Introduction

In his maiden Budget Speech in Parliament today, Dr. the Honourable Nigel Clarke, Minister of Finance and the Public Service did something that no other Finance Minister in living memory has done: he announced a net reduction in taxes of JA$14 billion for the 2019/20 financial year.

For many years, taxpayers have burdened with new taxes annually: JA$90 billion in such taxes over the last 10 years according to Minister Clarke. His predecessor, the Hon. Audley Shaw bucked the trend in 2018/19 when he announced that no new tax measures would be required to finance the 2018/19 Budget.

In his presentation, Minister Clarke commended successive Government administrations for the fiscal discipline that has contributed to Jamaica being where it is today and also acknowledged the role that the Economic Programme Oversight Committee (EPOC) has played in the process. Minister Clarke announced his intention to establish a Fiscal Council and also institute further strengthening of the existing fiscal responsibility framework.

Minister Clarke’s presentation clearly focused on the need for Jamaica to pursue ‘growth with equity’: the urgent need to achieve economic independence and exploit economic opportunities while protecting the poor and vulnerable. Positive economic results combined with buoyancy in tax revenues has enabled the Government of Jamaica (GoJ) to reach a Staff Level Agreement with the International Monetary Fund to reduce Jamaica’s primary surplus target. This is now being moved from 7% to 6.5% of GDP one year ahead of schedule while keeping Jamaica within its targets to reach a Debt:GDP ratio of 60% by 2025/26. Minister Clarke acknowledged that this agreed reduction was critical in order to provide the GoJ with the necessary fiscal space to be able to reduce taxes to the extent announced today.

The Minister is to be commended for strategically focusing these reductions on taxes that are perceived to be a nuisance (particularly for the MSME sector) as well as taxes and duties that currently hamper the conduct of economic activity/raising of finance or dissuade persons from regularising the land titles on lots they occupy. The measures announced today are therefore important not only for the direct stimulative effect of putting JA$14 billion back into the economy but also for the potential economic activity that these measures may ‘free-up’ and facilitate.
2019/20 Expenditure Budget

Expended category as a % of Total Expenditure (Recurrent + Capital)

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>Revised Estimates</th>
<th>Estimates</th>
<th>Projected Estimates</th>
<th>Projected Estimates</th>
<th>Projected Estimates</th>
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</thead>
<tbody>
<tr>
<td>2017/18</td>
<td>14.62%</td>
<td>20.77%</td>
<td>21.71%</td>
<td>20.10%</td>
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<td>2018/19</td>
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<td>4.17%</td>
<td>4.76%</td>
<td>4.68%</td>
<td>5.28%</td>
<td>5.06%</td>
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<td>2019/20</td>
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<td>5.14%</td>
<td>3.65%</td>
<td>4.23%</td>
<td>9.96%</td>
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<tr>
<td>2020/21</td>
<td>9.24%</td>
<td>8.76%</td>
<td>9.14%</td>
<td>9.64%</td>
<td>10.16%</td>
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<tr>
<td>2021/22</td>
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<td>11.64%</td>
<td>12.82%</td>
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<td>2022/23</td>
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<td>2022/23</td>
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<td>34.17%</td>
<td>35.66%</td>
<td>35.10%</td>
<td>31.98%</td>
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</tbody>
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New Revenue Measures
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04 Estate Threshold Increase
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06 Abolition of MBT

Let’s Talk!

2019/20 Expenditure Budget

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<th>JA$ Billions</th>
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</thead>
<tbody>
<tr>
<td>Recurrent</td>
</tr>
<tr>
<td>Capital</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>
New Revenue Measures (with estimated revenue effects)
2019/20 Budget

01 Increase in GCT Threshold
Increase in General Consumption Tax (GCT) Turnover Threshold for registration from JA$3 million to JA$10 million per annum.

02 Major Stamp Duty Reduction
Replacement of *Ad Valorem* stamp duty imposed on any instrument with a specific flat rate of stamp duty of JA$5,000 per stampable instrument.

03 Reduction in Transfer Tax
Reduction in Transfer Tax payable on the transfer of chargeable property from 5% to 2%.

04 Increase in Transfer Tax Estate Threshold
Increase in minimum estate value on which transfer tax is levied on the value of a deceased person’s estate from JA$100,000 to JA$10 million.

05 Asset Tax for Non-Financial Institutions
Abolition of Asset Tax imposed annually on companies (excluding specified regulated entities).

06 Abolition of Minimum Business Tax
Abolition of annual Minimum Business Tax (MBT) of JA$60,000 per annum levied on registered companies.
01 Increase in GCT Threshold

Overview of Measure:

The GCT threshold is the annual gross turnover/revenue level at which a person undertaking a taxable activity is required to register for General Consumption Tax (GCT). As a GCT registered taxpayer, a person becomes liable to account for GCT on all taxable supplies made, file monthly GCT Returns and comply with all aspects of the GCT Act.

Noting the hardships experienced by small business operators in having to comply with these GCT requirements, the Minister announced that, with effect from 1 April 2019, this GCT threshold will be increased from its current level of JA$3,000,000 to JA$10,000,000. He further indicated that this would take 3,500 persons currently registered for GCT below the new threshold and estimated that the revenue loss from this measure will be JA$0.731 billion for 2019/20.

PwC commentary:

This is a welcome adjustment as the current threshold is outdated having been last updated in 2009. Small business operators below the GCT threshold will be spared the administrative stress and cost of being forced to comply with these GCT requirements. The cost of non-registration will be that GCT incurred by these operators will not, for the most part, be eligible for claim by way of input credit or refund. In these circumstances such suppliers will have to build this irrecoverable GCT on their expenses into their selling price in order to recover same. It will be important however that persons should still continue to be allowed to voluntarily register for GCT even if their annual revenues fall below the new threshold as some operators may determine that the benefits of GCT registration outweigh the administrative cost of compliance.

The increase in the GCT threshold should also benefit Tax Administration Jamaica (TAJ) as it will reduce the administrative burden of having to police the 3,500 GCT registered taxpayers who will be removed from the net.
02 Major Stamp Duty Reduction

Overview of Measure:

It is proposed to replace all *ad valorem* stamp duty rates currently levied by the Stamp Duty Act on a variety of instruments with a fixed rate of stamp duty of **J$5,000 per document.** This includes the granting of security as collateral for loans.

This measure is intended to simplify the tax system. The Minister also indicated that this is expected to stimulate greater competition and activity in and access to credit markets, greater business and economic activity, further property development and real estate activities as well as economic growth and job creation.

The effective date of implementation is **1 April 2019** and it is estimated that the revenue loss from this measure will be **J$6.650 billion** for 2019/20.

PwC commentary:

The proposed reform of our stamp duty regime in this manner is an important one as stamp duty has, in many respects, become a cumbersome and largely outdated form of taxation. The imposition of stamp duty at *ad valorem* rates on a variety of legal instruments often has little regard to whether any value has been created. Some forms of stamp duty imposed act as a deterrent to conducting business including raising finance, refinancing existing debt, issuing share capital, undertaking business restructuring, regularising property ownership etc. This measure therefore has the potential to stimulate the economy not only in terms of the tax give back, but also from the range of transactions that will be more readily facilitated by a more business-friendly tax system.

Under current law, documents which are liable to stamp duty are generally inadmissible in Court (except in criminal matters) unless they are properly stamped. We would recommend that the Minister consider exempting a range of instruments entirely from stamp duty in order to reduce the administrative burden further for both taxpayers and TAJ.
PwC commentary - continued:

The tax regime could be simplified even further by a wholesale review of all charges to stamp duty (including non-ad valorem rates) under the Stamp Duty Act, to determine whether such impositions still need to be maintained by Jamaica, as we seek to enhance the competitiveness of our business environment (including increasing the number of transactions we conduct electronically and online).

The transactions where the most significant amount of stamp duty is likely to be forgone by this measure are expected to include the:

- Sale of real estate (currently attracts stamp duty of approximately 4%)
- Sale of other chargeable property (up to 4%)
- Sale of shares in private companies (current stamp duty rate is 1%)
- Sale of certain securities (up to 4%)
- Creation or assignment of mortgages
- Creation of share capital (stamp duty of 1%)
- Administration of Estates

It is also important to remember that stamp duty is just one of the costs currently incurred to undertake these kinds of transactions. Other costs include legal fees, real estate commissions, brokerage fees, commitment fees, statutory fees and charges, GCT etc. Consideration should also be given as to how some of the processes can be further simplified (including through the use of standardised documentation etc.) in order to further facilitate these transactions taking place in greater volumes at lower cost.
03 Transfer Tax Reduction

Overview of Measure:

The Transfer Tax Act imposes transfer tax on the transfer of certain property, including Jamaican real estate, shares and securities in Jamaican companies. This is currently levied at the rate of 5% of the gross consideration payable for the property (or the market value in certain circumstances).

It is proposed that the rate of transfer tax on such transactions will be reduced from 5% to 2% with effect from 1 April 2019. It is estimated that the revenue loss from this measure will be JA$3.431 billion for 2019/20. Like the proposed stamp duty reform, Minister Clarke expressed an expectation that this will stimulate greater business and economic activity as well as property development and real estate activities.

PwC commentary:

This proposal represents a 60% reduction in the transfer tax rate. Combined with the proposed abolition of ad valorem stamp duty, this means the transfers of real estate which are currently subject to a combined charge of transfer tax and stamp duty of approximately 9% will see this rate fall to 2% (ignoring the JA$5,000 nominal stamp duty charged). This represents a 77% reduction in applicable taxes imposed. Transfers of shares in private companies will see a 67% reduction in applicable taxes imposed.

Transfer tax and stamp duties have effectively operated on the above types of transactions in lieu of capital gains tax in Jamaica. The significant reductions proposed will be generally welcomed by the business community and real estate investors. What this also does however is to place the income tax rates now imposed on both personal income (up to 30%) and corporate profits (up to 33.33%) in sharp contrast. This incentivises arbitrage opportunities and may give rise to unintended consequences. It is hoped therefore that future reform targets a reduction of these income tax rates as well as broader payroll tax reform.
04 Transfer Tax Threshold for Estates

Overview of Measure:

Where a person is domiciled in Jamaica at the date of their death, his/her assets are deemed to be transferred at market value at the date of death to the persons to whom such property passes on his/her death. The current rate of transfer tax imposed on an estate of a deceased person is 1.5% of the value of the estate, after deductions and expenses. At present, the first J$100,000 of the value does not attract the tax, leading to a great majority of estates being subject to this tax.

The low threshold for imposition of the tax is seen as a significant impediment to the timely transfer of estates to beneficiaries, because of the inability to cover the costs of transfer. In order to encourage the formal transfer of property to next of kin/beneficiaries, it is proposed to increase the tax-free threshold for such transfers from J$100,000 to J$10 million with effect from 1 April 2019.

It is estimated that the revenue loss from this measure will be J$0.287 billion for 2019/20.

PwC commentary:

This represents another important initiative in the effort to promote the regularisation of land titles. Both unregistered land as well as registered land with deficient titles act as impediments to economic growth. Persons living on such land cannot clearly demonstrate their ownership or provide the land as collateral for a loan to develop the property or to fund a business start-up etc. The LAMP initiative has been making some inroads in this regard, but much still needs to be done. Once properly regularised, the current registered owner is also more likely to pay the annual property tax to maintain a good title and can also use the land as collateral.
05 Partial Abolition of Assets Tax

Overview of Measure:

Assets Tax is imposed on “specified bodies” in accordance with the rules of the Assets Tax (Specified Bodies) Act. Specified bodies include companies within the meaning of the Companies Act, with certain exceptions, a society registered under the Industrial and Provident Societies Act and other prescribed persons.

The regime applies different rates of tax on the basis of two classifications of taxpayers, namely:

1. Specified regulated entities - deposit-taking entities regulated by the Bank of Jamaica and securities dealers and insurance companies regulated by the Financial Services Commission; and

2. Unregulated persons - other persons falling within the provisions of the Act, i.e. non financial institutions.

The rates payable by non financial institutions vary based on a scale of asset values, with the tax ranging from a low of $5,000 to a maximum of $200,000. In contrast, Assets Tax is imposed on specified regulated entities at the rate 0.25% of the value of their ‘taxable assets’. When imposed in this manner, the Assets Tax payable is normally very material.

There is a specific prohibition on claiming an income tax deduction for Assets Tax incurred.

It is being proposed to abolish the Assets Tax payable by non financial institutions from the year of assessment 2019. Specified regulated entities shall continue to be liable for Assets Tax at the ad valorem rate.

It is estimated that the revenue loss from this measure will be JA$1.840 billion for 2019/20.
**PwC commentary:**

The Assets Tax (as generally imposed) has long been regarded as a nuisance tax with separate annual payment and filing requirements. Its abolition for unregulated persons is welcome as part of the suite of reform measures announced today to simplify the tax system and remove taxes which are imposed, irrespective of whether value is being created.

In his presentation, Minister Clarke indicated that one of the principles behind the proposed removal of all of ad valorem stamp duty rates is that they are currently imposed without reference to either profitability or whether any new value is actually created. We agree with this approach adopted by the Minister in evaluating the efficiency and equity of taxes being imposed. Applying a similar yardstick would also suggest that the ad valorem Assets Tax currently imposed on specified regulated entities should also be considered for abolition.

When first introduced in 2012/13, this ad valorem Assets Tax was levied at the rate of 0.14% of the value of ‘taxable assets’ of specified regulated entities. This rate was subsequently increased to 0.25% in 2014/15.

Assets Tax imposed in this way bears little relationship to the net income or value created by the entity holding the ‘taxable assets’ on which the tax is imposed. Some entities have found themselves in highly inequitable positions in terms of the incidence of this tax. The tax is levied once the assets are held by these entities irrespective of the net income generated from these assets.

Ad valorem Assets Tax also acts as a deterrent to bringing financial assets and their related economic activity into Jamaica. It is preferable to avoid conducting economic activity in Jamaica if it requires a portfolio of assets to be brought into Jamaica and held on the books of specified regulated entities. This precludes such entities from competing for such business with other financial entities located outside of Jamaica (including other group members). We therefore recommend that the ad valorem Assets Tax be re-evaluated as soon as possible.
06 Abolition of Minimum Business Tax

Overview of Measure:

It is proposed that the Minimum Business Tax (MBT) should be abolished with effect from the year of assessment 2019 for all registered companies. In his speech, Minister Clarke indicated that the annual MBT of J$60,000 was seen as distortionary and discriminatory, pointing to the current obligation of both dormant entities and loss making businesses to account for the tax. He indicated that its removal is anticipated to have the following effects:

- incentivise formalisation of activities
- reduce costs for small and micro businesses
- align taxation with profitability, encouraging greater risk-taking activity, and
- encourage small business formation.

It is proposed to abolish MBT for all registered companies with effect from 1 April 2019. It is estimated that the revenue loss from this measure will be J$1.093 billion for 2019/20.

PwC commentary:

We note that neither the Minister (in his speech) nor the published Ministry Paper indicated that MBT would be abolished for persons other than companies e.g. self-employed individuals. Under current MBT rules, individuals are not liable to MBT if their gross revenues from business activities falls below the GCT turnover threshold. Given the proposal to increase this GCT threshold to J$10 million per annum, it is anticipated that more such taxpayers will benefit from the increase and therefore also be able to avoid the MBT. The MBT was originally introduced in an effort to collect tax from entities that otherwise were not filing and paying anything. With the abolition of MBT, it is expected that TAJ will employ other tools at its disposal in order to enforce compliance by such entities.
Let’s talk!

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