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9 March 2017

**Kingston Jamaica**

# *Jamaica: 2017/18 Budget*

*The 'rebalancing' from direct to indirect taxes continues…*

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# *2017/18 Budget - Introduction*

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The Hon. Audley Shaw C.D. MP, Minister of Finance & the Public Service made his Opening Budget Presentation today and laid the Government of Jamaica's 2017/18 Budget before Parliament.

**Brian J. Denning, Tax Services Leader**

The key challenge for Minister Shaw this year was to find sufficient revenues to fund the second phase of implementation of a key pre-election promise to remove persons earning under J$1.5m per annum from the income tax net. Originally it was posited that this would be effected without imposing new taxes. Subsequently it was announced that this would be implemented in two phases.

The first phase was ultimately fully funded by new revenue measures last year. This year's Budget needs to fund the second phase together with a projected fiscal shortfall that needs to be closed in order to maintain a primary surplus of 7% of GDP (which is a key benchmark agreed with the IMF). This is being done by a combination of new revenue measures plus a further J$11.4 billion withdrawal from the National Housing Trust.

Minister Shaw indicated that this year's Budget represents a further 'rebalancing' from direct to indirect taxes. This continues a trend in tax reform as Jamaica reduces its reliance on hard-to-collect direct taxes. As we indicated last year, the introduction of the J$1.5m income tax-free threshold has moved us rapidly along this path to a point where the future sustainability of Jamaica's personal income tax (PIT) regime must now be evaluated (especially if only 6% of the nation's employed labour force will be paying income tax from 1 April 2017).

In his presentation, Minister Shaw noted that not withstanding the significant shift from direct to indirect taxes, the country is expected to maintain a **Tax:GDP ratio** of 25.7% this year. It is noteworthy that this ratio has remained within a very narrow band over the last dozen years or so notwithstanding that new tax measures perhaps in excess of J$150 billion have been introduced over the equivalent timeframe.

This suggests that non-compliance remains our single greatest obstacle to tackle if we are to break the cycle of requiring new revenue measures annually in order to plug the fiscal shortfall of the day.

# 2017/18 Budget – New Measures At a Glance

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The following table summarises the new revenue measures announced today:

| New Revenue Measures Announced | J$bn | Click for details |
|---|---|---|
| Increase in specific SCT rate on alcohol – to J$1,230 per LPA | 0.403 | |
| Increase in specific SCT rate on various fuels | 7.459 | |
| Increase in SCT on tobacco products / substitutes – to $17 per stick | 0.826 | |
| Reduction in zero-rated residential electricity consumption threshold | 1.498 | |
| GCT imposed on Group Health Insurance Schemes | 1.884 | |
| Withholding Tax on insurance premiums paid overseas | 0.990 | |
| Increase in Motor Vehicle License and related fees | 0.464 | |
| **Grand Total** | **13.524** | |
| Increase in the Income Tax-Free Threshold to J$1.5m (2nd Phase) | **(14.2)** | |
| Modifications to Property Tax Rate Structure & Base (Local Gov't) | **3.93** | |

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**Capital A & B**– J$52.54bn

**Other** – $55.88bn

**Education** – J$98.75bn

**Economic Growth & Job Creation** – J$9.34bn

**Nat. Security** – J$56.43bn

**Health**– J$61.90bn

**Finance** (Other) – J$70.36bn

**Debt Service** – Interest $137.85bn
- Amortisation $172.55 bn

**Petro Caribe**– $11.7bn

**Loan Inflows** – $159.6bn

**Capital Rev.** – $2.2bn

**Grants** – $4.4bn

**Bauxite Levy** – $0.13bn

**Non-Tax** – $40.87bn

**Tax** – $478.9bn

# 2017/18 Budget – Diving into the Detail (1)

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We now examine each new revenue measure announced today in further detail:

## Increase in Tax Threshold from J$1.0m to J$1.5m

In keeping with his commitment made in last year's Budget, Minister Shaw confirmed the second phase of increase in annual income tax-free threshold to J$1.5 million.

The following table highlights the additional monthly tax benefit that will accrue to employees current earning over J$1 million per annum:

| Effective | Annual J$ | Monthly J$ | Monthly Benefit @ 25% J$ | Monthly Increase J$ |
|---|---|---|---|---|
| Current | 1,000,272 | 83,356 | 20,839 | |
| From 1 April 2017 | 1,500,096 | 125,008 | 31,252 | 10,413 |

As the increased tax-free threshold will become effective during the calendar year, the annual tax-free threshold for the Year of Assessment 2017 shall be **J$1,375,068**.

It was indicated that this measure shall cost **J$14.2 billion** in **2017/18**.

# *2017/18 Budget – Diving into the Detail (2)*



In his presentation, Minister Shaw indicated that there are currently 469,131 employees registered on the PAYE tax roll. He further indicated that once the increase becomes effective on **1 April 2017**, 397,083 of these individuals will no longer be liable to any income tax.

***PwC Commentary:*** *The increase in the tax-free threshold to J$1.5 million per annum will have positive implications for PAYE workers and tax compliant self-employed individuals as their tax burden will be reduced by up to J$124,956 per annum – instead this burden will be spread across the wider economy in the form of the new indirect taxes announced today.*

*Given Jamaica's perennial challenges with tax compliance, the motivation to shift from direct to indirect taxes are obvious. There are however a number of broader policy implications that require careful evaluation.*

*Only persons earning above the current J$1m threshold will benefit from the threshold increase yet the burden of the new indirect taxes will fall on a much wider net including the poor. In an effort to address this, Minister Shaw announced a significant increase in the budget for the PATH and School Feeding Programmes. Much of the burden of the new indirect taxes will therefore be borne by persons who don't qualify for these PATH benefits but yet earn less than J$1m per annum.*

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***PwC Commentary – continued:*** *In our 2016/17 Budget Newsletter we expressed concern that unless compliance levels are increased dramatically and significantly greater numbers contribute to the income tax pot, the continued viability and practicality of maintaining a personal income tax (PIT) regime must be considered.*

*Data published by the Statistical Institute of Jamaica indicates that as at October 2016, Jamaica's Total Employed Labour Force stood at 1,180,800 persons. In his Budget Presentation today, Minister Shaw indicated that only 72,038 workers would be left paying any income tax after the J$1.5m threshold takes effect on 1 April 2017. This suggests that 94%% of Jamaica's Employed Labour Force will not contribute even J$1 in income tax to the Consolidated Fund with the remaining 6% being required to carry the entire PIT burden.*

*If PIT cannot be effectively enforced within the Jamaican environment, should it be abolished entirely rather than maintaining a complex framework and administration to extract PIT (which by its nature should be broadly applied) from such a small subset of the overall population? Given that most public services are consumed by the majority of our population, the significant inequity of requiring such a small minority pay for the majority ought not to be ignored. Any abolition of PIT would need to be carefully evaluated in order to properly consider the full ramifications.*

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***PwC Commentary - continued:*** *We also note that the Budget Presentation did not specifically address other payroll taxes (e.g. Education Tax, NHT/NIS/HEART contributions). This was a missed opportunity in our view as comprehensive reform of the PIT regime ought to encompass broader payroll tax reform.*

*The need for such an evaluation is even greater in light of the latest threshold increase including consideration of the administrative utility of collecting only statutory contributions from so many or the inequity of making contributions if one cannot qualify for meaningful benefits.*

## Increase in the specific SCT rate on alcohol:

Under current tax rules, a specific SCT rate is imposed on alcoholic beverages at the rate of J$1,120 per litre of pure alcohol (LPA). It is proposed to increase this rate to J$1,230 per LPA with effect from **13 March 2017**.

These measures are estimated to raise **J$0.403 billion** in **2017/18**.

***PwC Commentary:*** *In light of its high alcoholic content compared to other alcoholic beverages, the potential impact of this measure on our local 'overproof' rum manufacturing industry needs to be carefully assessed. Given the new rate applies from next Monday, your consumption of alcoholic drinks this weekend may be attributed to tax planning!*

# 2017/18 Budget – Diving into the Detail (5)

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## Increase in specific SCT rates imposed on fuels

Specific Special Consumption Tax (SCT) rates imposed on the importation or manufacture in Jamaica (i.e. refining) of various fuels will be increased with effect from **15 March 2017**.

| | Base | Current Rate J$ | Proposed Increase J$ | Proposed Rate J$ |
|---|---|---|---|---|
| **Gasoline – Unleaded 87** | per Litre | 32.1061 | 5.67 | 37.7761 |
| **Gasoline – Unleaded 90** | per Litre | 32.4792 | 5.67 | 38.1492 |
| **Automotive Diesel Oil (ADO)** | per Litre | 31.4145 | 6.70 | 38.1145 |
| **Ultra Low Sulphur Diesel** | per Litre | 31.4145 | 1.07 | 32.4845 |
| **Heavy Fuel Oil (JPS/IPPs)** | per Litre | 2.0006 | 1.52 | 3.5206 |
| **Heavy Fuel Oil (others)** | per Litre | 2.0006 | 7.36 | 9.3606 |
| **Liquified Natural Gas (LNG)** | per mmbtu² | 4.56 | 0.43 | 4.99 |
| **LPG (Propane)** | per Litre | 2.006 | 3.90 | 5.906 |
| **LPG (Butane)** | per Litre | 2.006 | 3.90 | 5.906 |
| **Kerosene** | per Litre | 17.4145 | - | 17.4145 |

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These measures are estimated to yield **J$7.459 billion** in **2017/18**.

***PwC Commentary:*** *The imposition of further taxation on fuels is likely to trigger much outcry particularly in light of the increase in specific SCT by J$7 per litre on automotive fuels last year (in the 2016/17 Budget). It is also worth noting that any increase in specific SCT rate will also trigger additional ad valorem SCT payable (e.g. levied at 10% in the case of automotive fuels) as this is imposed on the price inclusive of specific-rate SCT.*

*Imposing tax on fuel has both positive and negative features. Given the widespread use of fuel, additional taxes imposed can impact many activities including the cost of public and private transportation, the haulage of goods, electricity generation and manufacturing generally. These in turn can have a knock-on effect across the economy.*

*The Minister has heeded concerns expressed last year concerning the impact on electricity costs and therefore has imposed a smaller SCT rate increase on HFO used by the Jamaica Public Service Company and other Independent Power Providers. This additional cost will therefore have to be either absorbed by JPSCO or else passed on to its customers.*

# 2017/18 Budget – Diving into the Detail (7)



***PwC Commentary - continued:*** *On the other hand, SCT on fuel is perhaps one of most efficient forms of tax from the Government's perspective – it is easily collectible, there is little opportunity for evasion and its burden is spread extensively across the population notwithstanding our national aversion to tax compliance. Contrast this with personal income tax which is set to be collected from only 6% of the employed labour force.*

## Increase of SCT on cigarettes etc. to J$17 per stick

In keeping with the Government's commitment to reduce local tobacco consumption (in conformity with the *Framework Convention on Tobacco Control*), special consumption tax (SCT) is again being increased on certain tobacco products.

Effective **13 March 2017**, the specific SCT rate on cigarettes, cigars, cigarillos, cheroots (including substitutes for these products) will be increased from J$14 to J$17 per stick. This increase will not apply to the supply of unbundled tobacco.

This measure is estimated to yield **J$0.826 billion** in **2017/18**.

***PwC Commentary:*** *Following quickly on the heels of a J$2 increase last year, smokers are likely to lament (and perhaps light up) as a result of being targeted again. From the Government's perspective this 'sin' tax is attractive – it is easy to collect (from legitimate importers), the burden is spread widely across the smoking population and any deterrent effect has positive health benefits for the nation.*

# 2017/18 Budget – Diving into the Detail *(8)*



***PwC Commentary - continued:** Caution needs to be exercised to ensure that this tax revenue intake does not suffer from the law of diminishing returns. Increasing these taxes correspondingly increases the incentive to evade them and products such as alcohol and tobacco are particularly susceptible to smuggling. Greater smuggling places greater competitive pressures on legitimate law-abiding operators and this can in turn trigger unintended consequences.*

## Reduction in GCT zero-rated threshold for electricity:

Under current tax rules, the first 350 Kilowatt Hours (KwH) of electricity consumed by residential customers each month is subject to General Consumption Tax (GCT) at the rate of 0%. Any consumption in excess of this amount is liable to GCT at the standard rate (currently 16.5%).

With effect from **3 April 2017**, it is proposed to reduce this threshold from 350 KwH to 150 KwH per month thereby subjecting residential electricity consumption to GCT at 16.5% in excess of 150 KwH per month. In his presentation, the Minister indicated that nearly 61% of the residential customers of the Jamaica Public Service Company Limited (JPSCo) consume electricity at or below this reduced threshold.

This measure is estimated to yield **J$1.498 billion** in **2017/18**.

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***PwC Commentary - continued:*** *Prior to April 2015, the supply of electricity to residential customers was zero-rated for GCT purposes. In the 2015/16 Budget GCT was imposed at the rate of 16.5% on consumption in excess of 350 KwH. At that time it was estimated that 6.4% of JPSCo customers consumed electricity in excess of this limit and that this group had both the propensity to consume and ability to pay the GCT thereon. The proposal to reduce this threshold to 150 KwH per month will result in approximately 40% of the JPSCO customer base being impacted by higher electricity bills.*

*From the Government's perspective, this tax measure is highly efficient and easily collectible as all the GCT is collected from one taxpayer – JPSCo.*

## Imposition of GCT on Group Health Insurance

Under current tax rules "*services rendered under a contract of health insurance*" are exempt from GCT. In his Budget Presentation today, the Minister indicated that he intends to impose GCT on 'Group Health Insurance' with effect from **3 April 2017**.

Typically a group health insurance plan is a plan taken out by an employer to provide health insurance for his employees. The benefits are usually standardised across all benefactors and the plans are usually cheaper than plans obtainable by the employees individually because the issuer risk is spread across the entire employee group.

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It is noted that the Ministry Paper states that "*it is being proposed to impose a consumption tax on premiums in relation to the provision of health insurance*". We will be seeking clarification from the Ministry that this only relates to group health insurance plans.

This measure is estimated to yield **J$1.88 billion** in **2017/18**.

***PwC Commentary:*** *Historically the basis for exempting health insurance has been to avoid encumbering its cost with tax. In the same way as it is desirable for persons to provide for their retirement (through savings and pensions), to provide for their spouse and next-of-kin (through life assurance etc.), it is also desirable from a policy perspective for persons to provide for healthcare for themselves and their families. These are desirable behaviours to be encouraged for a variety of reasons not least because they ultimately reduce the burden placed upon the State.*

*The targeting of group health insurance schemes for such taxation appears to run counter to this. Employer-based and funded schemes may often be the difference between someone having health insurance coverage or not. As many employers are engaged in GCT-taxable activities, it is unclear whether it is the intention of Tax Administration Jamaica (TAJ) to seek to specifically disallow an input credit for this GCT to be imposed given that the benefit of the coverage accrues to employees.*

# 2017/18 Budget– Diving into the Detail (11)

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## Withholding Tax on Insurance Premiums

Payments of insurance premiums overseas by Jamaican residents currently attract withholding tax of 15% subject to certain exceptions. One of these exceptions applies to circumstances where such insurance premiums are paid overseas via a local Insurance Broker or Insurance Agent (in which case the withholding tax does not apply. An exception was previously granted to General Insurance Companies.

It is proposed that both of these exceptions shall be repealed so that the 15% withholding tax will be reinstated in these circumstances.

This measure is estimated to yield **J$0.99 billion** in **2017/18**.

***PwC Commentary:*** *We would need to see the precise wording of this proposed amendment in order to properly assess its potential impact. This could have unintended consequences of increasing insurance premium costs where risks are insured with overseas insurers (indeed local insurance may not even be available). The Ministry Paper states that this policy change shall be "effective for the Year of Assessment ending December 2017". This presumably means the 2017 Year of Assessment which is the calendar year. It is unclear therefore how this withholding tax re-imposition can apply for the calendar year (i.e. since 1 January 2017) given its announcement today and the fact that it is not yet enshrined in law. We intend to engage with the Ministry of Finance on this to seek clarification.*

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## Increase in Motor Vehicle License & Allied Fees

It is proposed that with effect from **13 March 2017**, motor vehicle license and allied fees shall be increased across the board by 20%.

This measure is estimated to yield **J$0.464 billion** in **2017/18**.

***PwC Commentary:*** *The wholesale increase in motor vehicle license and allied fees together with the further proposed increase in SCT on automotive fuels will hit the motoring public generally but especially private transport operators for whom fuel and motor vehicle license costs represent a significant part of their operating costs.*

## Property Tax - Rate & Valuation Adjustment

At present property tax is imposed across three bands ranging from 1.5% - 2% of the unimproved value of the property.

It is proposed that with effect from **1 April 2017**, the 2013 Property Valuation Roll will be used in lieu of the 2002 Property Valuation Roll which is currently being used. This will result in increased property values being used as a base for calculating property tax.

# *2017/18 Budget – Diving into the Detail (13)*



In conjunction with the adoption of the 2013 Valuation Roll, it is also proposed to modify the rate structure to have nine separate bands with rates ranging from 0.8% to 1.3%.

In addition it is proposed to modify the application of property tax rules to strata properties to ensure greater equity. Consideration will also be given to the taxpayer's ability to pay the property tax by the introduction of a rules-based relief mechanism in cases of economic hardship or disability. This will be particularly important for the elderly and pensioners on low incomes whose homes may otherwise attract sizeable property tax liabilities. Provision will also be made to facilitate the payment of property taxes by instalment (whether on a monthly, quarterly or semi-annual basis).

This measure is estimated to yield **J$3.93 billion** in **2017/18**. These revenues will accrue to Local Government as opposed to the Consolidated Fund.

***PwC Commentary:*** *The proposed adoption of the 2013 property valuation roll and corresponding recalibration of the property tax rates have been anticipated for some time. The proposed ruled-based relief mechanisms are both welcome and appropriate in an effort to reduce the inequity and hardship that may otherwise result. We believe that there are further property tax reform opportunities which could help to regularize property titling, tax delinquent landlords and incentivize property redevelopment in designated renewal areas.*

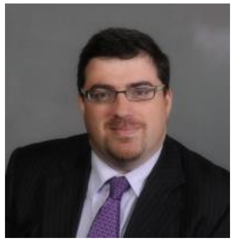
# Let’s Talk!

To discuss specifics on how the 2017/18 Budget measures will impact your business or for assistance on any other tax matter, please contact your local PwC contact or any of the Tax Services team listed here.

## Our Offices


***Kingston***
Scotiabank Centre
Corner of Port Royal
& Duke Streets
Kingston
Tel: 1 876 922 6230
Fax: 1 876 922 7581

***Montego Bay***
Suite 10, Fairview
Office Park
Alice Eldemire Drive
Montego Bay
St. James
Tel: 1 876 952 5065
Fax: 1 876 952 1273


***Brian J. Denning***
***Tax Services Leader***

**Direct Line:** 1 876 932 8423
**Email:** brian.denning@jm.pwc.com



***Damion D. Dodd***
***Partner***

**Direct Line:** 1 876 932 8439
**Email:** damion.dodd@jm.pwc.com



***Viveen A. Morrison***
***Director***

**Direct Line:** 1 876 932 8336
**Email:** viveen.morrison@jm.pwc.com



***Paul A. Cobourne***
***Director***

**Direct Line:** 1 876 932 8350
**Email:** paul.cobourne@jm.pwc.com



***Kimblian T. Batson***
***Director***

**Direct Line:** 1 876 932 8378
**Email:** kimblian.t.batson@jm.pwc.com



***Colette A. Guthrie***
***Manager***

**Direct Line:** 1 876 932 8331
**Email:** colette.a.guthrie@jm.pwc.com


***Or check us online at:*** www.pwc.com/jm