
A Position Paper On

Reducing Sales Tax

On PCs & Laptops

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Executive Summary

i. Background

This deliverable was prepared as part of the contract dated March 23rd 2005 related to the preparation of a Position Paper on “Decreasing Sales Tax on PCs and Laptops”. This deliverable was submitted on May 16th 2005 within the timeframe listed in the Contract. It is listed for discussion with and subsequent approval by int@j’s Advocacy Committee which will trigger the final phase of the Contract. This deliverable is in conformity with the structure and issues of interest highlighted in:

- The RFP.
- The proposed addressing methodology outline.
- The Contract.

The purpose of the position paper is to advocate for decreasing Sales Tax on PC’s and laptops similar to the mobile phone example adopted by the government a few years ago. The position paper will:

- Demonstrate the effect of a higher PC penetration on Jordan and its population, community, economy, education, recruitment, competitiveness, and e-readiness.
- Devise a financial model which demonstrates expected (increased) volumes in local PC purchases, with the resulting sales tax revenue (on the new expected revenue) exceeding the amount from the 16% on the current (lower) total revenue.
- Demonstrate that decreasing the sales tax would discourage local computer assemblers from avoiding paying sales tax and custom duties which will increase Ministry of Finance revenue.
- Negate incentives for importing parts through black market channels (smuggling).
- Encourage end-users to purchase PCs (especially Notebooks) locally to benefit from the warranties extended by the local dealers.

ii. Introduction

Jordan being a small country with very limited natural resources derives its main economic strength from its skilled human resources and workforce. Jordan is referred to as one of the main sources for highly qualified workforce in the region. Central Bank of Jordan statistics for 2003 show that **31.2% of GDP in Jordan** was generated by money transfers from Jordanian expatriates during that year. Qualifying and training our **Jordanian Human Resource** has been a top priority for the past few years and will most likely continue its prominence on our national agenda for the foreseeable future.

This position paper aims to highlight the importance of highlighting the advantages expected from decreasing the current levels of Sales Tax on personal computers and laptops. Accessories, such as printers, were specifically excluded in order to further promote the paperless culture that has been advocated for quite some time. The argument for convincing the government to reduce the current levels of Sales Tax on PCs/Laptops can be based on the same logic used by the government itself in dealing with different enterprises or companies operating in Jordan in terms of Sales Tax reduction (or reimbursement) of all their **direct production inputs** such as raw materials, machinery, office equipment, furniture, employee training, and computers. This will not only prevent double taxation, it will also support the enterprise as well as reduce production costs making it more efficient and competitive.

An analogy between the **Jordanian Human Resource** and a productive manufacturing type of enterprise is also suggested. By convincing the government to treat the single **Jordanian Human Resource** a **mini productive enterprise**, a PC/Laptop can be logically labeled as **a direct production input for this enterprise**, which makes it essential to support the direct inputs (lower the cost of PCs/Laptops) in order to increase production (GDP in this case) enabling the this **productive enterprise** to become more efficient and consequently attain higher levels of production ultimately increasing the numbers of PCs/Laptops used by individuals positively impacting the levels of PC/Internet penetration and benefiting the country overall.

Advocating for direct or indirect tax reductions for a specific case or product can achieve the desired results provided that each case is support with convincing arguments and similar precedents. Two distinct cases with different approaches but similar end results immediately come to mind. **The first case** involved re-allocating Sales Tax on mobile phones, was convincingly argued by proponents as well as the sole GSM operator at that time. Sales Tax was reduced by partially re-allocating it from the handset to the monthly mobile services bill. The result was a significant surge in the number of mobile phone users in the country at the time when the average price of a mobile phone was close to the current average price of a decent PC. The re-allocation also changed the perception of GSM market size in the country overnight and accelerated the entry process of multiple GSM service providers to the market. Opponents that argued that by re-allocating the Sales Tax

to the monthly GSM bill would lower the average monthly bill and subsequently reduce government tax income were swiftly proven wrong.

The second and much more recent case involved the successful lobbying for a direct reduction of customs duties on motor vehicles by changing the basis of calculation from engine capacity to purchase price (which used to be the case years ago). The result although seemingly appears to favour US Dollar valued vehicles with large engines does make economic common sense. It will make vehicles with larger engines much more affordable than before thus more attractive to buyers which in turn will increase the government's average income from customs duties per vehicle. Side arguments included the higher fuel efficiency and better environmental friendliness of modern vehicles with large engines compared to ones with smaller engines

Reducing Sales Tax on PCs and Laptops would also produce some additional indirect benefits to specific business sub-sectors in terms of increased business activities, volumes, employment opportunities as well as government taxation income (mostly income tax) associated with such increases. While the detailed examination of such benefits and their effects of government income fall outside the scope of this study, they are listed as additional substantiating arguments to advocate the Sales Tax reduction case:

● E- Government:

The combination of PCs and the internet will likely become one of the most important and efficient channels of communications and information exchange between citizens and the government. An important pre-requisite for the success of Jordan's e-government program is based on the availability of more affordable PCs (by reducing Sales Tax) and Internet services. A side benefit to the increased use of the government portal will reduce spending on transportation.

● Internet Service Providers

An increase in PC penetration will generate demand for additional services demand from all ISPs. All ISPs currently operating in the country will benefit.

● ADSL Infrastructure Providers

A sizable increase in PC penetration will fuel a surge in ADSL infrastructure and services demand. At this point in time Jordan Telecom (JT) is the only such infrastructure provider in the country. Other players (fixed line and wireless services) will soon follow.

Internet Cafés & Games Arcades

The availability of PCs with more affordable prices will make new and up to date PCs more readily available in such businesses thus attracting more investments as well as customers. An increase in business revenues (subsequently government revenues) can be expected. Additional employment opportunities will be created.

In conclusion, this position paper will not advocate for a re-allocation of Sales Tax from PCs/Laptops towards Internet Service Providers, rather we believe a strong case exists and can be successfully argued for a direct reduction of Sales Tax which will result with multiple benefits to all stakeholders including an expected increase in government tax income due to the increased sales of PCs/Laptops.

1 Effects Of Higher PC Penetration

1.1 On Jordan's Population In General

Jordan's PC/Internet penetration is still below average among the lowest in the region. 21% of Jordanian households owned a PCs in 2003 in comparison to 16.4% in 2002 representing an increase of 4.8% within only one year (*Department Of Statistics - Jordan In Figures 2003*). This percentage is expected to grow even higher as more computer applications such as e-banking, e-learning, and e-government are introduced in various aspects of daily life in Jordan.

Table 1 PC Sales in the Middle East

	Units (In Thousands)	Sales Growth (2004-2008)
Saudi Arabia	3,750	11%
Egypt	2,700	16%
UAE	1,650	12%
Jordan	950	14%
Syria	900	15%
Lebanon	800	13%
Kuwait	750	13%

According to estimates by Madar Research, Jordan PC sales are expected to grow 14% within four years (*MADAR Research 2004*). This is based on natural growth estimates without the adoption of any national programs to increase PC/Internet penetration. In case such programs are implemented in parallel with the proposed reduction in the Sales Tax rate on PCs/Laptops, the growth rate in PC sales will certainly be much higher.

With the highly personalized use of household PCs, immediate targets would include buyers of a second or even a third PC for households. [Privacy and living space constraints naturally promote the Notebook when priced appropriately, as a viable alternative to desktop PCs for home use.](#) A total of (961,400) households exist in Jordan with average household size of (5.7) persons per family (*Department Of Statistics - Jordan in Figures 2003*). Notebooks are widely used for productive work or study as opposed to desktop PC's which are normally used by larger groups like government departments, private corporations and most households.

1.2 On the Community

In Jordan, any local community with ten or more children is eligible by law to have their own public school. Increasing PC/Internet penetration will positively impact the standard of living of all citizens, especially those living in rural areas. Raising the standard of living can be achieved by enabling this segment of Jordanian citizens/communities to enroll in the International market place through providing them with ICT facilities with reasonable prices. Eventually, most public services such as education, government and others will be delivered through some kind of e-infrastructure. This will encourage rural citizens to firmly establish themselves in their own communities and substantially reduce the destructive reverse migration effect (from rural to urban) witnessed over the past few years.

1.3 On the Economy

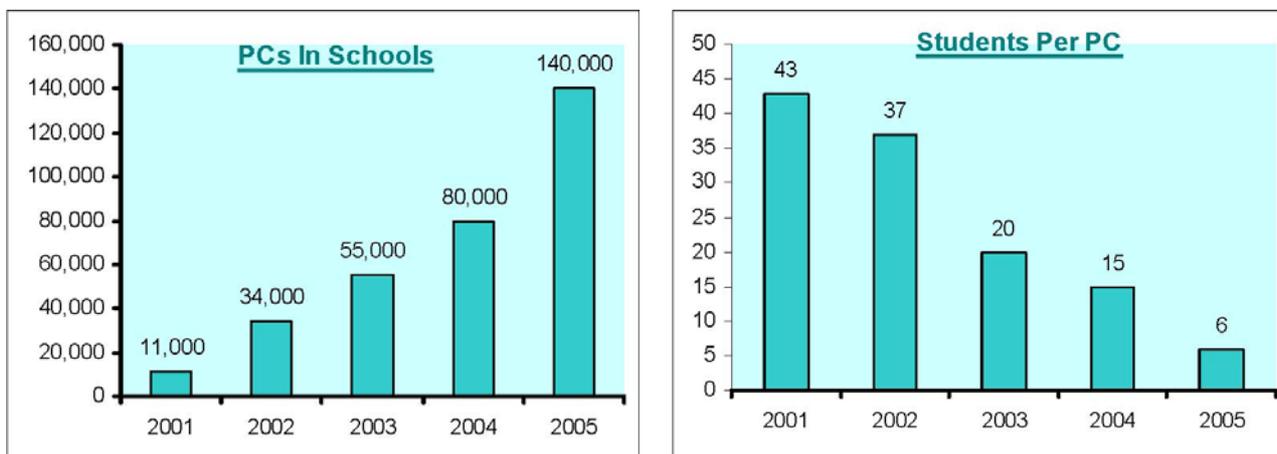
The effects of reducing the Sales Tax rate in absolute terms on public revenues were estimated based on a similar experience in the mobile phone handset market a few years ago, the financial model and simulation results are given in Section 2 of this paper. In general, the effects of higher PC/Internet penetration on the economy can be summarized as follows:

- Reducing the Sales Tax rate on PCs/Laptops will not adversely affect the government's internal revenues. Lost public revenues due to lower Sales Tax will be compensated by an increase in PC/Laptop sales as well as a widening of the Sales Tax umbrella to cover a wider base of service providers.
- An improvement of e-commerce business activities will take place, with all the side benefits of cashless trade such as controlled cash flows and clean source of funds.
- The e-Government program will be greatly enhanced when larger portions of the community are PC literate and connected to the internet. Substantial long terms savings on government transaction costs as well as a reduction in the size of the already bloated civil service can be expected.

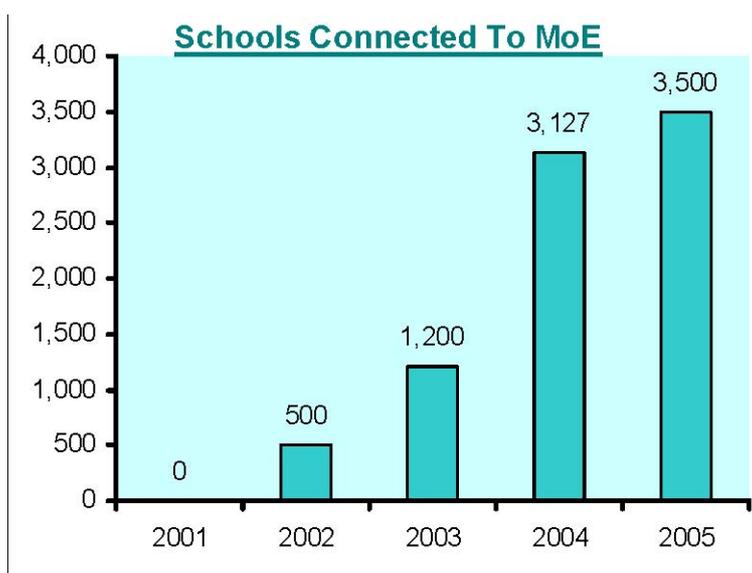
1.4 On Education

Education related of research, analysis and recommendations of the study commissioned by int@j in 2004 (*int@j / Dakessian Consulting - PC Penetration Study 2004*) on increasing PC/Internet penetration in Jordan were reviewed. The effects of higher PC penetration fuelled by a reduction in Sales Tax on PCs/Laptops will positively impact the success rate of Jordan Education Initiative (JEI) launched in June 2003 by the Ministry of Education.

The Initiative involves (96) *Discovery Schools* selected for implementation of a pilot project in Jordan. The project will test how ICT can enable new systems to be used and benefit schools. The Ministry is applying an integrated strategy, accelerating the deployment of curricula reform, teaching reform, and infrastructure impacting 50,000 students and 2,300 teachers.



Statistics published by the Ministry of Education show the growth of the numbers of PC's in public schools in Jordan giving an indication regarding the quality of computer education and its improvements. It is worthy to note that the number of students per PC declined dramatically over the years. As the number of schools connected to the Ministry's network and the internet increased. The impact on increasing PC/Internet penetration rates in Jordanians will much more noticeable over the years to come (*int@j /Dakessian Consulting - PC Penetration Study 2004*).



With eight public universities and around 10 private universities, the quality of higher education in Jordan is considered among the best on a regional scale.

Numbers of IT & Engineering students in higher education are near the global average, placing Jordan in good position among developing countries in science and technology capacity. Higher PC/Internet penetration by making PCs/Laptops more affordable will improve this capacity and further cement Jordan's advanced status in the region.

1.5 On Recruitment

The availability of advanced computer skills is expected to have a direct impact on reducing the unemployment rates. Computer skills are normally considered an asset when applying for most types of clerical jobs. A simple correlation between computer skills and unemployment rates was quickly established by a random survey of new job advertisements in one of our local news papers for just one day;

- 123 new jobs advertisements were found.
- 55 advertisements did require computer skills.
- 68 advertisements did not require computer skills.
- All clerical and academic jobs that did not require computer knowledge considered it an advantage.
- Most of the 68 ads for job vacancies were targeting the lower level jobs.
- The remaining 55 ads targeted higher level jobs.

The effects of higher PC/Internet penetration on recruitment can also be illustrated by noting that many of Jordanian businesses and government departments now consider basic computer skills to be an essential enhancement to the performance efficiency of their staff. The availability of employment seekers with computer skills will continue to have a positively effect on reducing the current 14.5% declared unemployment rate. (*Department Of Statistics - Jordan in Figures 2003*). ICDL courses and certificates offered in most education centers or institutions are increasing becoming a standard requirement as part of the qualifications of today's Jordanian work force.

Computer typed and prepared CVs are also becoming a new culture for job seekers in Jordan. A well-prepared and impressive CV that clearly demonstrates the time and the effort needed to prepare it is considered an advantage.

1.6 On Competitiveness

Advanced Computer skills will render Jordanians more **employable**. An attempt will be made to correlate between computer skills and unemployment rates. The

effects of early home based exposure to computers and the internet on the development of analytical skills will be investigated.

Advanced Computer skills will render Jordanians more **employable**. The effects of early home based exposure to computers and the internet in developing and improving the analytical skills of newly graduating students has taken added prominence recently. Such skills will certainly increase the chances of obtaining a good starting position in their careers as well as better chances for promotion.

It is notable that almost all entry level jobs favour basic computer skills and knowledge over practical experience.

1.7 On e-Readiness

McConnell's 2002 e-readiness assessment concluded that Jordan's national Information and Communications Technology (ICT) initiatives have the potential to establish the country as an ICT developmental model and position the country to build economic prosperity around technology. Although the report is now almost three years old, most of issues and recommendations are still valid.

The McConnell report identified four major areas of strength in the country: **leadership, public/private sector co-operation, the young, well-educated population and regulatory and legal reform**. The report also outlined a number of key areas in Jordan where more focus is required, including the **development of stronger Internet use, currently weak government ICT-related spending, a lack of strong tax incentives for people to purchase IT equipment, and the need to strengthen work on information security and intellectual property**. The report is based on five E-Readiness attributes.

- **Connectivity:** Are networks easy and affordable to access and to use?
- **E-Leadership:** Is E-Readiness a national priority?)
- **Information Security:** Is there a trusted infrastructure for the processing and storage of networked information?
- **Human Capital:** Are the right people available to support e-business?
- **E-Business Climate:** How easy is it to do e-business today?

Jordan's distinguishing advantages are summarized in the chart below, listed according to McConnell International's five attributes that measure E-Readiness. Challenges to Jordan's E-Readiness are addressed along with Jordan's actions to overcome these challenges. Issues pertaining to PC penetration which can affect e-readiness are highlighted:

Attribute	Distinguishing Advantages	Immediate Challenges	Actions to Address Challenges
Connectivity	<ul style="list-style-type: none"> - High quality ICT products and services available at increasingly affordable rates - Rapid development of community IT centers offering quality training - Wireless lines and services growing 	<ul style="list-style-type: none"> - Monopoly provider - Low Internet user penetration 	<ul style="list-style-type: none"> - IPO of Jordan Telecom in 2002 and opening of the market in 2005 - Strengthening of TRC - Expanding IT centers and wiring schools and post offices
E-Leadership	<ul style="list-style-type: none"> - His Majesty's clear vision and commitment to ICT development - The Minister of ICT's strong leadership and coordination - Active public-private partnerships 	<ul style="list-style-type: none"> - Lack of data on ICT national spending and development - Lack of a centralized e-government portal 	<ul style="list-style-type: none"> - NIC to become a data center - A government-wide portal, a VPN, and e-government fast track programs will be launched shortly
Information Security	<ul style="list-style-type: none"> - Strong legal framework protecting intellectual property and removal from the global piracy watch list - Legalized digital signatures 	<ul style="list-style-type: none"> - Greater enforcement and sensitizing on laws - PKI and certification authority not in place 	<ul style="list-style-type: none"> - Security and policy issues are high priorities this year for both the Minister of ICT and the REACH initiative
Human Capital	<ul style="list-style-type: none"> - Historically strong education system and young population - 8:1 student to computer ratio for grade 11 and 12 - Skilled workforce, even if living abroad, that is loyal to Jordan 	<ul style="list-style-type: none"> - Low percentage of Internet access in schools - Weak matching of higher education to market demands - Lack of e-learning and creativity promotion 	<ul style="list-style-type: none"> - "Connecting Jordanians" will provide broadband, improve curricula to meet demands, and promote e-learning and retraining opportunities - A new Children's Museum will help foster creativity
E-Business Climate	<ul style="list-style-type: none"> - REACH initiative has boldly led ICT export sector growth - Revision of laws, allowance of FDI, independence of TRC, and WTO membership enable investment and trade opportunities 	<ul style="list-style-type: none"> - Lack of electronic payment facilities - Low ICT adoption rate by businesses - Low country credit rating and access to capital and financing 	<ul style="list-style-type: none"> - Investment fund and credit bureau being established - Grants and technical training for local industry and SMEs - REACH's continued efforts to improve competitiveness of ICT industries

The report also outlines the immediate challenges related to Connectivity which are directly related to PC/Internet penetration levels in the country as follows:

- Low Internet user penetration rates and tele-density.
- Need more community access centers with greater capacity in terms of computer terminals, longer operational hours, and business technology related classes.
- Absence of subsidies or tax incentives to encourage employees and citizens to purchase a computer.

In conclusion, the adoption and implementation of national programs to increase PC/Internet penetration in parallel with the proposed reduction in the Sales Tax rate on PCs/Laptops, the growth rate in PC sales will address most of the challenges stated above.

2 The Financial Model

PC/Internet penetration in Jordan is still relatively low. Part of this low penetration rate can be attributed to the high cost of PCs in comparison to the average GDP per capita of US\$ 1,826.76 in 2003 (*Department Of Statistics - Jordan In Figures 2003*). The current Sales Tax rate of 16% is a considerable addition to PC costs in Jordan. Such costs already place the PC out of reach of the majority of citizens in the country when compared to average per capita income figures and the current average cost of a modern PC or around US\$ 700.00.

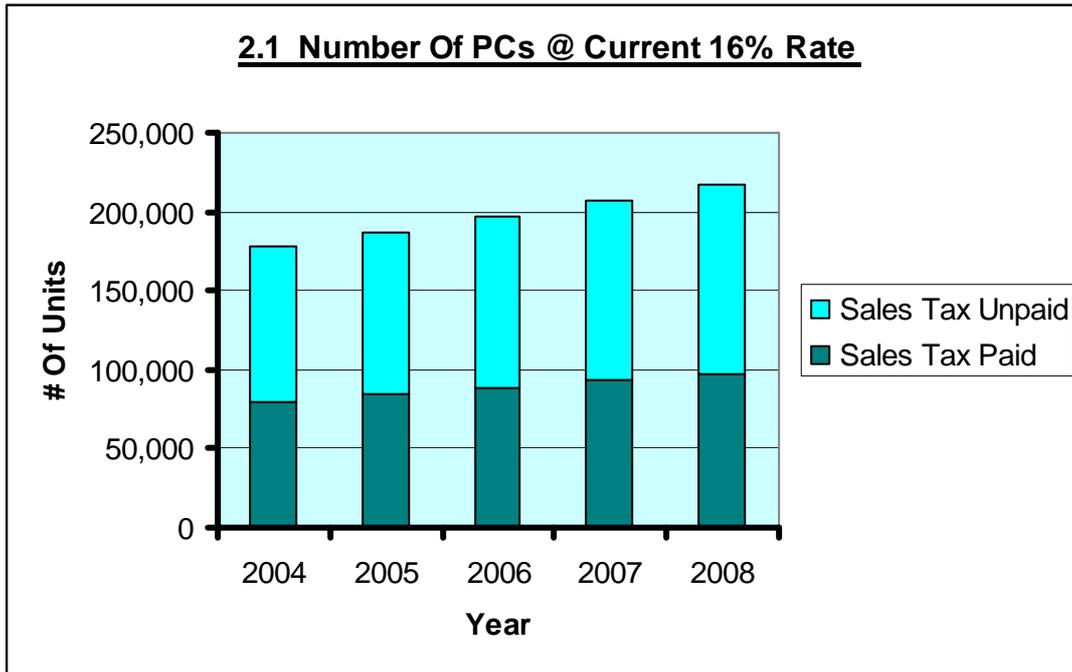
2.1 Current Sales Tax Revenues

Officially available Sales Tax figures for the industry were researched. In reality, the Ministry of Finance / Sales Tax Department does neither require nor keep detailed records for Sales Tax revenue generated by the importation and sales of PCs. Such revenues were estimated based on information collected from local companies. General Sales Tax contributed to 35% of the Government's domestic revenues for 2003 collecting a total of JD 595 million in revenues (*Ministry Of Finance-2003*). Details are shown in Table 1 below:

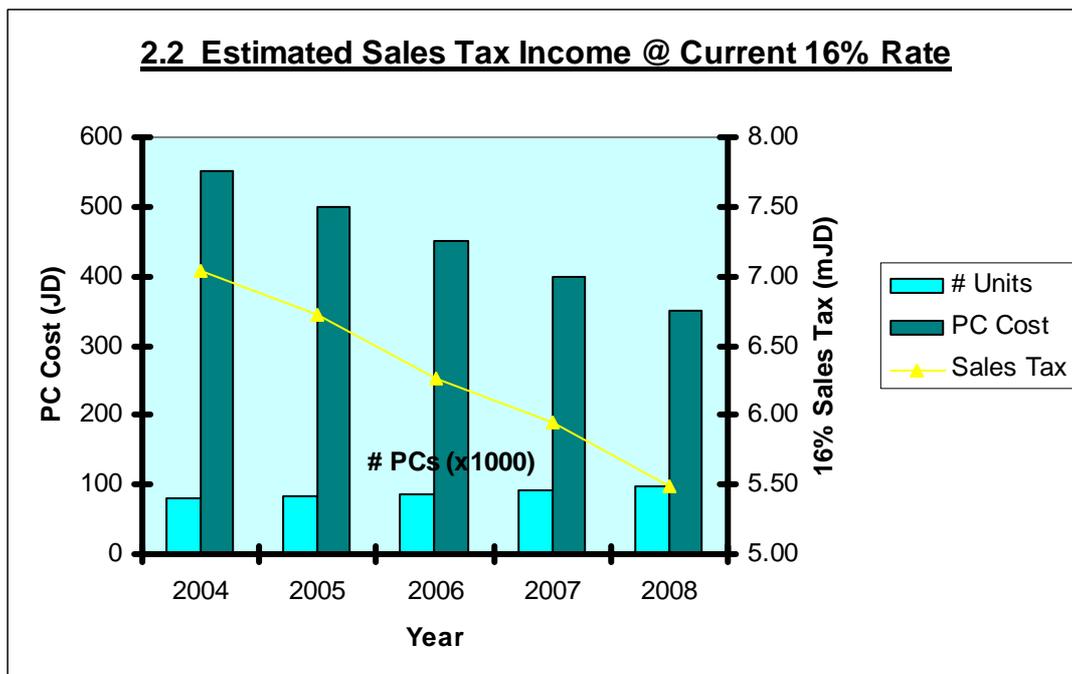
Table 1 Government Domestic Revenues 2003

	Revenue Category	%	JD (Millions)
1	General Sales Tax	35%	594.500
2	Fees & Licenses	17%	288.760
3	Other Non Tax Revenues	17%	288.760
4	Customs Duties	12%	203.800
5	Income Tax	11%	186.840
6	Other Tax Revenues	5%	85.000
7	Loan Repayments	3%	50.940
	Total	100 %	1698.600

The Economic & Social Commission for West Asia (ESCWA) figures (*int@j /Dakessian Consulting - PC Penetration Study 2004*) show that around 170,000 PCs were sold in Jordan in 2002. Figure 2.1 shows projections for PC sales for five years (2004-2008) based on the 4.8% annual increase in Jordanian households owing a PC (*Department Of Statistics - Jordan in Figures 2003*).



Import figures from local dealers and distributors also estimate that a significant portion (around 55%) of PCs/Laptops sold in Jordan are either imported on a personal basis (10%) or assembled and sold by entities not within the Sales Tax umbrella (45%) thus depriving the government of sizable Sales Tax income. Taking into consideration the downward trend of PC prices, Figure 2.2 shows that the government’s income from PC/Laptop Sales Tax based on the current rate of 16% is expected to vary between JD 7.0 million in 2004 down to JD 5.5 million in 2008.



2.2 Projected Increase in Sales Tax Revenues

The effects of decreasing Sales Tax on PCs/Laptops from the current 16% to a suggested 8% in absolute terms on public revenues was estimated and projected based on the following assumptions:

- The downward trend in PC prices is the same as above.
- The annual rate of increase in PC sales will double to 10%.
- PC sales not covered by Sales Tax will drop from 55% to 20%.

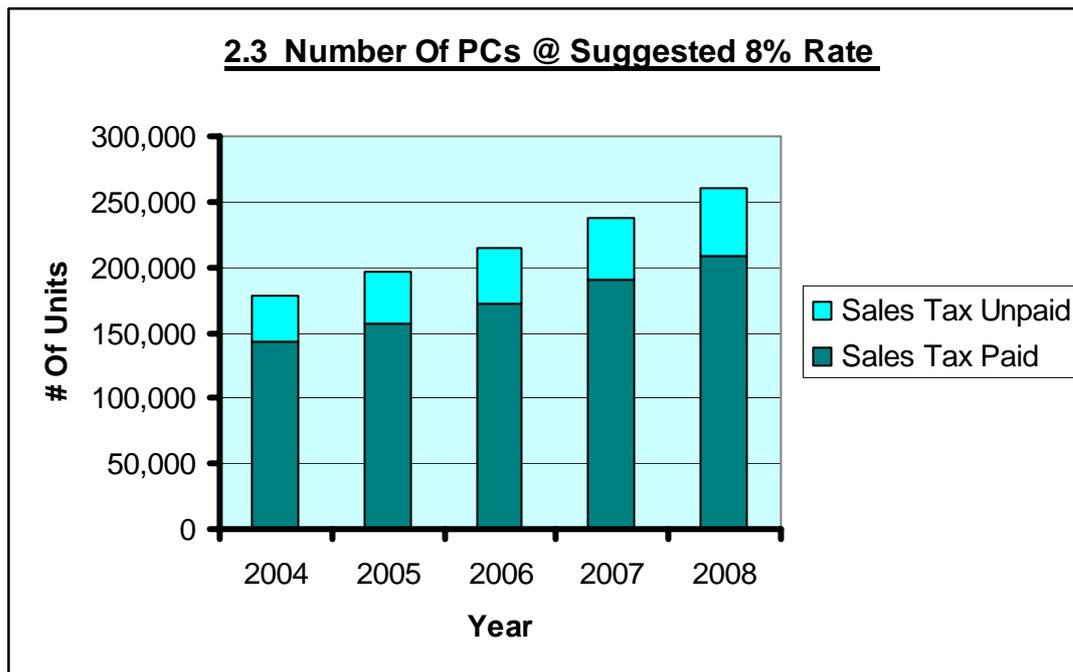
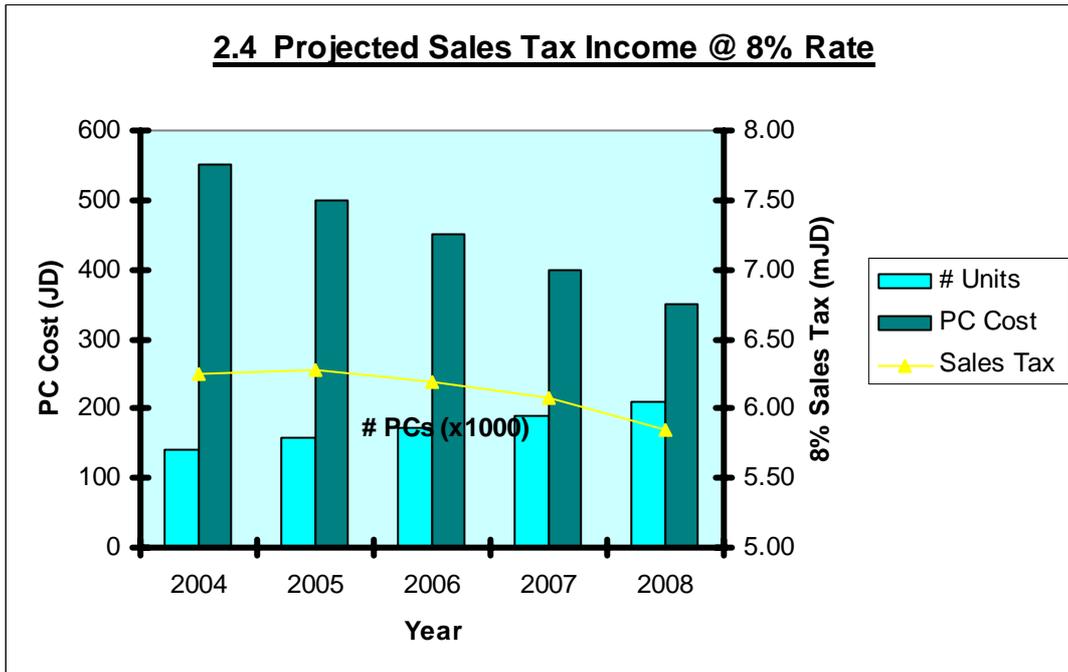


Figure 2.4 shows that the government’s income from PC/Laptop Sales Tax based on the suggested rate of 8% is expected to vary between JD 6.25 million in 2004 down to JD 5.85 million in 2008 in an almost flat curve. This provides a good financial argument in favour of decreasing the Sales Tax rate from 16% to 8%.



A second exercise on the effects of decreasing Sales Tax on PCs/Laptops from the current 16% to a suggested 4% in absolute terms on public revenues was carried out based on the same assumptions as above.

- The downward trend in PC prices is the same as above.
- The annual rate of increase in PC sales will rise to 15%.
- PC sales not covered by Sales Tax will drop from 55% to 10%.

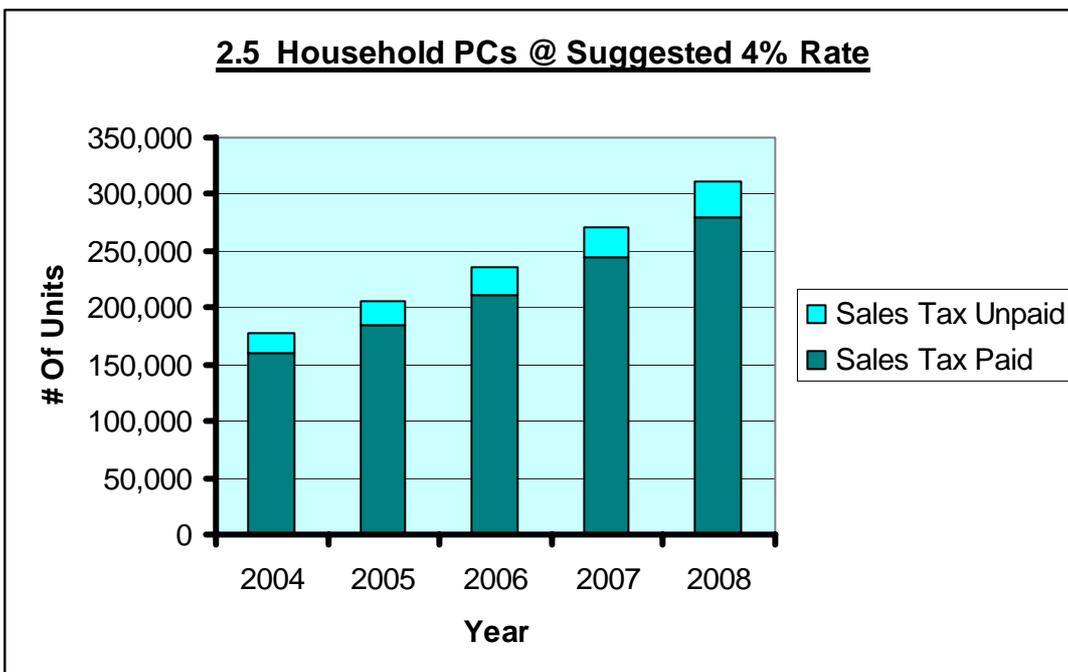
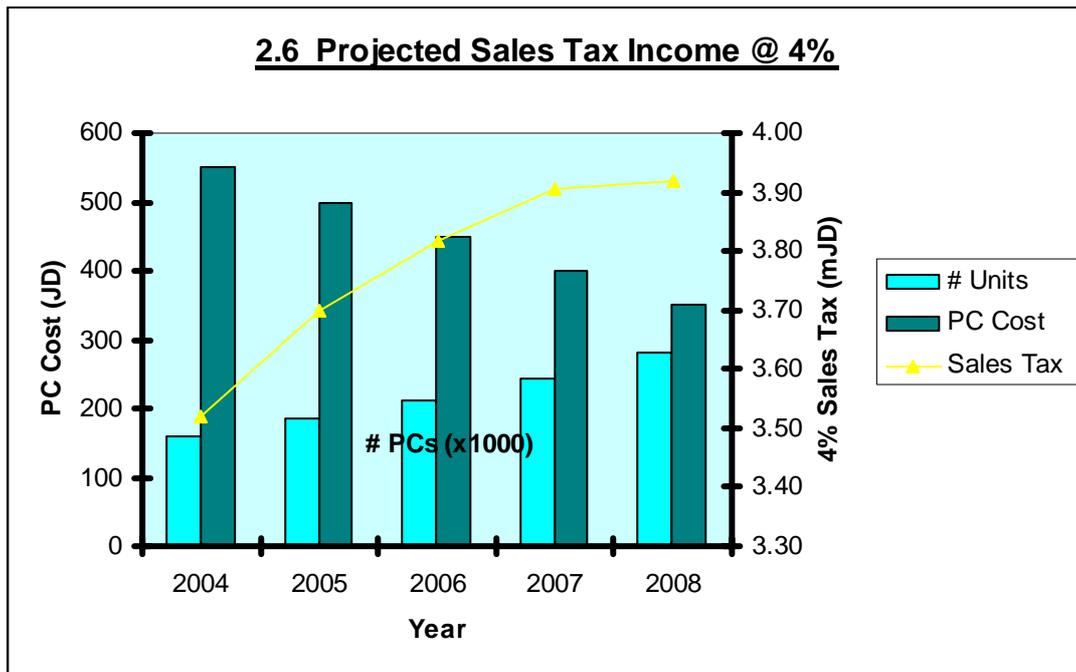


Figure 2.6 shows that the government’s income from PC/Laptop Sales Tax based on the suggested rate of 4% is expected to vary between JD 3.5 million in 2004 up to JD 4.0 million in 2008. Although not as strong as the 8% case, this upward trend in Sales Tax income could provide a financial argument in favour of decreasing the Sales Tax rate from 16% to 4% provided that the additional benefits and justifications highlighted in this paper are strongly put forward.



3 Effect On Local PC Assemblers

Industry sources estimate that there are between 150-200 local PC assemblers and an unknown number of freelance technicians working in the field without any form of Income Tax or Sales Tax registration, monitoring or quality control. PCs assembled by this category are sold without any warranty or even a serial number that can be tracked in case theft or even statistical purposes. Advocating for a decrease in Sales Tax on PCs will positively impact PC/Internet penetration rates producing more business opportunities (and income) for this category.

A gradual reduction of Sales Tax from 16% to 4% as suggested **will logically lower current PC prices pro rata with immediate effect**. Within a few years (4-6) a doubling of the number of PCs in Jordan can be achieved by this action alone assuming all other factors remain unchanged and no national programs to increase PC/Internet penetration are in place. Coupled with other similar actions running in parallel, the targeted doubling of PC/Internet penetration rates within the next three years as suggested by the PC Penetration Study of 2004 (*int@j/Dakessian Consulting - PC Penetration Study 2004*) could be achievable in an even shorter period of time.

The market share of branded PCs will increase due to the smaller price differential between branded and assembled PCs. This smaller differential in price that will eventually stabilize to around 4% will certainly encourage buyers to opt for high quality professionally manufactured PCs with full warranty and support services.

3.1 *Registration with Sales Tax Department*

3.1.1 Personal Computer Assemblers

The underlying assumption here is that most small scale local PC assembly operations in the country are not registered with the Sales Tax Department for a variety of reasons. This assumption has been largely confirmed by various industry sources. By gradually reducing the Sales Tax from 16% to 4% as suggested will discourage PC assemblers and freelancers from operating illegally outside the Sales Tax umbrella as the alleged cost benefits of tax evasion will no longer be worth the risk.

A gradual reduction Sales Tax on PCs/Laptops from 16% to 4% as suggested is expected to fuel a surge in the number of operators requesting registration

with the Sales Tax Department. This will in turn increase government Sales Tax revenues from so far untapped sources.

As an added benefit, local and foreign investors will be encouraged to invest in large scale PC assembly operations thus bringing more Direct Foreign Investments into the country particularly as PC demand in the local market increases. Competition between reputable assembles will also result in lowering of their PC prices even further making the average PC cost more attainable to wider cross section of Jordanian citizens.

3.1.2 Notebook PC Importers

Most importers of Notebook PCs are registered with the Sales Tax Department. Taking into consideration that **Notebook PCs are not of the type that can be assembled**, the effects of a reduction of Sales Tax on Notebook PC prices and the expected increase in government revenue is expected to be positive.

Notebook PCs are largely considered as productive tools. Most Notebook PCs are used only in either commercially productive or academic with a small percentage making its way to home users. Notebook PCs are normally manufactured to superior standards the regular PCs and have more quality put in the design and workmanship. Notebook PCs are usually provided with warranties extending for as long as 36 months in some cases. A reduction in Sales Tax will lower the Notebook PC prices make them more affordable. As an added benefit, since most Notebooks normally have a pre loaded original operating systems including in certain cases some applications software, intellectual property rights issues and software piracy problems are eased.

3.2 Testing And Inspection of Imports

3.2.1 Imported PCs & Notebooks

Reducing Sales Tax will encourage legal imports of PCs and Notebooks. Such imports are currently regulated by strict Testing & Inspection procedures. The effects of reducing Sales Tax on discouraging illegal imports of PCs and Notebooks will be positive noting that such illegal imports are not usually subject to Testing & Inspection by Jordan Institute of Standards and Metrology (JISM). Also worthy of note is the re-allocation of the current testing and inspection task from JISM to the Royal Scientific Society once JISM's contract with Bureau Veritas expires in 2006.

JISM in cooperation with Bureau Veritas (Daman Program) was mandated to test, inspect and certify compliance of a select category of imports into the country. The Daman Program applies to all types of IT equipment including PCs and peripherals. The certification process was initially slow and full of bureaucratic complications with a numerous documentation being requested from importers. As a result of strong lobbying by int@j's Advocacy Committee major bottlenecks were gradually smoothed out with the introduction of Green Lists that differentiate between items that require full testing (for first time imports) and items that require inspection only (items that have been previously tested). The recent inclusion of IT spare parts complicated matters even further. The IT sector still maintains a negative general view of the process and considers it as an additional unnecessary cost factor hindering the import cycle as well as a barrier to foreign investments in the country. The reduction of Sales Tax rate will go one step to partially justify the extra costs incurred by importers to cover testing and inspection fees imposed by the Daman Program.

3.2.1 Locally Assembled PCs

There are a large number (between 150- 200 by a recent estimate) of local PC assemblers and unknown number of computer technicians freelancing in the field with minimum or no regulatory monitoring or quality control. Most assembled PCs are produced and sold without warranties or a serial number that can be tracked in case of theft or loss. Most of these operators work outside the Sales Tax umbrella which makes it more difficult to estimate the actual numbers of locally assembled PCs. The financial and production quality effects of including local PC assemblers within the Sales Tax umbrella were investigated and the various aspects highlighted both from the assembler's and the purchaser's point of view:

- Locally assembled PCs logically cost less than the imported ones.
- The assembly industry developed a number of proficient computer technicians representing an asset of human resources in the field.
- Upgrades of locally assembled PCs cost less.
- After sales support for locally assembled PCs is virtually non-existent.
- Cost of the product drives and controls the market, not quality and durability when compared to imported PCs.
- Imported PCs are more environmentally friendly with strict EMI control requirements.

- An abundance of OEM software is usually preloaded on imported PCs or Notebooks. Most locally assembled PCs will not have original licensed software.
- Warranty periods on imported PCs/Notebooks are normally much longer than the locally assembled PCs (if such warranties exist at all).
- The Imported PCs/Notebooks are sold through well known financially viable distributors and corporations with a good track record of service to their customers; locally assembled PCs are produced by much smaller entities with doubtful prospects for long term financial viability.

Coupled with international manufacturers support, recent attempts by some local assemblers to initiate assembly lines have had a reasonable success. Substantial numbers of PCs are being assembled. Quality controls are still not up to international standards.

4 Grey Market Imports

4.1 Externally Purchased Notebooks

This relates mostly to Notebooks purchased from outside Jordan and hand carried into the country on return from business or vacation trips. Most Notebook buyers in this category are encouraged by lower prices outside the country and sometimes prefer slightly older models to reduce cost. The price differential between externally purchased Notebook PCs and those available from local dealerships is slightly higher than the current Sales Tax rate of 16%. In some cases, buyers of Notebook PCs abroad are eligible for immediate tax refunds when exiting the country of purchase.

The immediate effects of reducing Sales Tax on Notebooks will reduce the price differential to levels close to globally announced prices by manufacturers and retailers. This would encourage buyers to purchase them locally benefiting from after sales support and warranty services.

4.2 Used or Refurbished PCs

The reduction of Sales Tax on imported PCs and Notebooks will certainly provide a strong argument against a recent demand to allow the importation of used or refurbished PCs. This is an area that needs immediate attention to minimize or stop altogether the import of such units which can rapidly transform the country into a disused technology dumping ground.

While the fast changing pace of technology advancement is an equally strong and deterring argument, the need to reduce PC and Notebook prices (by reducing Sales Tax) is a real requirement **in order to avoid the dumping ground effect** and increase national PC/Internet penetration rates to levels comparable with more advanced markets.

5 Encourage Local Purchasing Of PCs

5.1 *Extended Warranties*

The various types of manufacturers' international warranties were reviewed. Special conditions for out of country warranty services were identified and their impact on productivity was found to be considerable. Issues such as slow response time, shipping related complications, inspection and re-inspection under the Daman Program as well as a possible duplication of Sales Tax (in case of incomplete documentation) are just a few examples.

By comparison, the local distributor/dealer assumes much if not all of the responsibility under the same international manufacturers' warranty. This has the desired effect of isolating the regular PC user from such issues and complications. Lower PC costs as a result of a direct reduction of Sales Tax also implies lower costs for warranty and support services which will in turn sustain or even enhance their market share at the expense of grey market imports.

Most manufacturers of branded PCs and Notebooks offer a three year global warranty services on their products. It is also possible to purchase extended warranties and theft insurance as well. Such services increase the cost of externally purchased PCs or Notebooks. Limitations imposed on some parts like mouse, keyboard or power supply increase the cost on the warranty. Global (out of country) warranty ensures that the PC or Notebook is free from defects in material and workmanship for a period of three (3) year from the date of purchase. Exemptions include damages or defects arising out of improper use or handling. Global warranty does not cover any shipping costs, customs duties or Sales Tax. The risk of Sales Tax duplication and currency exchange rate differentials is always a possibility.

All of the above provide strong arguments for promoting, supporting and encouraging users to purchase local professional quality extended warranty, after sales and support services. Lowering of PC/ Notebook costs by reducing Sales Tax will provide the necessary trigger for home users to seriously consider the advantages of such locally provided services.

5.2 *After Sales Support*

The various types of after sales and technical support services were reviewed. These included software support, configuration and troubleshooting services. The

unique types of problems faced by users of Notebook PCs were also taken into consideration.

The liability and obligations of a professional dealer's support services for locally purchased PCs/Notebooks are unmatched in terms of quality and response time when compared to similar services that can be requested for externally purchased ones. The existence of a fair technical support and warranty services contract is an important economic decision both for home and business computer users. PCs in household are quickly becoming an important fixture of everyday life with more family members using PCs for a multiple of reasons. Needless to say, after sales support for purchased hardware and bundled software is essential to ensure the smooth and trouble free operation of the Notebook or PC. Most regular PC/Notebook users will quickly confirm that even some simple configuration steps performed by a trained professional will make a considerable difference in PC performance, long term viability and efficiency. Human error, data recovery or power related problems are just a few examples to the type of support services that are covered. It should also be noted that professional service contracts are also subject to a 16% Sales Tax. This places an even greater financial burden of buyers of PCs for home use.

The reduction of Sales Tax on PCs and Notebooks will certainly encourage home users to secure service contracts for their units. Another added benefit of professional service contracts is a direct impact of raising user awareness of software IPR issues resulting in a significant reduction in software piracy.