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# Reducing Sales Tax On Laptops

## A Position Paper

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<b>Client</b>	<u>Information Technology Association</u>
<b>Project</b>	Position Paper Reduction Of Sales Tax On Laptops
<b>Document</b>	Deliverable (1) of Agreement
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<b>Version</b>	Final Draft V1.0
<b>Date</b>	November 2008

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## Executive Summary

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### *i. Background*

This deliverable was prepared as part of the agreement dated **September xx 2008** related to the preparation of a Position Paper on "Decreasing Sales Tax on Laptops". This deliverable was submitted on **October 14<sup>th</sup> 2008** within the timeframe stated in the Agreement. This deliverable is up for discussion with and subsequent approval by int@j's Investment & Regulations Committee and is in conformity with the structure and areas of interest as highlighted in:

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

The purpose of the Position Paper is to advocate for decreasing Sales Tax on Laptops. This Position Paper **complements earlier work done for int@j by Dakessian Consulting in 2005** which investigated and promoted the idea of reducing Sales Tax on Desktop PCs in general. The current position paper will:

- Demonstrate the effect of a higher Laptop 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 Laptop 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 Laptops 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. 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 advantages expected from decreasing the current levels of Sales Tax on laptops. Desktops were specifically excluded from this exercise because it will be difficult (if not impossible) to argue relevance with the Income & Sales Tax Department which knows full well the impracticality of illegally importing Desktops into the country (and bypassing Sales Tax) as opposed to the relative ease of bringing in Laptops.

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. One notable case, **reallocation of Sales Tax on GSM phones**, with similar end results immediately come to mind. This case 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.

Reducing Sales Tax on 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 bandwidth and services and this will benefit all ISPs currently operating in the country.

**ADSL Infrastructure Providers:** A sizable increase in PC penetration will fuel a further surge in the demand for ADSL infrastructure and services. At this point in time Jordan Telecom (JT) is still the only such fixed line infrastructure provider in the country. Other players (mostly wireless services) have recently entered the market and the possibility of a new player in the **fiber to the home** segment is likely to appear soon.

**Laptops as Knowledge Tools:** The goal of bridging the global digital divide separating wealthy and poor countries has now been further expanded to bridge the digital divide between the wealthy and the poor within an individual country. Most observers see technology in general (laptops in particular) as a way to improve education and increase knowledge in a community. Developing countries are known to favor **GSM phones as the device of choice as opposed to laptops**, simply because of the existing price differential (within the total cost of ownership bracket) between GSM handsets and laptops.

Whether GSM handsets can really be used as knowledge tools is somewhat arguable, the knowledge case is much more in favour of laptops. Inexpensive computing (cost plus access) can definitely lead to knowledge development which in turn leads to economic development. Encouraging more users to buy laptops by reducing cost is one way to widen their knowledge base and enable sustained social and economic development opportunities for those at the middle and bottom of the Jordan's economic pyramid.

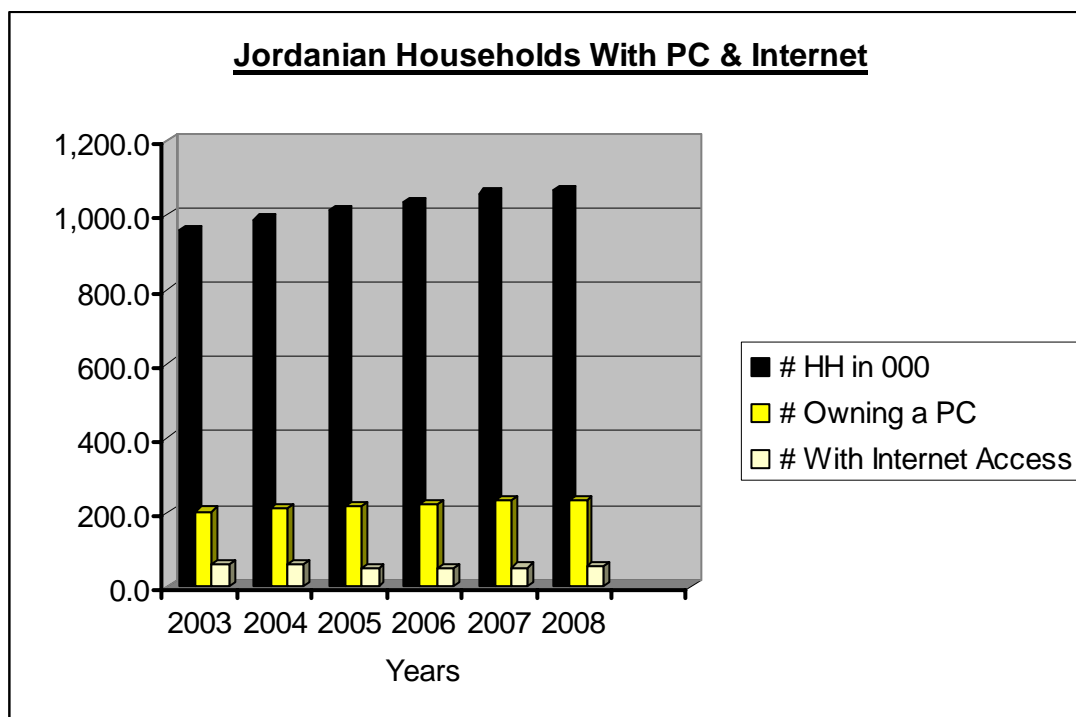
In conclusion, this position paper will not advocate for a re-allocation of Sales Tax from Laptops towards Internet Service Providers or any other business sector for that matter, rather we believe a strong case exists and can be successfully argued for either a **direct reduction of Sales Tax** or a **mechanism for offsetting Sales Tax payments with Income Tax deductions** for individuals.

Both scenarios are expected to result in multiple benefits to all stakeholders including a projected increase in government taxation income due to the increased sales of legally imported Laptops.

# 1 Impact Of Higher Laptop 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 (HH) owned PCs in 2003 in comparison to 16.4% in 2002 representing an increase of 4.8% within only one year. Also the percentage of households with internet access stood at a near constant 5.0% over the period 2003-2006. (*Department Of Statistics – Jordan in Figures 2003 - 2006*). While this percentage was expected to grow higher as more applications such as e-banking, e-learning, and e-government were slowly introduced in various aspects of daily life in Jordan, in reality the flat growth in internet access per household (excluding natural population growth) confirms the importance of the cost component (of a PC as well as internet access) within the average Jordanian households budget.



The natural growth estimates for household PC sales in Jordan (4.8% per year) will certainly edge higher with the adoption and implementation of national programs to increase PC/Internet penetration. The proposed reduction in the Sales Tax rate on Laptops will positively affect such growth estimates.

With the personalized use of household Laptops, immediate targets would include buyers of a second or even a third Laptop for households. Privacy and living space constraints naturally promote the Laptop when priced appropriately, as a viable alternative to desktop PCs for home use.

## 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 Sales Tax rate in absolute terms on public revenues were estimated based on the expected boost in sales. In general, the positive effects of higher PC/Internet penetration on the economy can be summarized as follows:

- Reducing the Sales Tax rate on Laptops will not adversely affect the government's internal revenues. Reduced public revenues due to a lower (or zero) Sales Tax will be compensated for by an increase in Laptop sales as well as a further 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, clean source of funds and more transparent income tax returns for individuals and businesses.
- E-Government services (once full implemented) will be greatly enhanced when larger portions of the community are computer literate and connected to the internet. Substantial long term 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 Laptops will positively impact the success rate of the two main education related initiatives currently underway:

### EDUCATION REFORM FOR KNOWLEDGE ECONOMY PROGRAM 2003-2007

ERFKE I is a five-year program of reform in governance and administration, institutional development, transformation of programs and practices, school construction and renovation, and early childhood education. Central to the reform is the desire to provide learning opportunities for students that promote the development of essential skills and competencies that are required for successful further study and work in the information society and knowledge economy.

### THE JORDAN EDUCATION INITIATIVE

The JEI is built upon a public-private partnership model for educational change and was established at the World Economic Forum in 2003. It has developed and piloted e-content curriculum in over 100 schools in Amman (the Discovery Schools), and has explored ICT-based initiatives in Life-long Learning and ICT entrepreneurship and industry development. The success of the JEI has been translated into similar projects around the world and the Global Education Initiative

With numerous public and private universities operating in Jordan, the quality of higher education in Jordan is considered among the best on a regional scale. The 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. While there are still some major concerns regarding the suitability of educational curricula to actual job market needs, higher PC/Internet penetration rates by making Laptops more affordable will improve this capacity and further cement Jordan's advanced status in the region.

On a parallel note, the government recently embarked on an initiative to supply affordable (in price & payment terms) Laptops to university students. Reducing the current Sales Tax on Laptops is not likely to affect this initiative, but will have a positive impact on broadening it to cover regular students enrolled in schools as well.

## 1.5 *On Recruitment*

The availability of advanced computer skills will have a direct impact on reducing unemployment rates. Computer skills are normally considered an asset when applying for most types of clerical 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 (if not ICDL) 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 14.0% declared unemployment rate. (*Department Of Statistics – Jordan in Figures 2006*). 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.

## 1.6 On Competitiveness

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 recent entry level jobs favour basic computer skills (if not ICDL) and knowledge over practical experience.

## 1.7 On e-Readiness

E-readiness background research work for the 2005 Sales Tax Position Paper (*Decreasing Sales Tax on PCs and Laptops - Dakessian Consulting 2005*) was solely based on McConnell's 2002 e-readiness assessment. McConnell concluded at that time 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 was almost three years old in 2005, most of issues and recommendations were still valid at that time.

The McConnell report was based on five E-Readiness attributes.

- Connectivity
- E-Leadership
- Information Security
- Human Capital
- E-Business Climate

For this position paper, the e-readiness background research focused on a more up to date and in our opinion more independent source (*Economist Intelligence Unit EIU – 2007 World e-readiness Rankings*). One reason for this selection is that the concept of e-readiness (as defined by McConnell in 2002) has changed over the years with existing factors taking prominence over others and new factors being added.

The EUI Report is based on the following e-readiness categories:

- Connectivity
- Business Environment
- Social And Cultural Environment
- Legal Environment
- Government Policy & Vision
- Consumer Business Adoption

The EIU 2007 rankings place Jordan at #52 (of 69 countries) with a score of 4.77 (out of 10.00). While Jordan's ranking has improved slightly from 2006 (#54, 4.22) it still falls behind the regional leaders United Arab Emirates (#33, 6.22) and Saudi Arabia (#46, 5.05).

Category	Metrics	Worldwide Leaders	Regional Leaders
<b>Connectivity</b>	<ul style="list-style-type: none"> <li>- Penetration</li> <li>- Affordability</li> </ul>	<ul style="list-style-type: none"> <li>- Switzerland</li> <li>- Hong Kong</li> <li>- USA</li> </ul>	<ul style="list-style-type: none"> <li>- Israel</li> <li>- UAE</li> <li>- South Africa</li> </ul>
<b>Business Environment</b>	<ul style="list-style-type: none"> <li>- Strength of economy</li> <li>- Political stability</li> <li>- Taxation</li> <li>- Competition policy</li> <li>- Labour market</li> <li>- Openness to investment</li> </ul>	<ul style="list-style-type: none"> <li>- Canada</li> <li>- Finland</li> <li>- Singapore</li> </ul>	<ul style="list-style-type: none"> <li>- Israel</li> <li>- UAE</li> <li>- South Africa</li> </ul>
<b>Social &amp; Cultural Environment</b>	<ul style="list-style-type: none"> <li>- Literacy</li> <li>- Basic education</li> <li>- e-literacy</li> </ul>	<ul style="list-style-type: none"> <li>- USA</li> <li>- Denmark</li> <li>- Australia</li> </ul>	<ul style="list-style-type: none"> <li>- Israel</li> <li>- Turkey</li> <li>- UAE</li> </ul>
<b>Legal Environment</b>	<ul style="list-style-type: none"> <li>- Internet commerce</li> <li>- Digital rights</li> <li>- IPR</li> <li>- Protection against abuse</li> <li>- Non competitive protection</li> </ul>	<ul style="list-style-type: none"> <li>- Hong Kong</li> <li>- Australia</li> <li>- USA</li> </ul>	<ul style="list-style-type: none"> <li>- Israel</li> <li>- South Africa</li> <li>- UAE</li> </ul>
<b>Government Policy &amp; Vision</b>	<ul style="list-style-type: none"> <li>- e-services</li> <li>- ICT spending</li> </ul>	<ul style="list-style-type: none"> <li>- Denmark</li> <li>- Sweden</li> <li>- Singapore</li> </ul>	<ul style="list-style-type: none"> <li>- Israel</li> <li>- South Africa</li> <li>- UAE</li> </ul>
<b>Consumer Business Adoption</b>	<ul style="list-style-type: none"> <li>- Adoption of e-commerce</li> <li>- Spending on ICT access</li> </ul>	<ul style="list-style-type: none"> <li>- USA</li> <li>- Hong Kong</li> <li>- Sweden</li> </ul>	<ul style="list-style-type: none"> <li>- Israel</li> <li>- South Africa</li> <li>- UAE</li> </ul>

It is worthy to note that, according to the EIU rankings, Jordan with an overall score of (4.77) is not placed even within the top regional rankings. Jordan's scores in the five main categories were as follows:

	Category	Weight	EIU Score
1	Connectivity	20%	3.40
2	Business Environment	15%	6.27
3	Social & Cultural Environment	15%	5.40
4	Legal Environment	10%	5.10
5	Government Policy & Vision	15%	5.25
6	Consumer Business Adoption	25%	4.15
		<b>100%</b>	

The immediate challenges facing Jordan based on the EIU global e-readiness ranking (connectivity, consumer business adoption) can be directly related to PC/Laptop/Internet penetration levels. They are:

- Low Internet user penetration rates.
- High relative cost of PCs and Laptops compared to GDP per capita.
- Absence of subsidies or indirect tax incentives to (balance out the high relative cost of PCs and Laptops) and encourage citizens to purchase a computer.

The adoption and implementation of national programs to increase PC/Internet penetration in parallel with the proposed reduction in the current 16% Sales Tax rate on Laptops, the growth rate in Laptop sales will address most of the challenges related to the improvement of Jordan's overall e-readiness ranking.

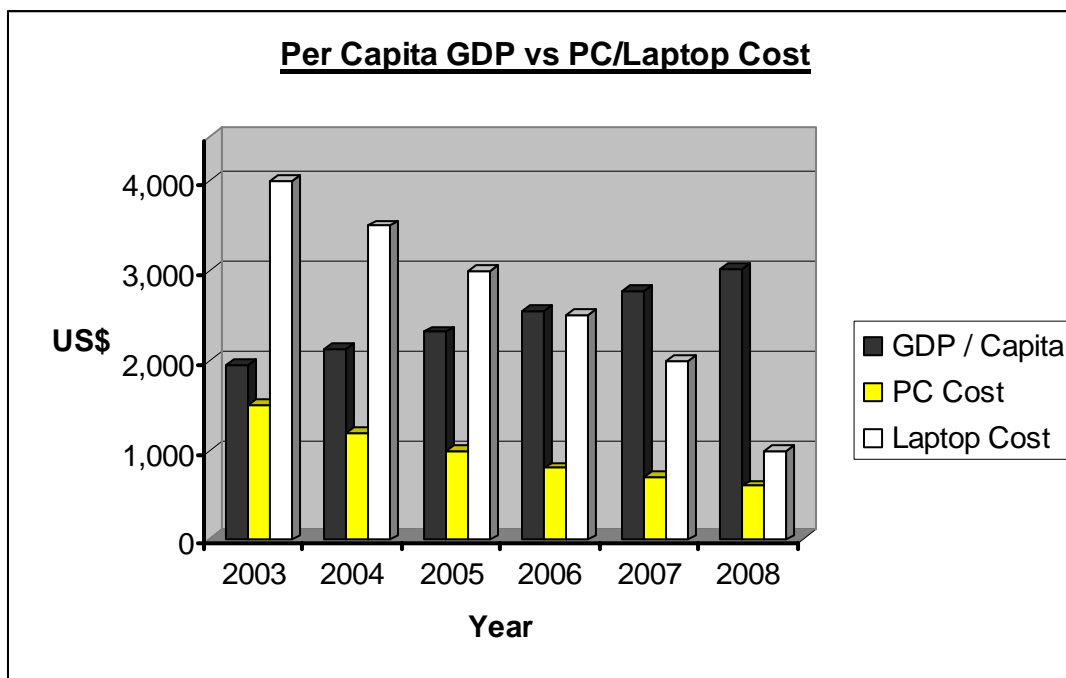
## 2 Direct Reduction Model

PC/Internet penetration in Jordan is still considered relatively low. Part of this low penetration rate can be attributed to the high cost of PCs and laptops in comparison to the average GDP per capita shown in [Table 1](#) (*Department Of Statistics – Jordan In Figures 2003 - 2006*).

### P2.T1 GDP Per Capita 2003 -2008

	Year	GDP Per Capita JD	GDP Per Capita US\$
1	2003	1,382.000	1,946.47
2	2004	1,510.000	2,126.76
3	2005	1,646.000	2,318.30
4	2006	1,805.000	2,542.25
5	2007 (estimated)	1,967.000	2,770.42
6	2008 (estimated)	2,144.000	3,019.71

### P2.F1 GDP Per Capita vs PC & Laptop Costs



The gap was narrowed somewhat after 2006 with the average PC and laptop prices declining over the years. The current Sales Tax rate of 16% is still a considerable addition to PC and laptop 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 around US\$ 600.00 whereas a laptop would cost around 40% more on average.

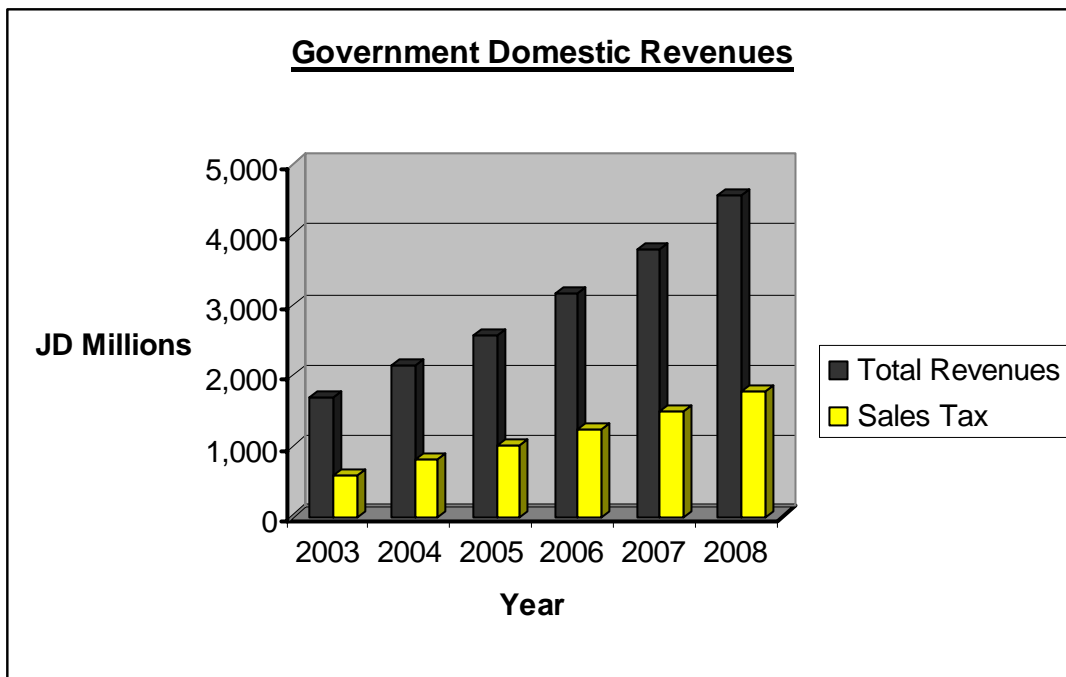
### 2.1 Current Sales Tax Revenues

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 or Laptops for that matter. Details are shown in Table 2 below:

#### P2.T2 Sales Tax Revenues 2003 -2008

	Year	% of Total	Total Revenues JD (Millions)	Sales Tax JD (Millions)
1	2003	35%	1,698.600	594.500
2	2004	39%	2,138.896	827.025
3	2005	40%	2,562.953	1,023.396
4	2006	39%	3,164.390	1,238.764
5	2007 (estimated)	40%	3,800.000	1,485.000
6	2008 (estimated)	40%	4,557.000	1,785.000
		<b>233.00%</b>		

#### P2.F2 Domestic Revenues vs. Sales Tax



General Sales Tax contributed to 35% of the Government's domestic revenues for 2003 collecting a total of JD 595 million. Sales Tax income steadily increased over the years at a near constant annual rate of 20% reaching JD 1,238 million in 2006. It is interesting to note that the Sales Tax income percentage with respect to Total Domestic Revenues was also flat at 40% (*Department of Statistics – Jordan in Numbers 2003 - 2006*). The numbers for 2007 and 2008 are estimates based on the growth rate of 20%.

The Economic & Social Commission for West Asia (ESCWA) figures (*int@j /Dakessian Consulting - PC Penetration Study 2004*) show that around 170,000 PCs (Laptops included) were sold in Jordan in 2002. While this figure is not easy to corroborate from independent sources, it seems to reflect the combined Jordanian PC and Laptop market size within a reasonable and acceptable accuracy.

### P2.T3 Desktop & Laptop Imports 2004 -2008

	Combined Imports	Desktops	Laptops	Total
1	2004	12941	4049	16990
2	2005	15238	5645	20883
3	2006	15135	9736	24871
4	2007	18131	14437	32568
5	2008 (up to August)	15882	12872	28754
	<b>Totals</b>	<b>77327</b>	<b>46739</b>	

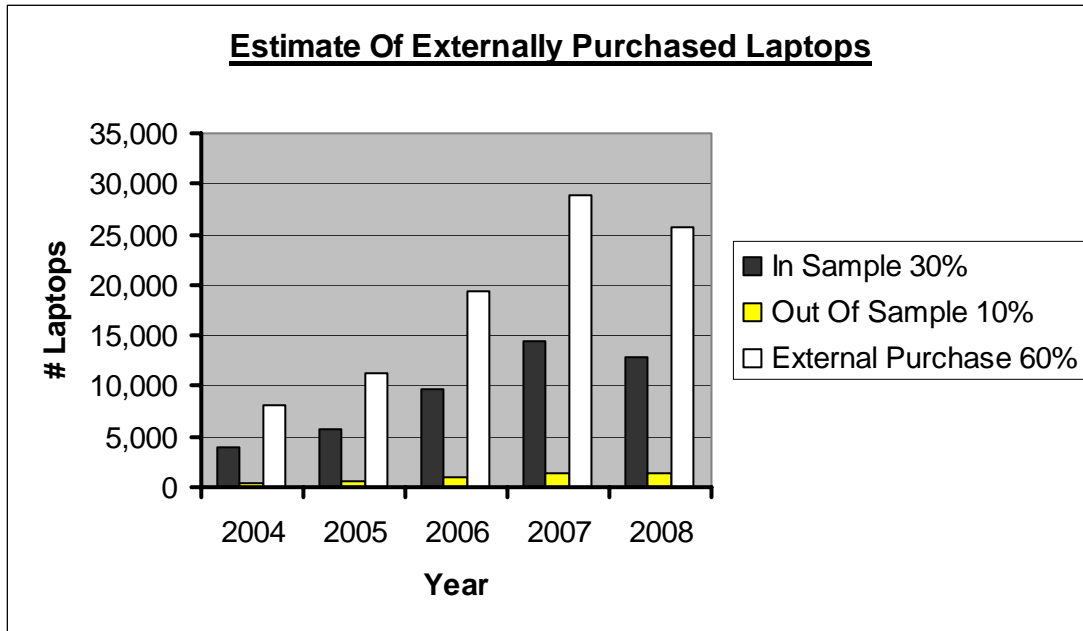
The more recent import figures (above) as collected directly from importers (details in Appendix III) indicate a clear shift from Desktops to Laptops starting in 2006. Industry sources indicate that the sample of polled importers represents around 30% of the actual market size. The remaining 70% is distributed among a multitude of small importers (for Desktops) AND as a large part direct purchasing (of Laptops) from outside Jordan.

### P2.T4 Desktop & Laptop Imports 2004 -2008

	Combined Imports	Desktops	Laptops	Total	% Of Laptops To Total
1	2004	12941	4049	16990	23.8 %
2	2005	15238	5645	20883	27.0 %
3	2006	15135	9736	24871	39.1 %
4	2007	18131	14437	32568	44.3 %
5	2008 (up to August)	15882	12872	28754	44.7 %
	<b>Totals</b>	<b>77327</b>	<b>46739</b>		

Refining the 30% / 70% assumption to include at least 10% additional Laptop numbers in each year purchased locally, the estimated number of externally purchased Laptops (falling outside the Sales Tax bracket) can be estimated at 60% with an acceptable degree of accuracy.

P2.F3 Laptops Purchased Outside Sales Tax



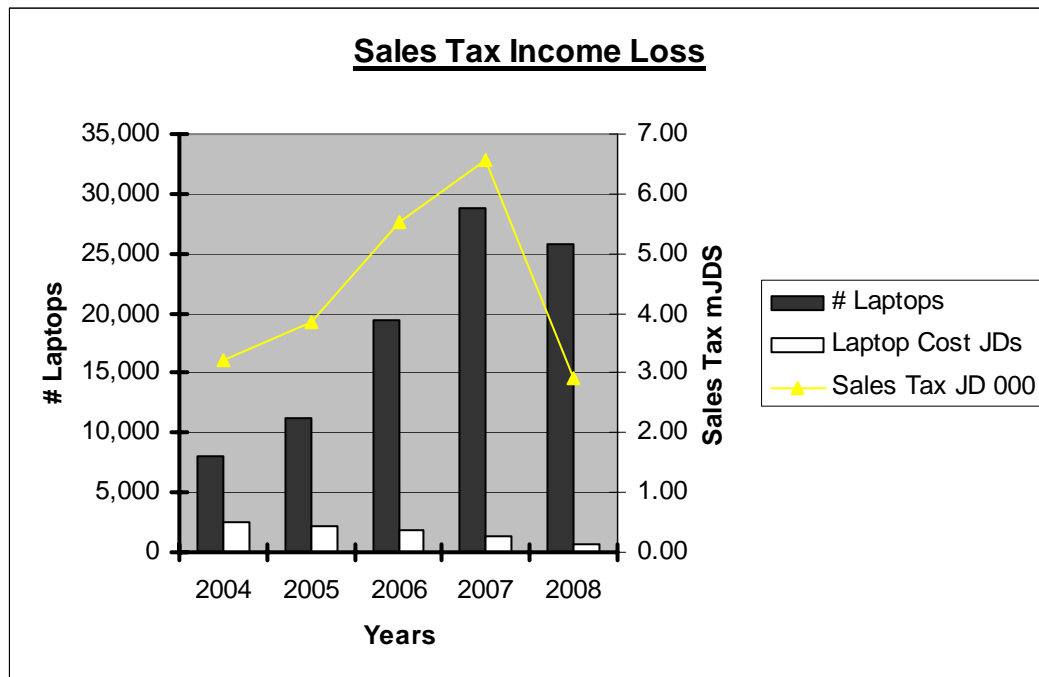
Loss of government Sales Tax income was calculated from the numbers of estimated externally purchased Laptops and the average Laptop cost over the years 2004 to 2008.

P2.T5 Lost Sales Tax Income 2004 -2008

		# Outside Sales Tax	Laptop Cost JDs	Sales Tax %	Sales Tax Lost Income JDs
1	2004	8098	2,485.000	16%	3,219,764
2	2005	11290	2,130.000	16%	3,847,632
3	2006	19472	1,775.000	16%	5,530,048
4	2007	28874	1,420.000	16%	6,560,172
5	2008 (up to August)	25774	710.000	16%	2,927,926
	<b>Totals</b>	<b>93508</b>			<b>22,085,542</b>

The analysis for the current Position paper for Jordan's Laptop market and will be based on two proposed Sales Tax brackets. The **first bracket of 8%** is in line with the current internet services case adopted by the government, and the **second bracket of 4%** is in line with the older GSM handset case that was argued successfully of a few years ago. The 0% Sales Tax option was not pursued as it was discarded from the start.

P2.F4 Loss Of Sales Tax Income



## 2.2 Projected Effect on Sales Tax Revenues

The effects of decreasing Sales Tax on Laptops from the current 16% to the first suggested bracket of 8% in absolute terms on public revenues was etsimated and projected for the period 2009 – 2012 based on the following assumptions:

- The downward trend in Laptop prices will continue but at a slower pace.
- The annual rate of increase in Laptop sales will double to 10%.
- The ongoing exodus trend from Desktops to Laptops will continue.
- Laptop sales not covered by Sales Tax will drop from 60% to 30%.

P2.T6 Projected Sales Tax Income @ 8% 2009 -2012

Year	Laptops	Average Cost JDs	Sales Tax %	Sales Tax Income JDs
1 2009	20719	600.000	8%	993,600
2 2010	23008	500.000	8%	923,200
3 2011	25309	400.000	8%	809,920
4 2012	27840	300.000	8%	668,160
<b>Totals</b>	<b>96876</b>			<b>3,394,880</b>

P2.F5 Projected Sales Tax Income @ 8% Rate

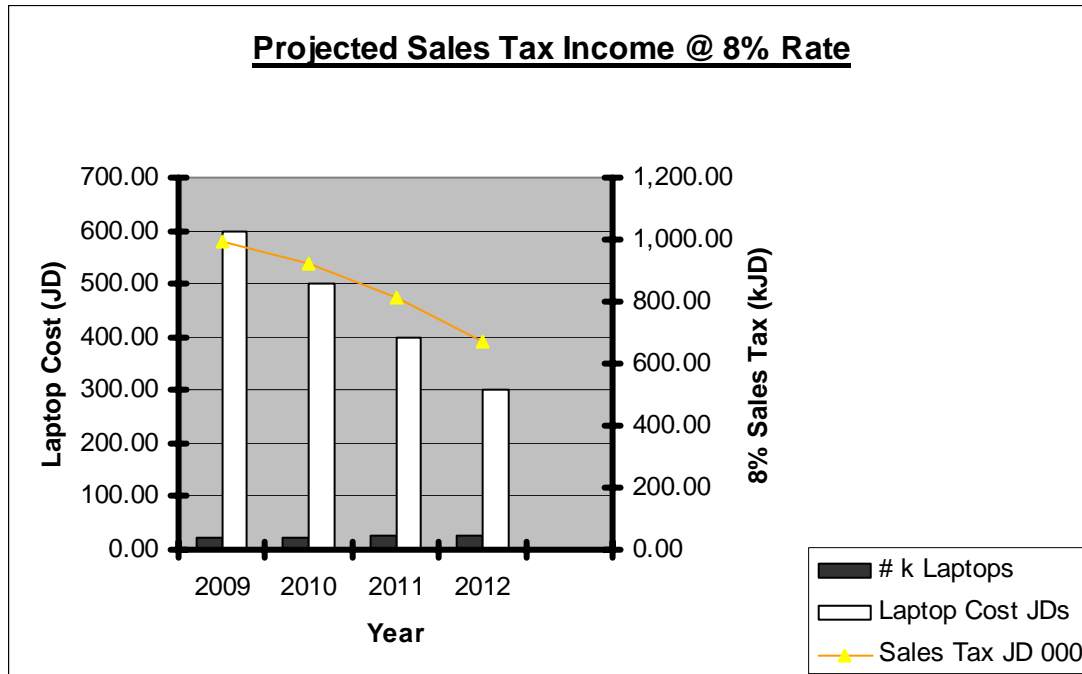


Table T6 shows that the government’s income from Laptop Sales Tax based on the suggested rate of 8% is expected to vary between JD993k in 2009 down to JD669k in 2012.

A second exercise on the effects of decreasing Sales Tax on Laptops from the current 16% to second suggested bracket 4% in absolute terms on public revenues was estimated and projected for the period 2009 – 2012 based on the following assumptions:

- The downward trend in Laptop prices will continue but a slower pace.
- The annual rate of increase in Laptop sales will double to 10%.
- The ongoing exodus trend from Desktops to Laptops will continue.
- Laptop sales not covered by Sales Tax will drop from 60% to 10%.

P2.T7 Projected Sales Tax Income @ 4% 2009 -2012

Year	Laptops	Average Cost JDs	Sales Tax %	Sales Tax Income JDs
1 2009	24135	600.000	4%	579,240
2 2010	26548	500.000	4%	530,960
3 2011	29203	400.000	4%	467,248
4 2012	32123	300.000	4%	385,476
<b>Totals</b>	<b>112009</b>			<b>1,962,924</b>

P2.F6 Projected Sales Tax Income @ 4% Rate

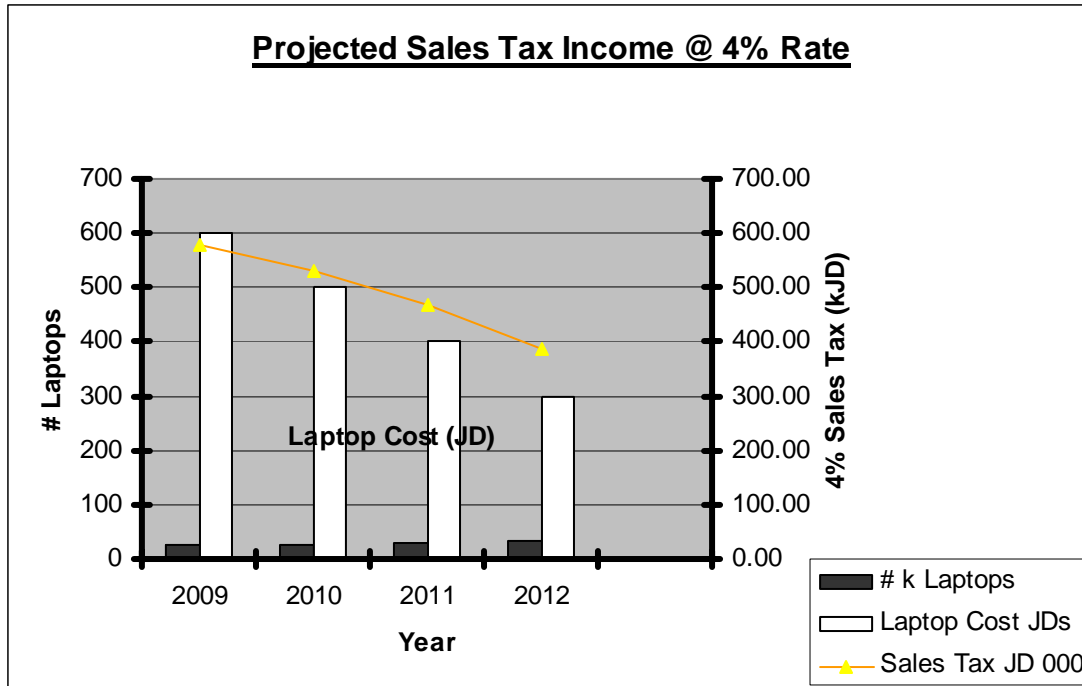


Table T7 shows that the government’s income from Laptop Sales Tax based on the suggested rate of 4% is expected to vary between JD579k in 2009 down to JD385k in 2012.

Finally, a comparison between the current status and projected income figures is given in Table T8.

P2.T8 Comparison 2009 -2012

Year	16% Rate JDs	8% Rate JDs	4% Rate JDs
1 2009	0	993,600	579,240
2 2010	0	923,200	530,960
3 2011	0	809,920	467,248
4 2012	0	668,160	385,476
<b>Totals</b>	<b>0</b>	<b>3,394,880</b>	<b>1,962,924</b>

## 3 Income Tax Offset Model

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The Income Tax Offset option is worth looking into as a viable alternative to the Direct Reduction Model. Although investigating the details and impact of an offset model falls outside the scope of this position paper, there seems to be sufficient interest in such a model which makes it worthwhile to research the numbers more thoroughly in a separate task.

### 3.1 *Basic Assumptions and Characteristics*

#### 3.1.1 Assumptions

The proposed offset model is based on the following assumptions:

- The offset model will apply only to Laptops purchased in Jordan.
- The offset model will apply only to Laptops purchased from importers or assemblers registered with the Income & Sales Tax Department.
- Laptops purchased by businesses that are registered with the Income & Sales Tax Department will not benefit from the offset model because they can recover such Sales Tax payments anyway.
- The majority of Laptops either imported legally, or bought outside the country are purchased for personal rather than business use.
- Buyers of Laptops for personal use are not registered with the Income & Sales Tax Department; therefore they consider the current 16% Sales Tax as an unnecessary and unrecoverable cost component.

#### 3.1.2 Characteristics

The offset model is expected to have the following main characteristics:

- There will be no actual decrease in the current 16% Sales Tax bracket on Laptops.
- The Sales Tax payment will be fully deductible from the Income Tax Returns of the "personal use purchaser" during tax year of purchase.

### 3.1.3 Impact

The impact of proposed offset model needs to be investigated in more detail. It is expected that such an impact will fall largely in line with that of the Direct Reduction Model, namely:

- Market share of branded officially imported Laptops will increase compared to grey market Laptop imports.
- Market share of Laptops in general will by far outshine market share of Desktops.
- Competition between reputable importers/assemblers will also result in lowering of their Laptop prices even further making the average Laptop cost more attainable to wider cross section of Jordanian citizens.

## 4 Effects of Increased Laptop Sales

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Industry sources estimated that in 2005 there were between 150-200 local Desktop assembly operations 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. Although accurate figures for local Laptop assembly operations are not readily available, the numbers are thought to be very small not exceeding one or two professionally registered operations.

In general, units assembled by such operations are usually sold without any warranty or even a serial number that can be tracked in case theft or statistical purposes. Parts and components (excluding CPUs) are usually imported using mostly grey market suppliers. Advocating for a decrease in Sales Tax on Laptops will positively impact PC/Internet penetration rates producing more business opportunities (and income) for this category provided that the proper registration formalities are in place.

A gradual reduction of Sales Tax from 16% as suggested **will logically lower current Laptop prices pro rata with immediate effect**. Within a few years (4-6) a doubling of the number of Laptops sold in Jordan can be achieved by this action alone assuming all other factors remain unchanged and no new 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 and sustainable for **further three year cycles** in the foreseeable future.

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

### 4.1 *Registration with Sales Tax Department*

#### 4.1.1 Local Laptop Assemblers

The underlying assumption here is that most small scale local 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% as suggested will discourage 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 Laptops from 16% 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 Laptop assembly operations thus bringing more Direct Foreign Investments into the country particularly as demand in the local market increases. Competition between reputable assemblers will also result in lowering of their prices even further making the average cost attainable to a wider cross section of Jordanian citizens.

#### 4.1.2 Laptop Importers

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

Laptops were originally considered as productivity enhancement tools and most were used either in commercially productive or academic sectors with a small percentage making its way to home users. This notion has changed drastically over the years with home or personal users preferring Laptops to Desktops for a variety of reasons.

Laptops are normally manufactured to superior standards the regular Desktops and have more quality put in the design and workmanship. Laptops are usually provided with warranties extending for as long as 36 months in some cases. A reduction in Sales Tax will lower the Laptop prices make them more affordable. As an added benefit, since most Laptops normally have a pre loaded (installed) original operating systems including in certain cases some applications software, intellectual property rights issues and software piracy problems are eased.

## 4.2 *Testing And Inspection*

### 4.2.1 Imported Laptops

Imports were initially regulated by strict Testing & Conformity Inspection procedures. The process was initially slow and full of bureaucratic complications with numerous documentations being requested from importers. The re-allocation of the testing and conformity inspection mandate from the Jordan Institute of Standards and Metrology (JISM) in collaboration with Bureau Veritas to the Royal Scientific Society (RSS) in 2006 eased the procedures considerably. This was mainly as a result of strong lobbying by int@j's Advocacy Committee. Bottlenecks were gradually smoothed out with the introduction of Green Lists that differentiate between items that required full testing (for first time imports) and items that

required inspection only (items that have been previously tested). The Green List has now been replaced with Gold and Silver ratings for importers whereby testing & inspection are not mandatory for Gold rated importers. The IT sector still maintains a negative general view of the process and considers it as an additional unnecessary cost factor. A number of fees are applicable regardless if testing actually takes place or not ( JISM Fees Per Import Declaration, Gold Rating Membership Annual Fees, Testing Fees for selected Items) 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 inspection program. It will also discourage illegal imports noting that such imports are not subject to Testing & Inspection by JISM in the first place.

#### 4.2.1 Locally Assembled Laptops

Although accurate figures for local Laptop assembly operations are not readily available, the numbers are thought to be very small not exceeding one or two professionally registered operations working within the Sales Tax umbrella. The numbers of locally assembled Laptops are still quite small and there are no testing & inspection requirements associated with the assembly and retail sales process.

The financial and production quality effects of including local Laptop assembly 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 Laptops 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.
- After sales support for locally assembled Laptops is very limited.
- Cost of the product drives and **controls the market**, not quality and durability when compared to imported Laptops.
- Laptops are **more environmentally friendly** with low power consumption and stricter EMI control requirements.
- An abundance of OEM software is usually preloaded on imported Laptops.
- Warranty periods on imported Laptops are normally much longer than the locally assembled ones (if such warranties exist at all).
- Imported Laptops are sold through well known financially viable distributors and corporations with a good track record of service to their customers. Coupled with international manufacturers support, recent attempts by some local assemblers to initiate assembly lines have had a reasonable success but quality controls are still not up to international standards.

### 4.3 *Externally Purchased Laptops*

This relates mostly to Laptops purchased from outside Jordan (usually from the USA or The Gulf countries) and hand carried into the country on return from business or vacation trips. Most Laptop 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 countries, buyers of Laptops are eligible for immediate tax refunds when exiting the country of purchase. The immediate effects of reducing Sales Tax on Laptops 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.

### 4.4 *Used or Refurbished Laptops*

The reduction of Sales Tax on Laptops will certainly provide a strong argument against a recent demand to allow the importation of used or refurbished units. 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.

### 4.5 *Extended Manufacturers Warranties*

The various types of manufacturers' international warranties include some special conditions for out of country warranty services. These were identified and their impact on productivity and turn around time was found to be considerable. Issues such as slow response time, export shipping related complications, inspection and re-inspection upon re-importation 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 Laptop user from such issues and complications. Lower Laptop costs as a result of a direct or indirect 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 Desktops or grey market imports.

Most manufacturers of branded Laptops 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 Laptops. Limitations imposed on some parts like the screen or power supply increase the cost on the warranty. Global (out of country) warranty ensures that the Laptop 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 Laptop costs by reducing Sales Tax will provide the necessary trigger for home users to seriously consider the advantages of such locally provided services.

#### *4.6 After Sales Support*

The various types of after sales and technical support services offered by local distributors include software support, hardware configuration, system tuning and troubleshooting services. Laptop users also face unique types of problems as opposed to Desktop users especially in issues related to troubleshooting, flexibility of repair and on the spot availability of replacement parts.

The liability and obligations of a professional distributor's support services for locally purchased Laptops 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. Laptops in households are quickly becoming an important fixture of everyday life with more family members using Laptops 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 Laptop. Most regular Laptop users will quickly confirm that even some simple configuration steps performed by a trained professional will make a considerable difference in 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 Laptops for home use.

The reduction of Sales Tax on Laptops 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.

## Appendix I – The 2005 Financial Model

*The first Position Paper on “Decreasing Sales Tax on PCs and Laptops” was prepared by Dakessian Consulting in 2005. The financial model for the 2005 position paper applied to both desktop PCs and laptops. The model is listed here to provide insight to earlier work on the same subject, some background to the research that was undertaken at that time as well as the projections in Sales Tax income levels that were extrapolated from the results. The model should be read within the context of data available in 2005.*

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.

### A.1 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 T1 below:

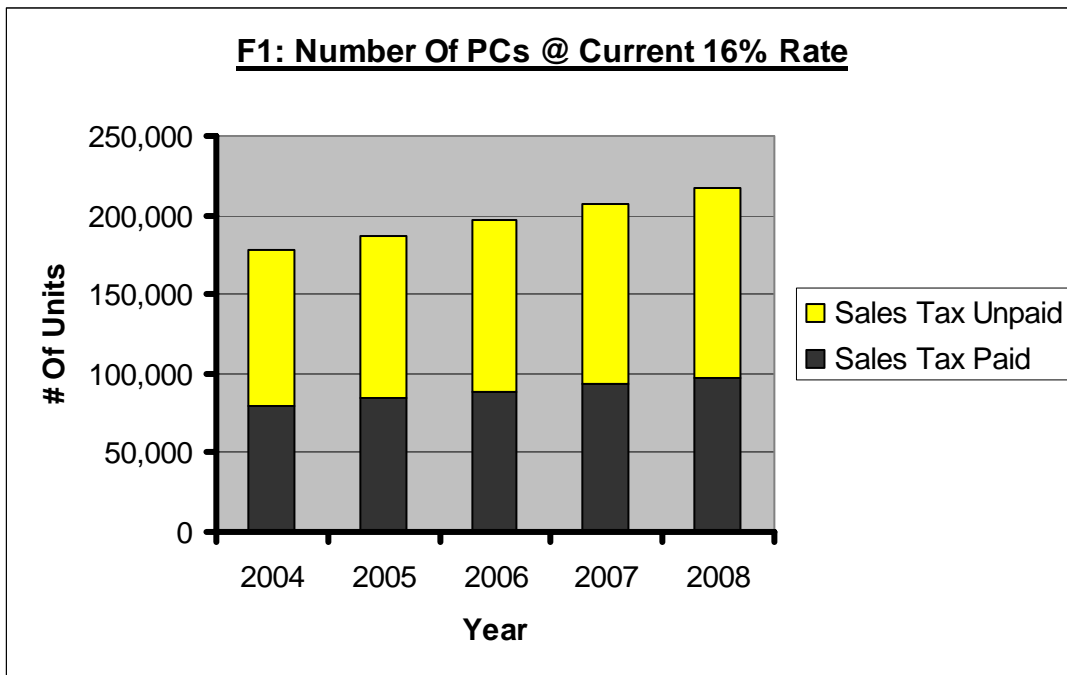
#### A1.T1 Government Domestic Revenues 2003

	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
	<b>Total 2003</b>	<b>100.00%</b>	<b>1698.600</b>

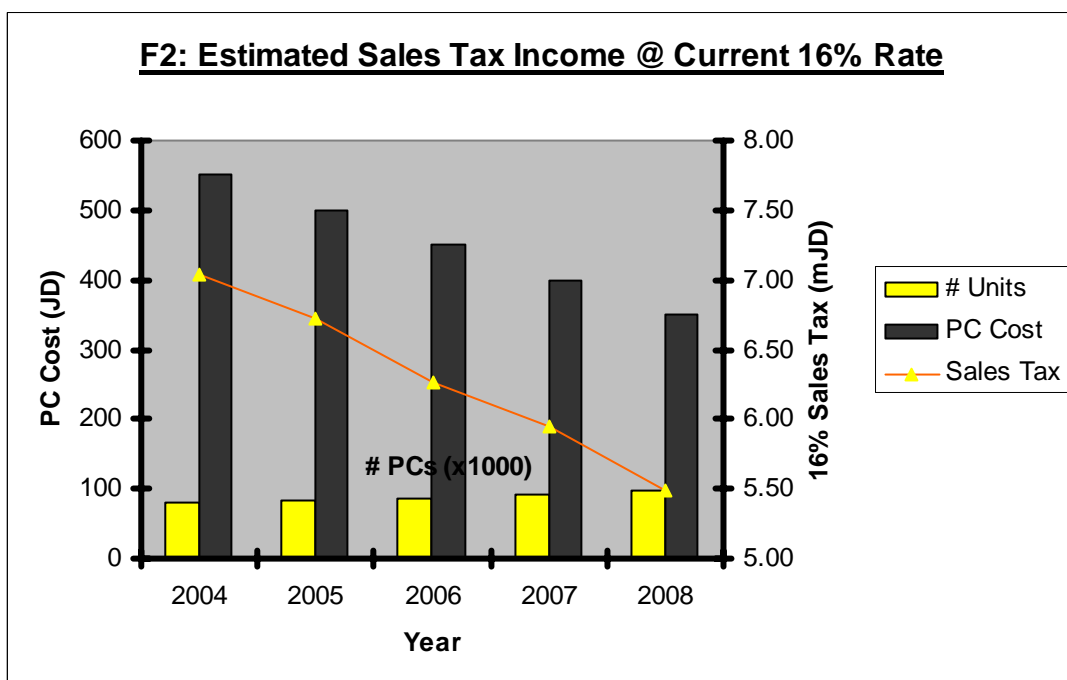
The Economic & Social Commission for West Asia (ESCWA) figures (*int@j /Dakessian Consulting - PC Penetration Study 2004*) show that around 170,000 PCs were sold in Jordan in 2002.

Figure F1 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*).

A1.F1 Number of PCs @ Current 16% Rate



A1.F2 Estimated Sales Tax Income @ Current 16% Rate



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 F2 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.

### A.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%.

#### A1.F3 Number of PCs @ Suggested 8% Rate

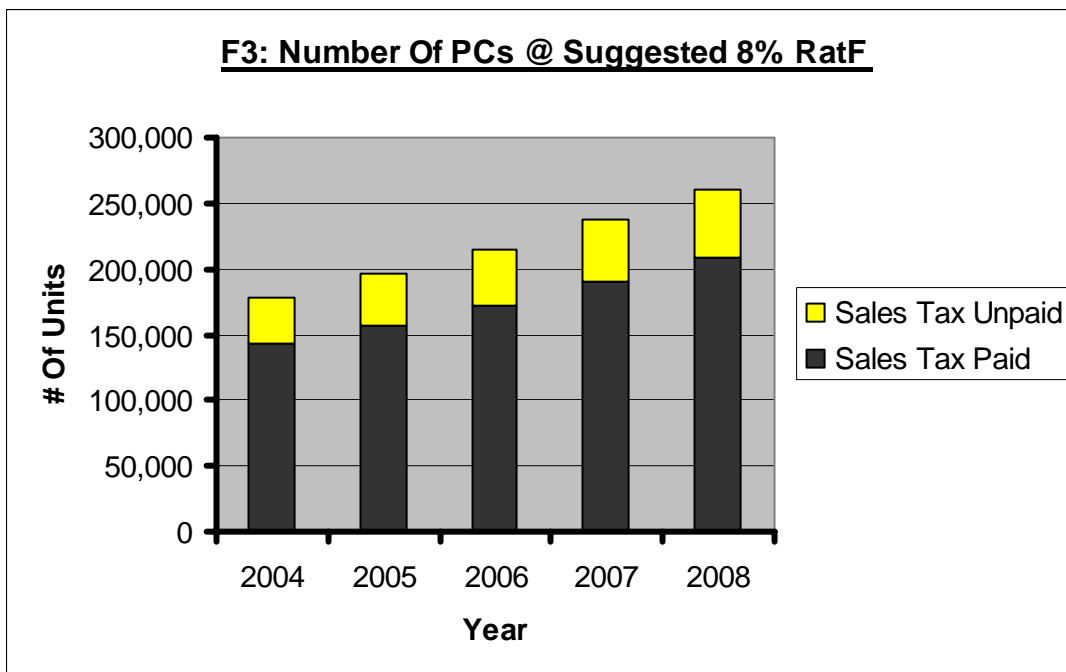
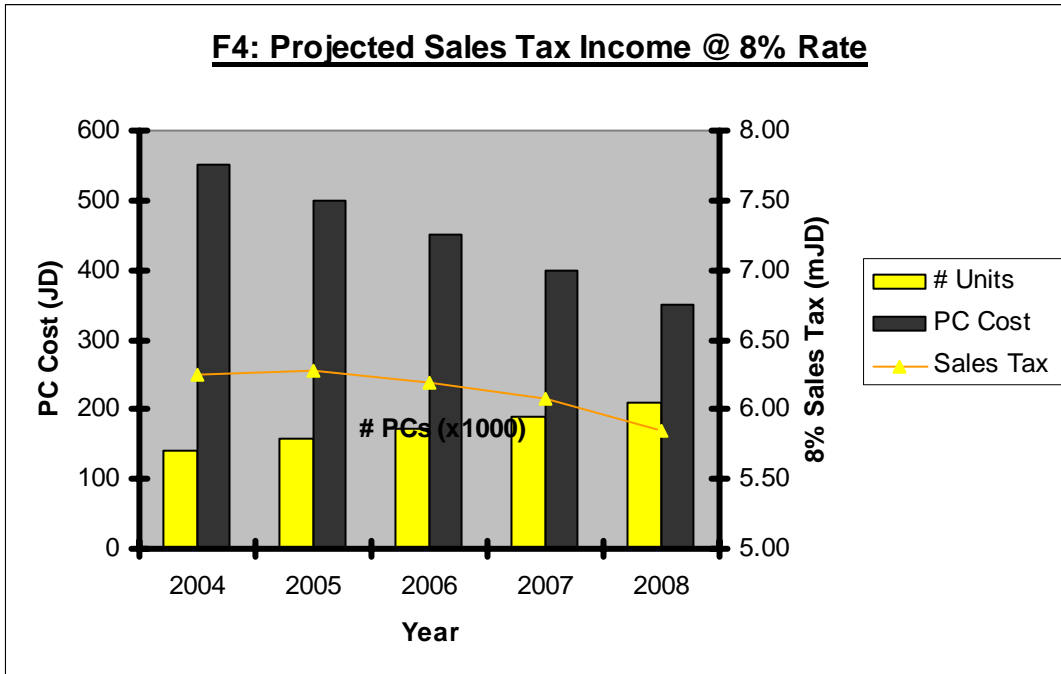
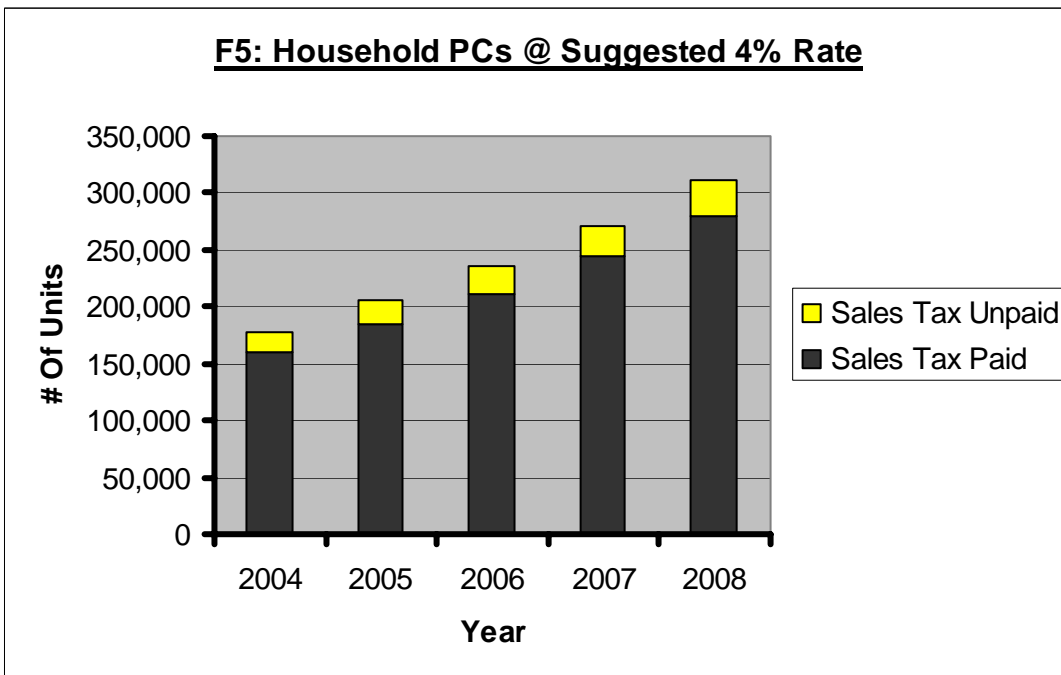


Figure F4 shows that the government's income from PC/Laptop Sales Tax based on the suggested rate of 8% is expected to vary between JD 6.25 million in 2004 down to JD 5.85 million in 2008 in an almost flat curve. This provides a good financial argument in favour of decreasing the Sales Tax rate from 16% to 8%.

A1.F4 Projected Sales Tax Income @ 8% Rate



A1.F5 Household PCs @ 4% Rate

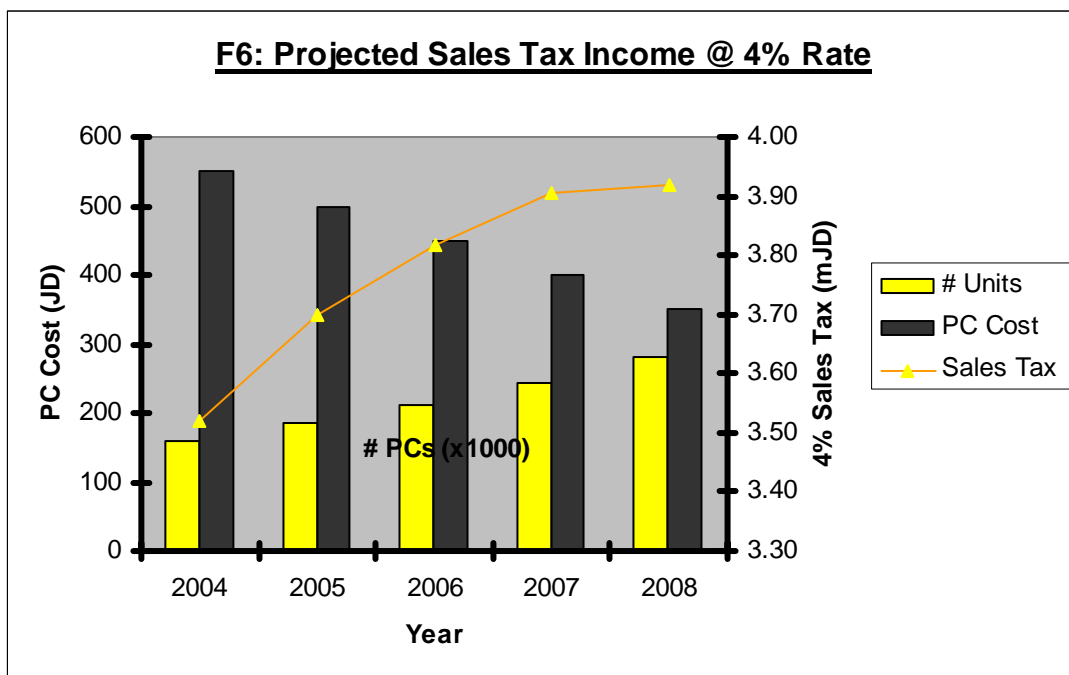


A second exercise on the effects of decreasing Sales Tax on PCs/Laptops from the current 16% to a suggested 4% in absolute terms on public revenues was carried out based on the same assumptions as above.

- 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 F6 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.

A1.F6 Projected Sales Tax Income @ 4% Rate



## Appendix II – Government Domestic Revenues

Officially available Government Domestic Revenues and Sales Tax figures for the years 2003-2006 were researched ([Department of Statistics – Jordan in Figures](#)). The numbers for 2007 and 2008 were not available at the time of preparing this position paper. They were estimated based on the annual growth rates for 2003 – 2006 (average 20%0 as well as the almost fixed percentage (40%) of Sales Tax income in proportion to the total domestic revenues as observed.

### A2.T1 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
	<b>Total 2003</b>	<b>100.00%</b>	<b>1698.600</b>

### A2.T2 Government Domestic Revenues 2004

	Revenue Category	%	JD (Millions)
1	General Sales Tax	39%	827.025
2	Fees & Licenses	17%	364.614
3	Other Non Tax Revenues	13%	285.818
4	Customs Duties	12%	266.907
5	Income Tax	10%	217.914
6	Other Tax Revenues	6%	116.954
7	Loan Repayments	3%	59.664
	<b>Total 2004</b>	<b>100.00%</b>	<b>2138.896</b>

### A2.T3 Government Domestic Revenues 2005

	Revenue Category	%	JD (Millions)
1	General Sales Tax	40%	1,023.396
2	Fees & Licenses	18%	472.643
3	Other Non Tax Revenues	11%	284.793
4	Customs Duties	12%	304.950
5	Income Tax	11%	283.733
6	Other Tax Revenues	6%	153.718
7	Loan Repayments	2%	39.720
	<b>Total 2005</b>	<b>100.00%</b>	<b>2,562.953</b>

A2.T4 Government Domestic Revenues 2006

	Revenue Category	%	JD (Millions)
1	General Sales Tax	39%	1,238.764
2	Fees & Licenses	18%	556.789
3	Other Non Tax Revenues	14%	430.174
4	Customs Duties	11%	345.768
5	Income Tax	16%	509.103
6	Other Tax Revenues	1%	39.915
7	Loan Repayments	1%	43.877
	<b>Total 2006</b>	<b>100.00%</b>	<b>3,164.390</b>

A2.T5 Government Domestic Revenues 2007

	Revenue Category	%	JD (Millions)
1	General Sales Tax	40%	1,485,000
2	Fees & Licenses		
3	Other Non Tax Revenues		
4	Customs Duties		
5	Income Tax		
6	Other Tax Revenues		
7	Loan Repayments		
	<b>Total 2007</b>	<b>40.00%</b>	<b>1,485,000</b>

A2.T6 Government Domestic Revenues 2008

	Revenue Category	%	JD (Millions)
1	General Sales Tax	40%	1,785,000
2	Fees & Licenses		
3	Other Non Tax Revenues		
4	Customs Duties		
5	Income Tax		
6	Other Tax Revenues		
7	Loan Repayments		
	<b>Total 2008</b>	<b>40.00%</b>	<b>1,785,000</b>

## Appendix III – Sample Import Statistics

Officially available figures for the years 2004-2008 were researched and collected from a sample of major Desktop PC and Laptop importers in the kingdom. The numbers for 2008 were up to date until the end of August.

### A3.T1 Desktop & Laptop Sample Imports / 2004

2004 Imports		Desktops	Laptops
1	STS	6428	981
2	JDS	1500	300
3	GCE	1850	670
4	Offtec - Imports	0	0
5	Offtec - Assembly	500	0
6	CCS	350	30
7	SMS	2000	1848
8	MISD	313	220
<b>Totals</b>		<b>12941</b>	<b>4049</b>

### A3.T2 Desktop & Laptop Sample Imports / 2005

2005 Imports		Desktops	Laptops
1	STS	7181	1069
2	JDS	1250	400
3	GCE	3200	800
4	Offtec - Imports	0	0
5	Offtec - Assembly	700	0
6	CCS	500	50
7	SMS	2000	3220
8	MISD	407	106
<b>Totals</b>		<b>15238</b>	<b>5645</b>

### A3.T3 Desktop & Laptop Sample Imports / 2006

2006 Imports		Desktops	Laptops
1	STS	6184	2245
2	JDS	1650	450
3	GCE	3850	965
4	Offtec - Imports	350	30
5	Offtec - Assembly	350	0
6	CCS	150	90
7	SMS	2000	5800
8	MISD	601	156
<b>Totals</b>		<b>15135</b>	<b>9736</b>

A3.T4 Desktop & Laptop Sample Imports / 2007

2007 Imports		Desktops	Laptops
1	STS	8954	5017
2	JDS	2200	550
3	GCE	3925	1970
4	Offtec - Imports	0	300
5	Offtec - Assembly	200	50
6	CCS	160	100
7	SMS	2000	6400
8	MISD	692	50
<b>Totals</b>		<b>18131</b>	<b>14437</b>

A3.T5 Desktop & Laptop Sample Imports / 2008

2008 Imports up to August		Desktops	Laptops
1	STS	5598	2616
2	JDS	3000	750
3	GCE	4351	2550
4	Offtec - Imports	0	200
5	Offtec - Assembly	100	0
6	CCS	250	100
7	SMS	2000	6300
8	MISD	583	356
<b>Totals</b>		<b>15882</b>	<b>12872</b>

A3.T6 Desktop & Laptop Sample Imports / Combined

	Combined Imports	Desktops	Laptops	Total
1	2004	12941	4049	16990
2	2005	15238	5645	20883
3	2006	15135	9736	24871
4	2007	18131	14437	32568
5	2008 (up to August)	15882	12872	28754
<b>Totals</b>		<b>77327</b>	<b>46739</b>	

The companies represented in our sample were:

- STS / Specialized Technical Services
- JDS / Jordan Data Systems
- GEC / General Computers & Electronics
- Offtec / Jordan Educational Company
- CCS / Computer & Communications Systems
- SMS / Scientific & Medical Systems
- MISD / Modern Information Systems Design