

ECLA/POS 72/12

Date: 23 November 1972

ECONOMIC COMMISSION FOR LATIN AMERICA
Office for the Caribbean

NOTE

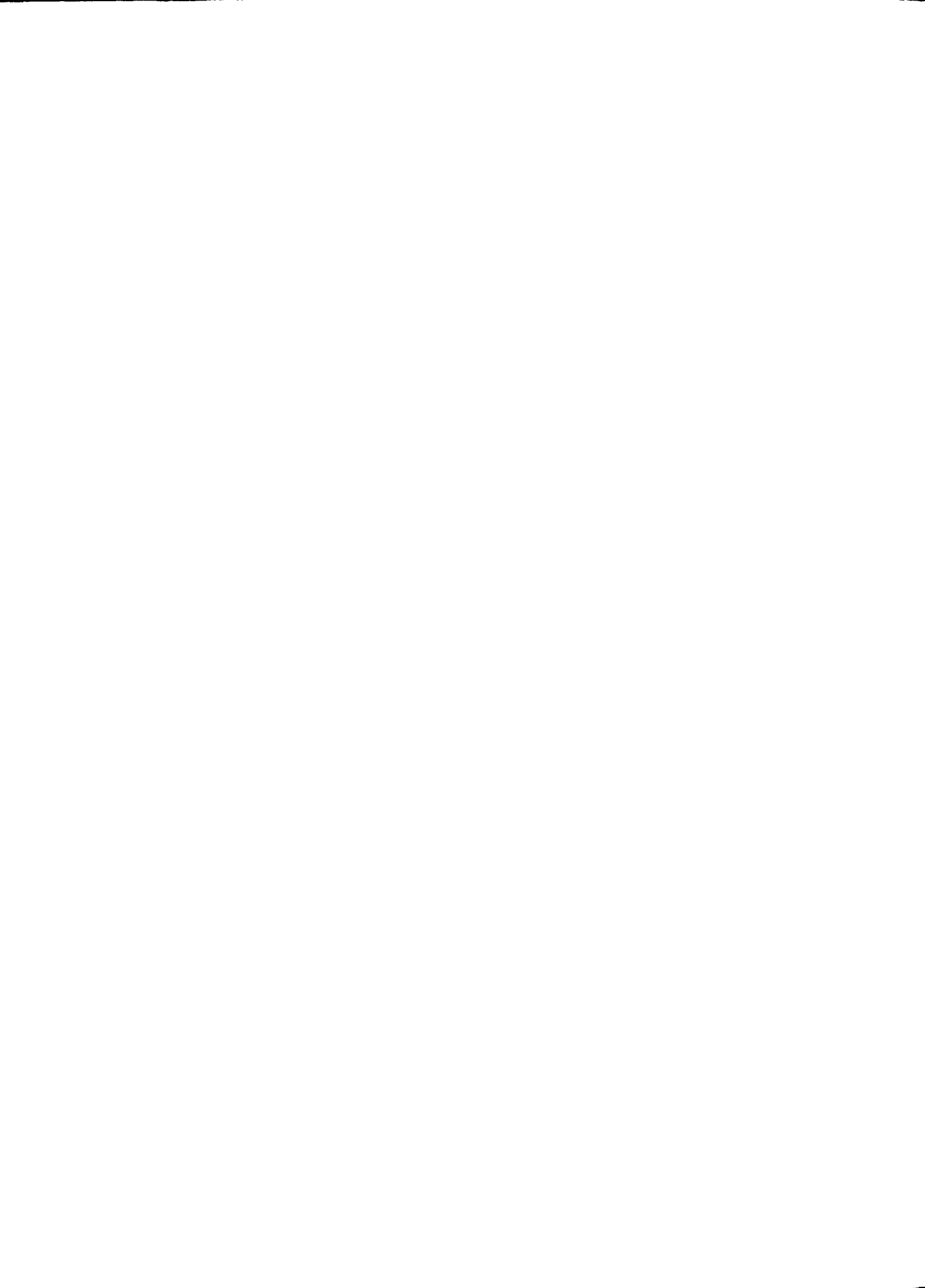
ON THE

HARMONIZATION OF FISCAL INCENTIVES

TO INDUSTRY

FOR

5TH ECCM COUNCIL MEETING



The Harmonization of Fiscal Incentives
to Industry

Agreement was reached at the Seventh Heads of Government Conference, that subject to the resolution of outstanding technical issues, a scheme for Harmonization of Fiscal Incentives to Industries for the CARIFTA region be instituted by 1 May 1973. The scheme incorporates special features favouring the member states of the ECCM group, in particular, the ability to give more liberal tax holiday concessions than the relatively more developed CARIFTA countries.

2. The scale agreed for tax holidays is graduated according to the local value added component as follows:

Percentage of Local Value added	Maximum Number of Years Income Tax holiday		
	Guyana Jamaica Trinidad & Tobago	Barbados	ECCM Territories and Belize
Group I (50% and over)	9	10	15
Group II (25% to 49%)	7	8	12
Group III (10% to 24%)	5	6	10
Enclave (i.e. industries exporting all their production to extra-regional markets)	10	10	15

3. While it is true that maximas are set in the scale, and each Government is free to offer less liberal concessions if it so desires, there is also the consideration that the advantages of the preferred arrangement can be enjoyed by the ECCM territories only if they modify their present tax relief measures and move to a more liberal position relative to the MDC's of CARIFTA.

4. With this in mind, the concessions allowed under current legislation in the ECCM territories is reflected in List 1, in contrast with the maximas proposed for the CARIFTA LDC's according to the groupings of

enterprises. It would be observed that the main task is to introduce a progressive system of concessions in each ECCM State, in place of the present single concession now granted.

5. As regards the grouping of industries according to the local value added component, it is to be recognised that new requests by firms for concessionary treatment would reflect forecasts of intentions, and that accurate data on value added locally would not be available until the first review of the firm's activities, after three years.

6. The information in List 1 is supplemented by summaries of:

- income tax reliefs offered in ECCM territories to specially approved manufacturing enterprises, in List 2;
- comparative tax rates on company and individual incomes in ECCM territories, List 3;
- Customs duty reliefs offered in ECCM territories to specially approved manufacturing enterprises, List 4.

These summaries reflect a wide area in which the ECCM territories could with advantage give thought to a more harmonized approach, so as to enhance the benefits that may be devised under the CARIFTA scheme of harmonization of fiscal incentives.

COMPARATIVE INCOME TAX EXEMPTION AVAILABLE TO SELECTED TYPES OF
APPROVED INDUSTRIAL ENTERPRISES UNDER THE EXISTING LEGISLATIONS
AND UNDER THE PROPOSED CARIFTA HARMONIZATION SCHEME

Type of Enterprise	Under the Existing Legislations in:						Under the proposed Harmonization Scheme	
	Antigua	Dominica	Grenada	Montserrat	St. Kitts	St. Lucia		St. Vincent
Enclave enterprise	5-year complete exemption	5-year complete exemption	7-year complete exemption	7-year complete exemption	5 to 10-year complete exemption + deferment of depreciation deductions for tax holiday period	7-year complete exemption	10-year complete exemption	15 years complete exemption
Group I: enterprise with value added locally 50% and over	5-year complete exemption	5-year complete exemption	7-year complete exemption	7-year complete exemption	5 to 10-year complete exemption + deferment of depreciation deductions for tax holiday period	7-year complete exemption	10-year complete exemption	15 years complete exemption

Type of Enterprise	Under the Existing Legislations in:					Under the proposed Harmonization Scheme		
	Antigua	Dominica	Grenada	Montserrat	St. Kitts		St. Lucia	St. Vincent
Group II:	5-year complete exemption	5-year complete exemption	7-year complete exemption	7-year complete exemption	5 to 10-year complete exemption	7-year complete exemption	10-year complete exemption	12 years complete exemption
Group III:	5-year complete exemption	5-year complete exemption	7-year complete exemption	7-year complete exemption	5 to 10-year complete exemption * deferral of depreciation deductions for tax holiday period	7-year complete exemption	10-year complete exemption	10 years complete exemption

INCOME TAX RELIEFS OFFERED IN ECCM TERRITORIES
TO SPECIALLY APPROVED MANUFACTURING ENTERPRISES
UNDER THEIR RESPECTIVE INCENTIVE LEGISLATIONS

A - Holiday from Income Tax

- ANTIGUA - A person declared a Pioneer Enterprise is exempt from income tax on profits from pioneer operations for five years from the production day.
- DOMINICA - A person declared a Pioneer Enterprise, is entitled to exemption from income tax on its profits for five years from the production day. However, under a special Agreement with a company, Sunday Island Port Authority Ltd., within the area marked out for special development in and around the CABRITS, exemption from income tax, as from several other taxes, is given for a period of 30 years as from 16.2.1968, the date of the Agreement, to all licencees including manufacturing enterprises.
- GRENADA - A company declared a Development Enterprise, is entitled to exemption from income tax on its profits for seven years from the production day.
- MONTSERRAT - A company declared as Development Enterprise, is entitled to exemption from income tax on its profits for a period of seven years from the production day.
- ST. KITTS-NEVIS-ANGUILLA - A person declared as Pioneer Enterprise, is entitled to exemption from income tax initially for a period of five years from the production day. This may be extended on application, for a further period of five years.
- A Pioneer Enterprise which is established within a designated Special Development Area and during the Special Development Period (i.e. ending on 31.12.1973) will be entitled to exemption from income tax for a period of fifteen years from the production day.
- ST. LUCIA - A company declared a Development Enterprise is entitled to such proportionate relief from income tax as is specified in the Development Order for a period of seven years from the production day.
- ST. VINCENT - Any person declared as Pioneer Enterprise is entitled to exemption from income tax for a period of ten years from the production day.

B - Treatment of Dividends

ANTIGUA

- There is no provision specifically exempting distributions made by a company out of tax holiday profits in the hands of the recipients.

Nor is it clear if in any specific case, e.g. West India Oil Company, such exemption was agreed upon.

DOMINICA

- A sum equal to the income arising to the company during the tax holiday period and distributed within the tax holiday period and two years thereafter to its members is exempt from income tax in the hands of such members:

provided where a member is a non-resident, he is not liable to income tax on the dividend in the country of his residence.

It appears that this restriction on non-resident members was removed when the Income Tax Ordinance (1966), sub-section (4) of section 11, was updated.

GRENADA

- A sum equal to profits accruing to a development company during the tax holiday period and distributed during that period, shall not be chargeable in the hands of shareholders:

provided the total amount paid as dividends does not exceed the amount invested by the shareholder in the development company during the tax holiday period;

provided also where the shareholder is a non-resident, he is not liable to income tax on the dividend in his country of residence.

MONTserrat

- Where profits accruing to a development company during the tax holiday period and paid to shareholders during that period, they shall not be chargeable in the hands of shareholders:

provided the total amount paid as dividends does not exceed the amount invested by the shareholders in the development company during the tax holiday period; provided also where the shareholder is a non-resident he is not liable to tax on the dividend in the country of his residence.

ST. KITTS
NEVIS-ANGUILLA

- A sum equal to the income arising to the company during the tax holiday period and distributed within the tax holiday period and two years thereafter to its members is exempt from income tax in the hands of such members:

provided where a member is a non-resident, he is not liable to income tax in the country of his residence. It appears that this restriction on non-resident members was removed when the Income Tax Ordinance (1966), sub-section (6) of Section 8, was updated.

ST. LUCIA

- A sum equal to profits accruing to a development company during the tax holiday period and distributed during that period, shall not be chargeable in the hands of shareholders:

provided the total amount paid as dividends does not exceed the amount invested by the shareholders in the development company during the tax holiday period; provided where the shareholder is a non-resident, he is not liable to income tax on the dividend in the country of his residence.

ST. VINCENT

- A sum equal to the income arising to the company during the tax holiday period and distributed within the tax holiday period and two years thereafter to its members is exempt from income tax in the hands of such members. It appears that the restriction on distribution within the tax holiday period and two years thereafter was withdrawn recently. Sub-section (5) of Section (7) of the Income Tax Ordinance 1967, does not impose this restriction on tax holiday profits to qualify for exemption in the hands of members.

C - Tax Treatment of Interest Payments

ANTIGUA

- No exemption seems to exist for interest payments by a pioneer manufacturer in the hands of recipients.

DOMINICA

- No exemption seems to exist for interest payments by a pioneer company in the hands of recipients.

It is not clear if in the case of industries set up in the specially earmarked part of the CABRITS, such exemption has been granted. Sub-section (8) of Section 2 of the Agreement refers to non-taxation of rentals or licence fees paid "by a

licensee to the holders of evidence of indebtedness and/or shares or other securities of the Authority or of the Company".

- GRENADA - No exemption seems to exist for interest payments by a development company in the hands of recipients.
- MONTserrat - No exemption seems to exist for interest payments by a development company in the hands of recipients.
- ST. KITTS-NEVIS-ANGUILLA - No exemption seems to exist for interest payments by pioneer manufacturers in the hands of recipients.

But interest payments made by such pioneer manufacturers as qualify as special developers are exempt in the hands of the recipients for a period of fifteen years. There is no stipulation whether that interest so exempt will, or will not, be treated as a deductible expense in the calculation of tax-holiday period profit or loss.

- ST. LUCIA - No exemption seems to exist for interest payments by a development company in the hands of recipients.
- ST. VINCENT - No exemption seems to exist for interest payments by pioneer manufacturer in the hands of recipients.

D - Depreciation Deductions

- ANTIGUA - Assets will, it appears, be written down during the tax holiday period in the normal manner laid down in the Income Tax Ordinance. Ordinarily, initial allowance at the rate of 20% of expenditure incurred on machinery, plant and industrial building is allowed but this is not allowed to a pioneer enterprise.
- DOMINICA - Assets will, it appears, be written down during the tax holiday period in the normal manner laid down in the Income Tax Ordinance which provides for annual depreciation deductions but not for any initial allowance or investment allowance.
- GRENADA - Assets will, it appears, be written down during the tax holiday period in the normal manner laid down in the Income Tax Ordinance which provides not only for annual depreciation deductions but also for initial deduction of 20% for plant and machinery and 30% for commercial building in the year in which such expenditure is incurred. It is not clear, however, if and when a pioneer enterprise is obliged to make the initial deduction.

MONTserrat

- Assets of the enterprise will, it appears, be written down during the tax holiday period in the normal manner laid down in the Income Tax Ordinance which provides not only for annual depreciation deductions but also for initial deduction of 20% for plant and machinery and 10% for commercial building in the year in which such expenditure is incurred. It is not clear, however, if and when a pioneer enterprise is obliged to make the initial deduction.

ST. KITTS-
NEVIS-ANGUILLA

- No depreciation deduction shall be made in computing the income of the tax holiday period. Depreciation deductions after the tax holiday period shall be computed as if the capital expenditure incurred up to the end of the tax holiday period were incurred on the first day following the end of the said period. Such computation, however, will not include initial allowance which is allowed at the rate of 20% of capital expenditure incurred on plant, machinery and industrial building.

ST. LUCIA

- Assets of the enterprise will, it appears, continue to be written down during the tax holiday period. After the tax holiday period, allowances for depreciation and initial allowance can be claimed on the written down value of the assets at the end of the last year of the tax holiday period. Initial allowance can be claimed at the rate of 10% for industrial building and 20% for plant and machinery.

ST. VINCENT

- Assets of the enterprise will, it appears, be written down during the tax holiday period in the normal manner laid down in the Income Tax Ordinance which provides not only for annual depreciation deductions but also for initial deduction of 20% for plant and machinery and 10% for commercial building in the year in which such expenditure is incurred. It is not clear, however, if and when a pioneer enterprise is obliged to make the initial deduction.

E - Carry-over of Losses of Tax
Holiday Period

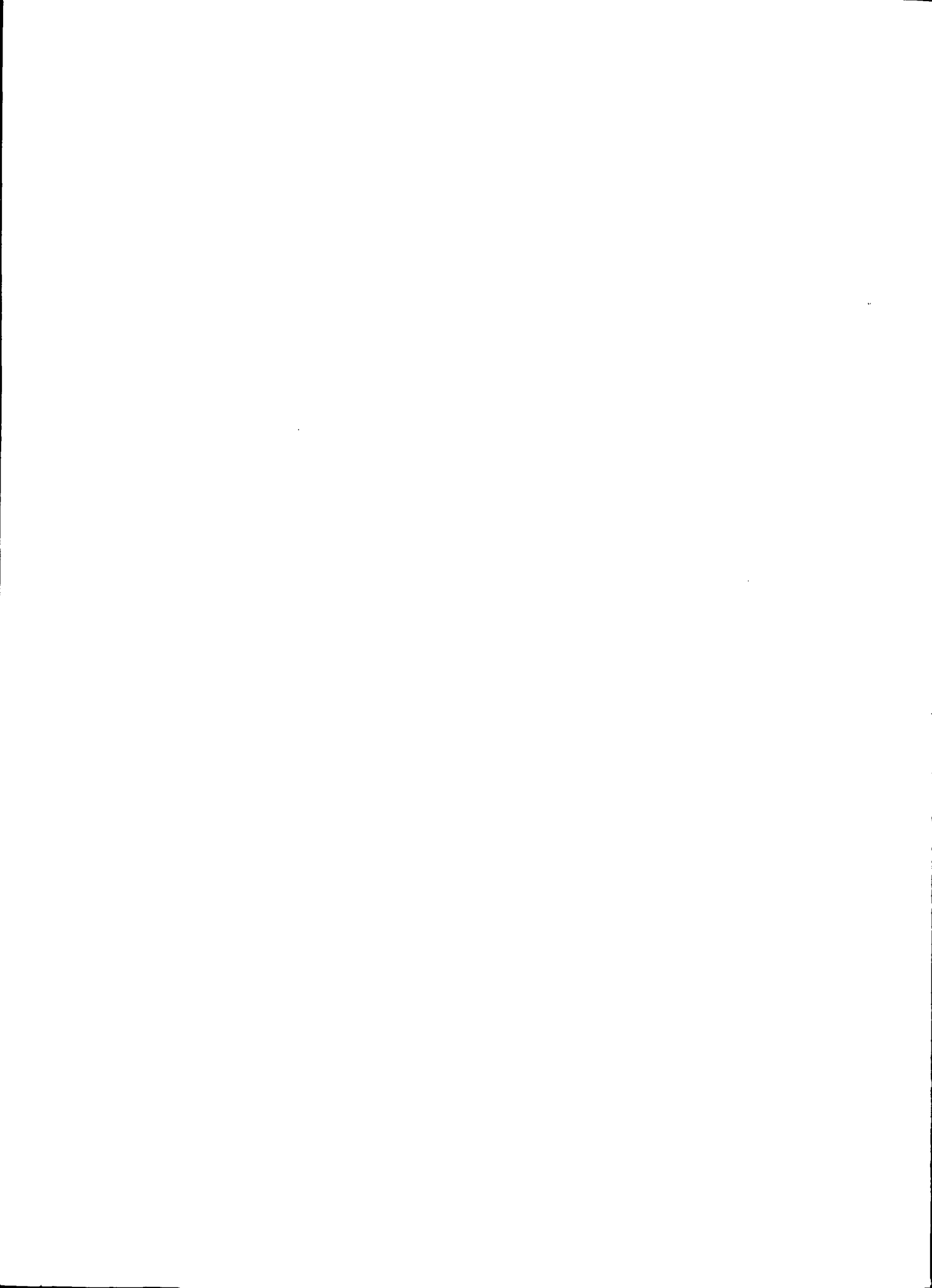
ANTIGUA

- No special provisions exist with this respect. It is not clear whether such losses can be set off against income from other sources during the same year or whether they can only be carried forward and set off against income from the same source. Ordinary losses not set off against income from other sources can be carried forward for the next six years in succession under the Income Tax Rules of the territory.

- DOMINICA - No special provisions exist with this respect. It can be assumed, therefore, that regular provisions of the Income Tax Ordinance will apply whereby losses not set off can be carried forward over the next five years provided the set-off in any of these years will not reduce the tax payable by more than 50%.
- GRENADA - Losses which have not been written off during the tax holiday period less any allowance made during the period with respect to depreciation of assets can be carried forward over six succeeding years. It is not clearly indicated if the losses thus carried forward can be set off against the income of the same enterprise only.
- MONTSERRAT - Losses which have not been written off during the tax holiday period less any allowance made during the tax holiday period with respect to depreciation of assets may be carried forward in the six succeeding years. It is not clearly indicated if the losses thus carried forward can be set off against the income of the same enterprise only.
- ST. KITTS-NEVIS-ANGUILLA - Any loss incurred during the tax holiday period can be set off against the income of the pioneer enterprise during the years immediately following the tax holiday period provided the set-off does not reduce the income tax payable in any of these years to less than 50%. It appears that no netting of losses is required against income of the pioneer enterprise during tax holiday period.
- ST. LUCIA - Losses which have not been written off during the tax holiday period less any allowance made during the tax holiday period with respect to depreciation of assets may be carried forward in the six succeeding years. It is not clearly indicated if the losses thus carried forward can be set off against the income of the same enterprise only.
- ST. VINCENT - No loss incurred during the tax holiday period can be set off against the income from other sources but the net loss of the whole of the tax holiday period can be carried forward after the period provided, inter alia, the set off does not reduce the income tax payable in the year of set off by more than 50%. It is not clearly indicated if the losses thus carried forward can be set off against the income of the same enterprise only.

COMPARATIVE TAX RATES ON COMPANY AND INDIVIDUAL
INCOMES IN EECM TERRITORIES

<u>Territory</u>	<u>Rate of tax on company profits</u>	<u>Rate of tax on individual incomes</u>	
		<u>Highest marginal rate of tax</u>	<u>Income level at which the highest rate starts applying (E.C. Dollars)</u>
Antigua	40%	65%	\$14,401
Dominica	37-1/2%	50%	\$10,001
Grenada	37-1/2%	65%	\$20,001
Montserrat	20%	20%	\$ 4,001
St. Kitts	40%	75%	\$18,501
St. Lucia	40%	65%	\$24,001
St. Vincent	40%	65%	\$15,001



CUSTOMS DUTY RELIEFS OFFERED IN EECM TERRITORIES
TO SPECIALLY APPROVED MANUFACTURING ENTERPRISES
UNDER THEIR RESPECTIVE INCENTIVE LEGISLATIONS

A - Duty-free Importation of Machinery,
Plant and Building Materials

ANTIGUA

- Every pioneer manufacturer is entitled to import these items free of customs duty for a period of five years commencing from the date of his approval:

provided these items are required for the construction, alteration or extension of the pioneer factory but not for effecting repairs thereto.

DOMINICA

- Every pioneer manufacturer is entitled to import free of customs duty these items for a period of five years commencing from the date of his approval. These items should be required for the construction, alteration, reconstruction or extension of the pioneer factory but not for effecting repairs thereto.

Under the Agreement entered into by the Government for the development of the CABRITS, this exemption is given with respect to all materials, supplies, equipment, vehicles, spare parts required for construction, extension, repair or maintenance. This exemption is valid for the duration of the Agreement i.e. thirty years from the day it was signed.

GRENADA

- Every approved enterprise is entitled to import these items free of customs duty from the date of the approval to the end of tax holiday period. These items should be required for construction, alteration, reconstruction or extension of the development premises or for their equipment but not for repairs or replacement.

The list of items specifically includes office equipment.

MONTSERRAT

- Every approved enterprise is entitled to import these items free of customs duty from the date of the approval to the end of tax holiday period. These items should be required for construction, alteration, reconstruction or extension of the development premises or for their equipment but not for repairs or replacement. The list of items specifically includes office equipment.

ST. KITTS-
NEVIS-ANGUILLA

- Every pioneer manufacturer is entitled to import free of customs duty these items for a period of five years commencing from the date of his approval. These items should be required for construction, alteration or extension of the pioneer factory but not for effecting repairs thereto.

It is assumed that with respect to approved enterprises set up in designated special development areas this concession will be available for a period of fifteen years from the date of approval.

ST. LUCIA

- Every approved enterprise is entitled to import these items free of customs duty from the date of the approval to the end of tax holiday period. These items should be required for construction, alteration, reconstruction or extension of the development premises or for their equipment but not for repairs or replacement. The list of items specifically includes office equipment.

ST. VINCENT

- Every pioneer manufacturer is entitled to import free of customs duty these items for a period of ten years commencing from the date of his approval. These items should be required for the construction, alteration or extension of the pioneer factory but not for effecting repairs thereto.

B - Duty-free Importation of Raw and Other Materials

ANTIGUA

- Incentive legislation does not provide for this concession.

DOMINICA

- The principal incentive legislation does not provide for this concession. But the Agreement on the CABRITS provides for duty-free importation of all raw and semi-processed materials required for manufacturing in the CABRITS. No distinction is made in the Agreement between manufacturing for export and that for sale within the territory.

GRENADA

- Incentive legislation does not provide for this concession.

MONTserrat

- Incentive legislation does not provide for this concession.

ST. KITTS-
NEVIS-ANGUILLA

- Incentive legislation does not provide for this concession.

- ST. LUCIA - Incentive legislation provides for this concession to be granted by a Resolution of the Legislature. Under a Resolution adopted in December 1968, duty-free importation of raw materials, chemicals, other ingredients and supplies and semi-manufactured and manufactured goods to be used for by approved enterprises for manufacturing, assembling and blending processes was sanctioned till December 31, 1975.
- ST. VINCENT - Incentive legislation does not provide for this concession.

