

From the Associated Press

HAVANA – Potential entrepreneurs lined up outside government offices around the capital on Monday after Cuba made official the grand economic changes it announced last month, raising hopes that eagerly anticipated licenses for the newly self-employed could be issued soon.

The economic overhaul — the most significant undertaken in communist Cuba since the early 1990s — was outlined in nearly 100 pages of rules and regulations for small businesses published in the government Gazette.

"I hope this license will bring me a better future," said Lazaro Ramos, who was one of about 20 people waiting outside a government office in Havana's 10 de Octubre neighborhood. Ramos, 34, said he was unemployed but was hoping to get permission to make pinatas for children's parties. "The economy is not good. But with this, I will be able to make ends meet."

Officials took down personal details and told applicants to come back in a couple of weeks for more information. It was not clear how long it would take to process the licenses.

Cuba announced on Sept. 13 that it would lay off half a million workers and push many of them into the private sector. It later detailed some 178 private jobs that will be allowable. But the rules did not become law until they were published Monday.

The rules published Monday detail four kinds of taxes for the private sector: a sliding personal income tax, a sales tax, a public service tax and a payroll tax. It also establishes minimum monthly fees for different kinds of businesses, as well as deductions Cuban can take to reduce their tax burden.

Some of the tax rules were detailed in the Communist Party newspaper Granma last week, but the newspaper account lacked crucial details and contained several contradictions.

The lengthy rules laid out in the government Gazette clear up most of the uncertainty.

The law establishes 178 private activities for which licenses can be granted — everything from restaurateur to taxi driver, from button maker to party planner. The majority of those businesses will be eligible for a simplified tax system that establishes a monthly quota regardless of revenue.

For instance, parking attendants would pay 80 pesos (\$4) a month, while typing instructors would have to fork over 100 pesos (\$5) monthly. Barbers have one of the highest fees: 200 pesos (\$10) a month.

Those not eligible for the simplified tax system — jobs like taxi driver, plumber and rooming house operator — will pay a 25 percent income tax on the first 10,000 pesos (\$476) earned each year, with the rate rising for those who earn more. Income exceeding 50,000 pesos (\$2,381) a year will be taxed at 50 percent.

Businesses will also be subject to a 10 percent levy on the total value of their sales, and those that use public services like electricity and water will have to pay a 10 percent tax on top of normal utility rates. The government heavily subsidizes public utilities, meaning the tax should amount to pennies for most businesses.

Entrepreneurs who hire employees will have to pay a 25 percent payroll tax on their salaries, and all Cubans who are self-employed must 25 percent of their income into a social security system from which they will eventually draw a pension.

The rules mean that, theoretically, a successful businessperson could face taxes of nearly 75 percent, between personal income tax and social security.

But the law also establishes many deductions for raw materials, transportation and other business expenses that make such a high rate unlikely.

The new regulations will allow Cubans over the age of 17 to start their own business, so long as they are permanent residents. Citizens can also apply for licenses for more than one business. They will even be allowed to sell their services to the state, though there will be strict transparency rules to try to stave off corruption.

The law also establishes up to six months of sick leave and a year of maternity leave so that self-employed workers don't have to pay tax while they are not earning.

Cuba is in the midst of a major restructuring of its economy under President Raul Castro. The half million workers will be laid off by March 2011, and the Cuban leader has warned that another 500,000 state jobs must shed within the next five years. In total, that would be about 20 percent of the island's labor force.

Castro has insisted the changes do not mean the end of Cuba's socialist system. But he says the cash-strapped government can no longer afford to subsidize every aspect of Cuban life and has warned Cubans they will have to work hard to make their own way.

The government currently employs about 85 percent of the labor force, paying workers about \$20 a month but providing free or nearly free education, health care, housing, transportation and basic food.