the provisions of double taxation treaties. Individuals are considered resident for tax purposes if they are in Trinidad and Tobago for more than 183 days in any calendar year. An individual who is in Trinidad and Tobago for some temporary purpose only and has actually resided in Trinidad and Tobago at one or more times for a period of less than six months in the year of income is considered to be temporarily resident in Trinidad and Tobago. A temporary resident is not taxed on any income arising outside of Trinidad and Tobago.</p> <p>Object Taxed: Gross Income: Employee Gross Income: An individual is taxed on income received for services performed in Trinidad and Tobago whether or not such</p>	<p>Individual Income Tax Rates: Fiscal Year 2003: $0 < TI \leq \text{TT}\\$50,000 = 25\%$ $50,000 < TI = 30\%$</p> <p>CGS and IIs Tax Rates: Interest received by a resident individual on all classes of savings or other accounts with banks, financial institutions or other forms of deposit-taking institutions, is taxable at the rate of 5%. Dividends, excluding preference dividends, received from investments in resident companies are now exempt from tax in the hands of resident individuals. Distributions other than interest received from a mutual fund established in Trinidad and Tobago are also exempt from tax in the hands of a resident individual. A tax on general insurance premiums at the rate of 6% is imposed. Excluded are long-term (life) insurance business, commercial insurance relating to ships and aircraft, loss of or damage to goods in international transit, risks arising outside Trinidad and Tobago, reinsurance. The 6% tax is collected from policyholders and paid over to the Board of Inland Revenue by the insurance company.</p> <p>Social Security Taxes: There is a social security tax, referred to as National Insurance, which is deducted at source at</p>	<p>Business Deductions: An employed individual is not entitled to any blanket or standard deductions. Such an individual may claim a deduction only for reimbursed travel expenses incurred wholly, exclusively and necessarily in the course of employment. Where the individual is self-employed and is carrying on a trade, business, profession, or vocation, the expenses incurred wholly and exclusively in the production of the income are deductible, as are capital allowances. Promotional expenses incurred by sole traders or persons employed in agriculture in the expansion of existing markets or the creation of new markets for the export locally produce goods are tax deductible as an expense at 150% of the actual outlay. Other tax allowances available include the training allowance of 150%; apprenticeship allowance of 200%; and a local entertainment and education production allowance of 100%.</p> <p>Non-business Expenses: A deduction in respect of mortgage interest for owner occupied property is granted up to an amount of TT\$18,000. This allowance may also be used in respect of expenses incurred for tertiary education of the taxpayer</p>	<p>Returns: Each individual must file a separate tax return. There is no provision for joint filing by husband and wife. Tax returns must be filed by April 30 of the year following the calendar or accounting year-end. A six-month grace period is allowed, following which a penalty of TT\$100 for every six months or part thereof accrues. Tax returns are filed for income earned in a calendar year (which coincidences with the tax year) except in the case of a sole trader or partnership, where filing is done according to the accounting terminal date.</p> <p>Payment of Tax: Income tax is deducted at source on all employment income under the PAYE system. Any shortfall of taxes deducted at source should be settled by the due date, that is, April 30 following the year of income.</p>	<p>Sources: Pricewaterhouse Coopers, Individual Taxes 2003-2004</p>
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	<p>income is received in Trinidad and Tobago. For tax purposes, the term “income” includes all benefits and allowances derived from employment, including the value of board and lodging provided by the employer. Sole traders and self-employed individuals are also subject to a business levy on income exceeding certain levels.</p> <p>CGs and IIs: Only gains on the disposal of an asset within 12 months of its acquisition, or disposal and reacquisition within 12 months, are taxable. Gains on the disposal of any security in Trinidad and Tobago are excluded; also excluded are gains on automobiles and household goods disposed of for TT\$5,000 or less. Taxable gains are included with other income and are not separately taxed. CGs realized outside Trinidad and Tobago by individuals who are resident but not domiciled in Trinidad and Tobago are not taxable. Income arising outside Trinidad and Tobago paid to an individual who is resident but not domiciled is taxable in Trinidad and Tobago only to the extent that such income is received in Trinidad and Tobago.</p>	<p>varying rates. The maximum rate is TT\$6.45 per week for monthly income over TT\$1,000. Seventy percent of such contributions may be deductible in arriving at taxable income.</p> <p>Health Surcharge: A health surcharge is deductible at source for all employees, in accordance with the income tax regulations. The maximum rate is TT\$8.25 per week for monthly income over TT\$470.</p> <p>Business Levy: A business levy of 0.20% is applicable to sole traders and self-employed individuals having gross income and receipts in excess of TT\$200 per annum.</p>	<p>or the taxpayer’s spouse or children. Residents who are first-time homeowners can claim an allowance of TT\$10,000 for each of the first five years for the purchase of a house. Resident individuals are also entitled to an allowance of the amount invested, up to a maximum of TT\$10,000, on shares purchased in a society registered under the Cooperative Societies Act, whereby there is a net increase for the year of income in the nominal value of the shareholding. Income received on an annuity purchased by an individual over 60 years of age is exempt from tax.</p> <p>Personal Allowances: A personal allowance of TT\$25,000 per taxpayer is granted. For persons aged 60 years and older the personal allowances id TT\$36,000.</p> <p>Tax Credits: Credit is granted to residents for taxes paid in foreign countries for doubly taxed income on the bases set out in existing double taxation treaties for the particular type of income.</p>		
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