Private Sector Commission of Guyana
Tax Proposal

The following are proposals which the Private Sector Commission submits for the Minister's consideration and possible inclusion in the fiscal program for 2011 and subsequent years.

CORPORATE TAXATION

1. Harmonize the corporate tax rates at 30.0 per cent over five years, commencing in 2011.
2. Repeal all duty and taxes on business inputs.

PERSONAL INCOME TAXES

1. Adjust the current personal income tax threshold of G$420,000 by inflation for 2008 (6.4%), 2009 (3.6%), and 2010 (4.0%) to reflect a new income tax threshold of G$481,486.
2. Reintroduce the 20.0 percent income tax rate, applicable over income above G$481,486 through to G$681,486, or the first G$200,000 of income above G$481,486.
3. Reduce the current personal income tax rate of 33.33 per cent to 30.0 per cent for income above G$681,486.

TAXATION OF ALLOWANCES

1. **Leave Entitlement and leave passage -** Make the tax treatment of vacation pay uniform across private and public sectors, with no exceptions.
2. **Gratuity -** Define gratuity clearly in the Income Tax Act and set limits similar to those in the Public Sector Rules, and make all gratuities free of income tax.

BASIS FOR REFORM OF THE CORPORATE TAX STRUCTURE.

1. The current high rates of taxation on corporate income, by draining significant amounts of investable capital resources from businesses, severely undermine the private sector's ability to invest, expand and generate employment. Reducing corporate tax rates increases the capital base and facilitates the level of investment necessary for the growth of businesses and employment creation, a major objective of Government's macroeconomic policy framework.
2. The high rates of taxation on businesses make Guyana uncompetitive as a destination for foreign investment, another major source of employment creation. Available statistics from the World Bank show that *21 countries within the Region have an average top marginal corporate tax rate of 27.3 per cent.* While it is important corporate tax rates be reduced, it is critical that reductions in Guyana's corporate tax rates do not result in transfers of tax revenue to the home territories of foreign companies. In this regard, it should be noted that the proposed new corporate tax rate of 30.0 per cent is higher than the *average top corporate marginal tax rate of 26.4 per cent* for 25 out of approximately 30 countries (for which data is available) which are home to businesses (foreign direct investment) investing in Guyana. (Please refer to attached tables I and II).

Repeal of taxes on business inputs.

3. All duty and taxes on business inputs automatically increase costs and contribute to higher degrees of uncompetitiveness in Guyana's products, both at home and abroad. This undermines general growth prospects by limiting the revenue generating capacity for Guyana's businesses, and automatically impedes the natural course of capital formation, investment and employment creation necessary for securing the welfare of Guyanese employees. It is therefore highly recommended that these taxes be repealed.

BASIS FOR PROPOSALS ON PERSONAL INCOME TAX REFORMS.

1. The preservation of the threshold rate of G$420,000 from 2008 has resulted in some low-income employees below the threshold at the time of its implementation for whom the threshold provided income tax relief, being brought back into the tax net through wage increases to offset inflation since 2008. The real incomes of these individuals are now lower since the amount by which incomes have increased above the G$420,000 since 2008 are now taxed. These individuals in fact now worse off than when the threshold of G$420,000 was implemented. The income tax threshold therefore needs to be adjusted for inflation to continue providing relief to these low-income employees.
2. The introduction of the 20% income tax rate on the first G$200,000 above the new threshold (G$481,486) is in line with the provision of income tax relief to the lower-middle income bracket of employees. Harmonizing personal and corporate tax rates at 30.0 per cent also eliminates revenue losses that may accrue by taxpayers who seek exploit the differential rates to reduce their tax liability.
3. The reduction in the current income tax rate from 33.3 per cent to 30.0 per cent addresses Guyana's high personal income tax rate, when compared with countries close to Guyana.

Estimate of the impact of the proposed adjustments in the personal income tax structure on Revenues.

PAYE Revenue for the Year *	2011	Cumulative Reduction
	(billions of G$)	
Threshold at $420,000, rate of 33.3%	15.7	
Threshold at $481,486	14.3	-1.4
And: a rate of 20% over first $200,000 of chargeable income	12.8	-2.9
And: a rate of 30% on higher income	11.8	-3.9

* - Threshold of G$420,000 has been adjusted for inflation of 6.4 % (2008), 3.6% (2009) and 4.0% (2010)

The table above summarizes the impact of the proposed adjustments to personal income tax revenues in 2011, which has been estimated at G$15.7 billion. The cost to revenues from the proposals has been estimated at G$3.9 billion. The actual revenue loss is however more closely estimated at 75 per cent of the total reduction, or G$2.9 billion, since various taxes are collected when consumers spend the additional disposable income.

These revenue losses should however be offset by increased revenues that will accrue from increasing the tax administrative capacity to address under-reporting, and non-payment of taxes by many individual taxpayers/self-employed/businesses.

Table I

Highest marginal tax rate, corporate rate (%) - Selected Countries [1, 2]

	Country	2000	2009	Change
1	Argentina	35	35	**0**
2	Aruba		28	**28**
4	Barbados	40	25	**-15**
6	Bolivia	25	25	**0**
7	Brazil	37	34	**-3**
9	Chile	15	17	**2**
10	Colombia	35	33	**-2**
11	Costa Rica	30	30	**0**
12	Dominican Republic	25	25	**0**
13	Ecuador	25	25	**0**
14	Jamaica	33	33	**0**
15	Mexico	35	28	**-7**
16	Panama	37	30	**-7**
17	Paraguay	30	10	**-20**
18	Peru	30	30	**0**
19	Trinidad & Tobago	NA	25	
20	Uruguay	30	25	**-5**
21	Venezuela, R.B. de	34	34	**0**
	Average		**27.3**	

1 - Source: World Bank, except Trinidad & Tobago (Government Website).

2 - Highest marginal tax rate (corporate rate) is the highest rate shown on the schedule of tax rates applied to the taxable income of corporations.

NA - Not Available

Table II

Highest marginal tax rate, corporate rate (%)[1, 2] - Origin of Foreign Direct Investment in Guyana

#	Country name	2000	2009	Change
1	Australia	36	30	-6
2	Bahamas, The	0	0	0
3	Barbados	40	25	-15
4	Bolivia	25	25	0
5	Brazil	37	34	-3
6	Canada	45	33	-12
7	Chile	15	17	2
8	China	33	25	-8
9	Colombia	35	33	-2
10	Finland	29	26	-3
11	France	37	33	-4
12	Germany	52	29	-23
13	India	39	34	-5
14	Ireland	24	13	-11
15	Israel	36	26	-10
16	Jamaica	33	33	0
17	Malaysia	28	25	-3
18	Mexico	35	28	-7
19	Netherlands, The	35	26	-9
20	Philippines	32	30	-2
21	Switzerland	25	21	-4
22	Trinidad & Tobago	NA	25	
23	Turkey	33	20	-13
24	United Kingdom	30	28	-2
25	United States	40	40	0
26	Dominica			
27	Sri Lanka			
28	St. Kitts & Nevis			
29	St. Lucia			
30	Suriname			
	Average		**26.4**	

1 - Source: World Bank, except Trinidad & Tobago (Government Website).

2 - Highest marginal tax rate (corporate rate) is the highest rate shown on the schedule of tax rates applied to the taxable income of corporations.

NA - Not Available