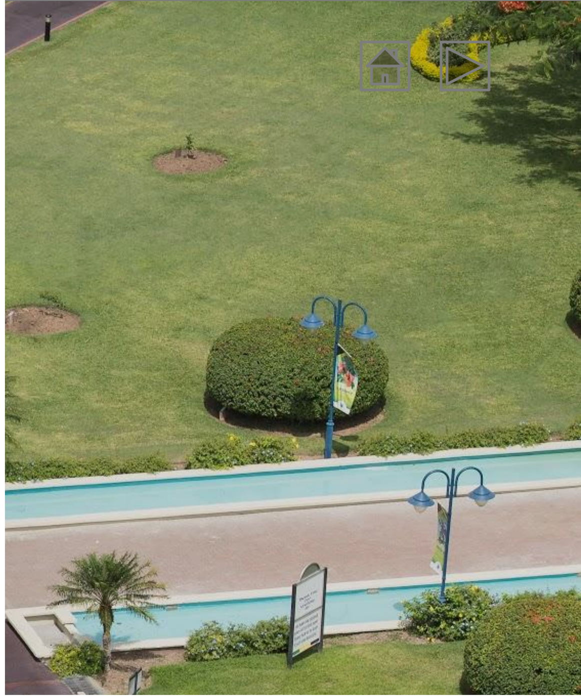
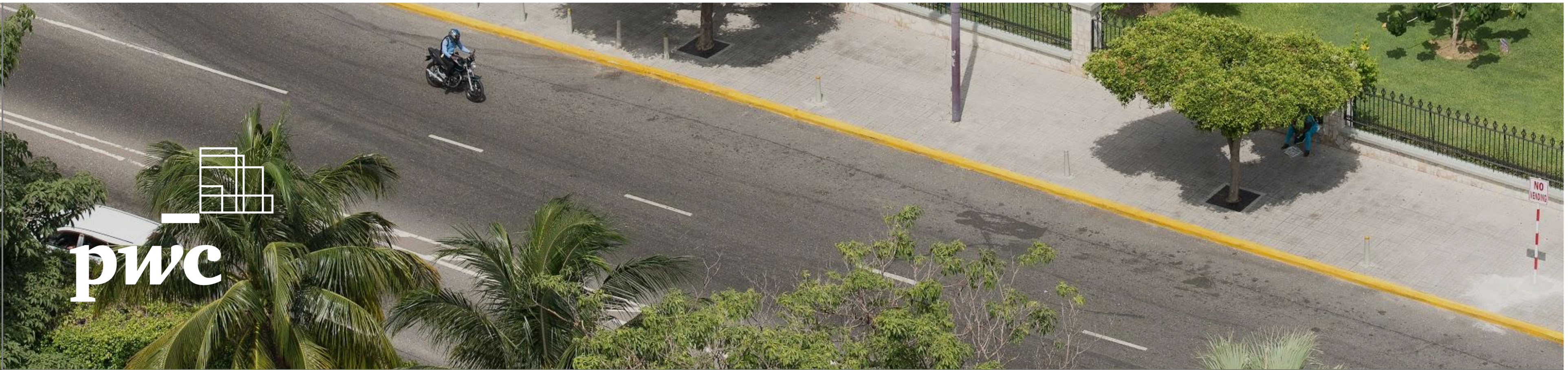
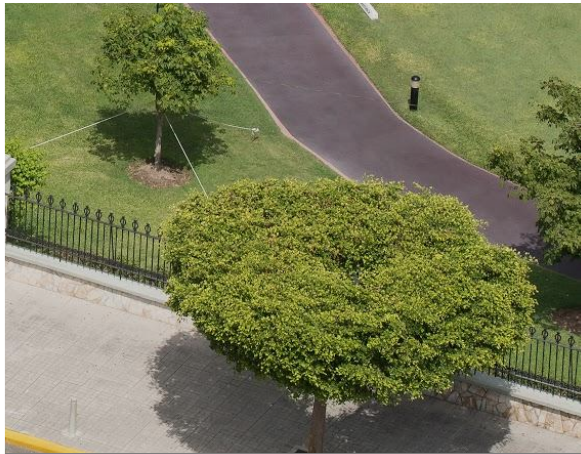
Jamaica: 2020/21 Budget



Kingston, Jamaica
10 March 2020





Overview

Today the Government of Jamaica (GOJ) presented its plan to Parliament to fund the 2020/21 **National Expenditure Budget** of **JA$853.5 billion**. In his Budget Speech, Dr. the Honourable Nigel Clarke, Minister of Finance and the Public Service outlined a series of revenue measures designed to provide an economic stimulus to Jamaica's economy through a **reduction of taxes** totalling **JA$18 billion** for the 2020/21 fiscal year. This follows a JA$14 billion tax reduction announced by Minister Clarke last year in his maiden 2019/20 Budget Presentation.

Brian J. Denning
CARICOM Tax Leader

This is a first for Jamaica: no Minister of Finance has previously had the fiscal space to reduce taxes either to this extent or on a 'back-to-back' basis. This space has been created as a result of strong fiscal discipline demonstrated by successive administrations (with support from the IMF) and underpinned by extensive sacrifices made by the Jamaican public along with the private sector. While prudent management of Jamaica's finances remains critical, this must be balanced against the urgent need to achieve economic independence while protecting the poor and vulnerable.

Significantly Minister Clarke announced the GOJ's intention to reduce Jamaica's **primary surplus target**.from 6.5% to **5.4%** of GDP. Under the IMF programmes, this target was originally set at 7.5% in an effort to get Jamaica's finances under tight control. While meeting this target improved the country's fiscal position, it also had material trade-offs including a contractionary effect on the economy. The proposed further reduction in the target is estimated to free up an additional JA$25 billion in fiscal space.

Jamaica's fiscal performance has been commendable - tax revenues continue to keep pace (notwithstanding tax reductions) while the country's **Debt:GDP ratio** continues to track downwards - Minister Clarke noted that this key ratio is forecast to be less than **84%** by March 2021 with rates of 68% and 60% being targeted for 2023/24 and 2025/26 respectively. The GOJ seeks to reduce Jamaica's National Debt through a multi-pronged approach involving (i) liability management; (ii) pursuit of performance targets; (iii) public divestment of stated-owned commercial assets and (iv) re-integration of certain public bodies.

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Overview (continued)

Arising from a number of initiatives including the Wigton Windfarm and Trans-Jamaican Highway IPOs, Minister Clarke indicated that the GOJ generated **JA$73 billion** which will be used to repay National Debt (representing 3.3% of GDP) by the end of this financial year.

In terms of social protection, it is to be noted that only **28% of Jamaica's senior citizens** currently qualify for a National Insurance Scheme (NIS) pension. This leaves many of our elder citizens in a precarious position. In an effort to address this, Minister Clarke announced a welcome reform to the National Insurance Scheme whereby a modest pension will be provided to any senior citizen regardless of whether they contributed to the National Insurance Scheme once it is determined, following means-testing, that they are considered poor and vulnerable.

While acknowledging recent economic growth levels are not where the GOJ wants them to be (the GOJ had previously targeted economic growth levels of 5% of GDP within 4 years which was not realised), the Minister was exuberant about signs of progress made. He noted a **95% increase in new registrations at the Companies Office in 2019** (over 2018). He exclaimed several times that the economy and businesses across the Island are *"bubbling up*", that the skyline dotted with many cranes and held aloft newspapers crammed with job adverts. The Minister also recounted an anecdote to illustrate that prosperity is being created for "*all the P's*" - a reference to both sides of the Jamaican political divide (the JLP and PNP). Who knows, Minister Clarke may have just coined his campaign slogan for the next elections - "*from strugglin' to bubblin' !*".

On a more serious note, Minister Clarke acknowledged that the economic growth levels assumed over the medium term (ranging between 1.2% - 2.4%) on which the GOJ's fiscal projections have been premised may have to be scaled back (to between 0.7% - 2%) depending on the economic impact that the COVID-19 outbreak may have on Jamaica. The GOJ hopes that the economic stimulus to be generated from the 1.5% GCT rate reduction announced today will also help to counteract negative economic effects from COVID-19. Minister Clarke also announced that the GOJ is making a **JA$7 billion provision** for funding on a contingency basis for a comprehensive COVID-19 action plan should the need arise.

What's Inside

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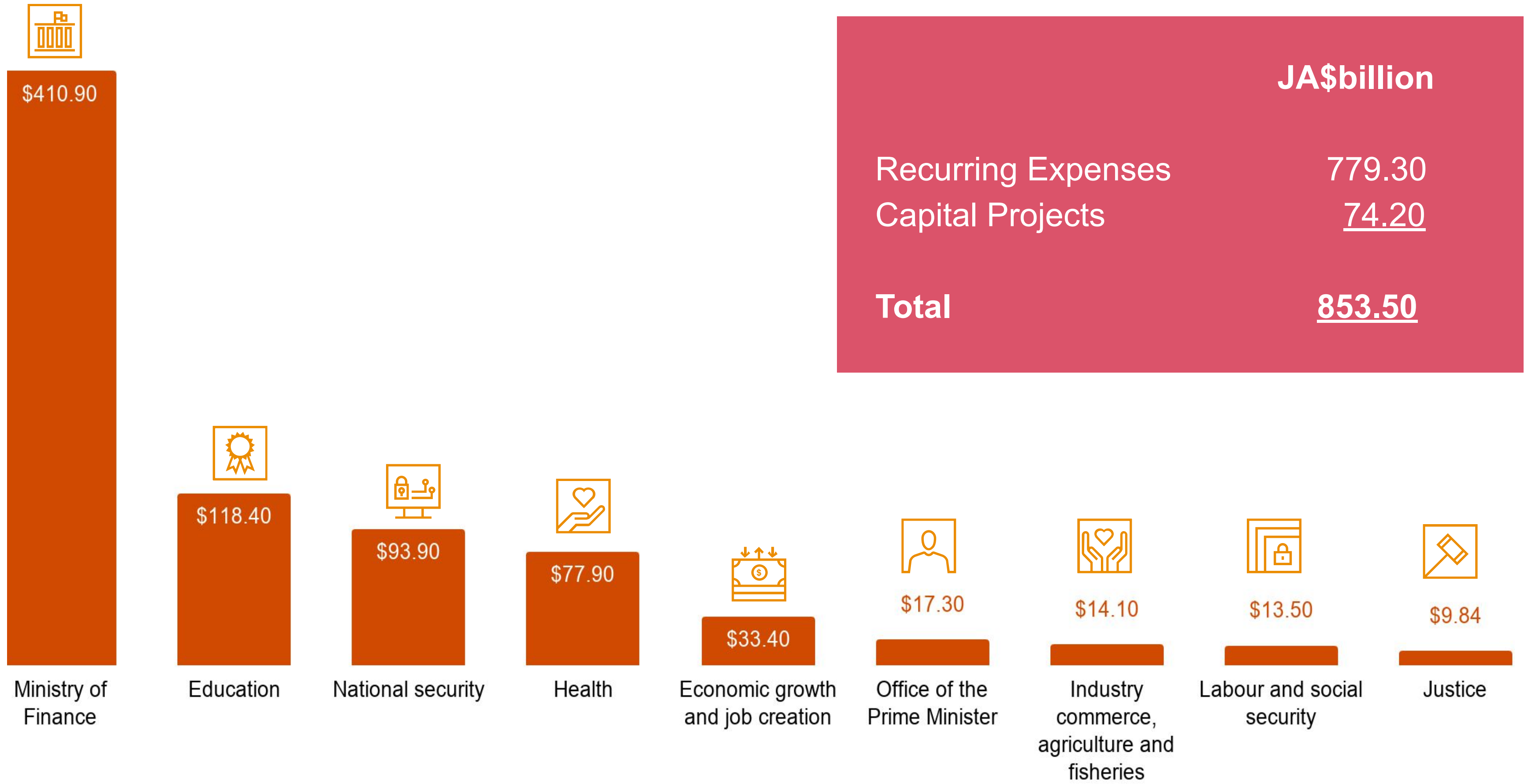
Jamaica: 2020/21 Estimates of Expenditure



	JA$billion
Recurring Expenses	779.30
Capital Projects	74.20
Total	**853.50**

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Overview

2020/21 Estimates of Expenditure

Summary: New Revenue Measures

Reduction of Standard GCT Rate

Reduction of Asset Tax on Financial Institutions

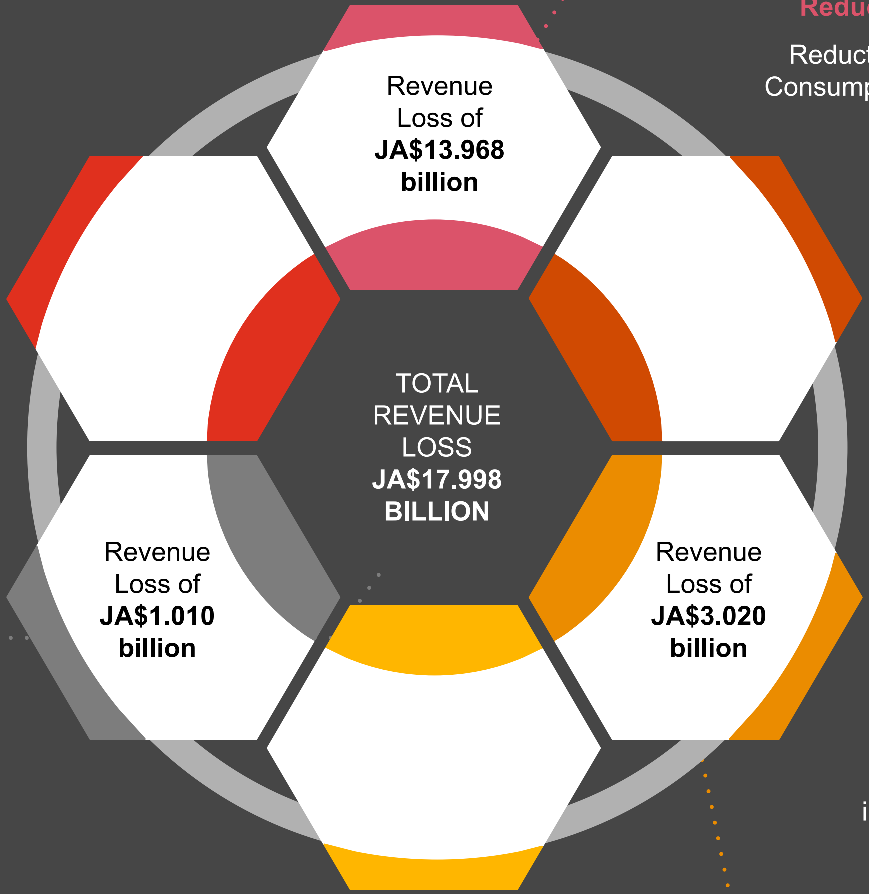
New Income Tax Credit for MSMEs

Reduction in JACRA/ Trade Board Fees

Let's Talk!

Summary: New Revenue Measures

2020/21 Budget



Reduction in the Standard Rate of GCT

Reduction in the Standard Rate of General Consumption Tax (GCT) from 16.5% to 15%.

New Income Tax Credit for MSMEs

Income Tax Credit of JA$375,000 granted to companies with revenues not exceeding JA$500 million per annum

Reduction in the Assets Tax rate imposed on Financial Institutions

Reduction in the rate of Assets Tax imposed on financial institutions from 0.25% to 0.125% of taxable assets.

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Let’s Talk!

Reduction of Standard GCT Rate

Overview of Measure

The Minister announced that, in order to incentivise all sectors of the economy by reducing upfront costs and increasing cash flows, it is proposed to reduce the standard rate of GCT from 16.5% to **15%** with effect from **1 April 2020**. The current rate of 16.5% has remained in place since June 2012, when it was lowered from its highest peak of 17.5%. We understand that other rates of GCT remain unchanged including 25% rate which is levied on telecommunications services and handsets as well as lower 10% rate which is imposed on tourism activities licensed by the Tourist Board.

This further rate reduction being proposed in 2020, coupled with the effects of the increase in the GCT threshold for GCT registration of $10 million, which became effective in April 2019, is therefore expected to create the path for increased tax compliance by taxpayers and generally encourage further growth in the economy.

This measure is expected to result in a potential loss of tax revenue of **$13.968 billion**.

PwC commentary:

The proposed reduction in the standard rate of GCT appears to be driven by the intention to introduce a measure of stimulus to the economy given that (i) economic growth rates have not been as robust as desired and (ii) it is anticipated that the COVID-19 outbreak will negatively impact Jamaica. The attraction of a general GCT rate reduction is that most of the population will benefit in some way and therefore it is hoped that this will encourage additional consumption.

A reduction in the general rate of GCT does however have certain characteristics. The benefit of the reduction will accrue primarily to persons who consume at higher levels. In contrast, persons earning lower levels of income will consume less (and proportionally more GCT-exempt products) so the rate reduction will accrue less to them. Lowering GCT rates can also reduce the cost of imports, which in turn can induce further demand for imports and the need for foreign exchange.

Reduction of Assets Tax on Financial Institutions

Overview of Measure

The Assets Tax (Specified Bodies) Act was enacted in 2003 and imposed the tax on the basis of value of the assets of an entity. The Act was amended in 2012/2013 to introduce an *ad-valorem tax* on 'specified regulated entities' - including deposit-taking entities regulated by the Bank of Jamaica and securities dealers and insurance companies regulated by the Financial Services Commission. The Asset Tax regime was overhauled in 2019, with the elimination of the assets tax imposed on unregulated entities, i.e. non-financial institutions. Specified regulated entities continued to pay an ad valorem assets tax of 0.25% on the value of their 'taxable assets'. The continuation of the Assets Tax regime for specified regulated entities resulted in significant amounts of assets tax payable by the specified regulated entities. This is further compounded by the inability of the regulated entities to claim an income tax deduction for the assets tax paid.

It is being proposed to **reduce** the Assets Tax payable by **specified regulated entities** to 0.125% effective year of assessment 2021. Specified regulated entities shall continue to be liable for the Assets Tax in the current financial year at the rate of 0.25%

It is estimated that the revenue loss from this measure will be **JA$3.020 billion** for Year of Assessment 2021, when the measure is implemented.

Reduction of Assets Tax on Financial Institutions

PwC commentary:

The Assets Tax was abolished for unregulated entities in 2019/2020, as it was seen as a ‘nuisance tax’ that bore little relationship to the net income or value created by the entity holding the ‘taxable assets’. This remains true for specified regulated entities that are still required to pay an *ad valorem* Assets Tax levied on the value of their assets regardless of the net income generated from these assets.

Since the introduction of the *ad valorem* Assets Tax on specified regulated entities in 2012/13, these entities have been subject to increasing rates of Assets Tax, from 0.14% in 2012/2013 to 0.25% in 2014/2015. It is now being proposed to reduce the tax to 0.125%, albeit for the year of assessment 2021. This means that the financial entities will continue to pay the tax at the higher rates of 0.25% for year of assessment 2020.

In his Presentation, Minister Clarke noted that while Assets Tax is imposed on financial institutions, it is substantially borne by the borrowing public or investors (depending on the assets involved). The Assets Tax also acts as a disincentive to maintain financial assets within Jamaican regulated entities. The Minister also indicated that he would consider a further reduction if the financial institutions respond with further lending at more competitive rates.

We commend the Minister for the reduction announced today but would have preferred to have seen a full abolition of same. Jamaica has a strong and well regulated financial sector with extensive financial talent. Our ability to attract financial activities to be undertaken from Jamaica is curtailed by this Assets Tax if the activities require assets to be recorded on the balance sheet of the local financial services entity. Notwithstanding that Jamaica might otherwise score strongly in a business location assessment, we have ultimately seen Jamaica lose out (and the business go elsewhere) as a result of the Assets Tax ultimately rendering the business case unattractive vis-á-vis another jurisdiction. When this happens, we neither get the Assets Tax, the investment, the employment nor the other tax contributions.

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Let’s Talk!

New Income Tax Credit for MSMEs

Overview of Measure

It is proposed that a non-refundable income tax credit of JA$375,000 be introduced for Micro, Small and Medium Enterprises (MSMEs) with effect from the year of assessment 2020. The income tax credit will be available for entities with annual revenues of JA$500 million or less.

In the case of unregulated MSMEs, the credit of JA$375,000 may be claimed in addition to any Employment Tax Credit (ETC) available. The income tax credit must be utilised in the year in which it is granted. It may not be carried forward to be claimed against income tax liabilities in subsequent years of assessment. The initiative will benefit both regulated and unregulated entities (whose turnover does not exceed the JA$500m threshold).

It is estimated that the revenue loss from this measure will be **JA$1.010 billion** for 2020/21.

PwC commentary:

Where MSMEs operate on an unincorporated basis (e.g. as a sole trader), the individual taxpayer is not liable to income tax until his income exceed an annual tax-free threshold (currently JA$1,500,096). Companies are not however entitled to benefit from this threshold. The proposed income tax credit therefore appears to extend a similar level of tax relief to MSMEs that operate on an incorporated basis (i.e. as companies). For some operators, this may act as an incentive to incorporate their business.

If the intention is put small business operators on a similar footing irrespective of whether they are incorporated or not, it would appear that the credit would not need to be extended to businesses generating up to JA$500m in revenues. In the absence of suitable anti-avoidance provisions, the JA$500m threshold may also encourage some taxpayers to bifurcate their activities/income across multiple entities in order to qualify for multiple credits.

Reduction in JACRA/Trade Board Fees

Overview of Measure

The Jamaica Agricultural Commodities Regulatory Authority (JACRA) is a statutory body responsible for the regulation, standardisation and promotion of agricultural products, including cocoa, coffee, coconut and spices. JACRA charges the farmers fees for licenses for dealing in specified produce, importing or exporting same. Similarly, the Trade Board Limited is a regulatory agency of government tasked with certifying Jamaican exports and issuing import and export licenses for a fee.

It is proposed that the the fees charged by JACRA and the Trade Board be reduced by 50% with effect from **1 April 2020**. The remaining 50% will be financed through government subvention. The reduction in the fees shall not apply to Trade Board fees payable by importers of motor vehicles. It is estimated that this measure will increase government expenditure by $300M.

PwC commentary:

Increasingly statutory bodies and agencies have been required to generate sufficient revenues to meet their budgetary requirements so that they do no longer represent a burden on the Central Government budget. This has often resulted in extensive fees and charges being levied for services or licenses/approvals issued by such bodies and agencies. The Minister noted that the levels of fees charged by JACRA were placing a significant burden on farmers and acted as a deterrent to economic indicated that a number of agencies had been charging fees, as a means of funding the services rendered to the public. However, this had the self-defeating effect of discouraging persons who could not afford to pay the fees charged by the agencies from engaging in farming or trading activities.

This proposal is aimed at reducing the fees and costs to farmers and other businesses (excluding importers of motor vehicles), whilst allowing the agencies to maintain their service standards through the government subvention. This initiative will be welcomed by farmers and traders and may stimulate activity in the critical agricultural sector.

Let's talk!

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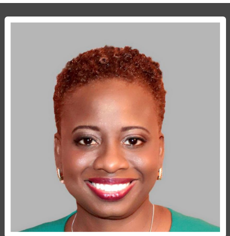

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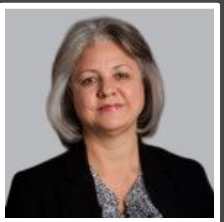

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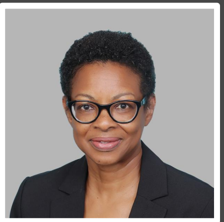

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