

Jamaica: 2021/22 Budget

A review by PwC Jamaica

9 March 2021



Overview

Today the Government of Jamaica (GOJ) presented its plan to Parliament to fund the 2021/22 National Expenditure Budget of **JMD 830.78 billion**. In his Budget Speech, Dr. the Honourable Nigel Clarke, Minister of Finance and the Public Service outlined how this expenditure would be financed. With 2020/21 Revenue Estimates projected at **JMD 807.32 billion**, the Minister proposed “NO NEW TAXES” to fund the shortfall, instead preferring to avail of the fiscal space provided by a one-off dividend coming from the Bank of Jamaica (BoJ) of **JMD 33 billion**.

The Minister acknowledged the devastating impact that the COVID-19 pandemic has had on Jamaica including the loss of 450 Jamaicans from the virus to date. He also noted that the Planning Institute of Jamaica (PIOJ) expects the Jamaican economy to contract by **12%** in 2020/21 with a **70%** contraction of the tourism sector.

Notwithstanding a projected **JMD 70 billion** decline in revenues for 2021/22 as a result of the economic fall-out, Minister Clarke acknowledged that now would not be the right time to burden the economy with additional taxes. No doubt he heeded the advice of the late British Prime Minister Winston Churchill who had noted that “... for a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle.”

Recognising the need to stimulate economic growth when Jamaica starts to emerge from the pandemic, Minister Clarke announced a series of proposals to enhance our regulatory, fiscal and business framework including:

- Operationalising the Large Scale & Pioneer Industries tax regime that has been on the statute books for some years but has not been utilised for any particular project. Selection of beneficiaries will be rules-based, measurable and transparent.
- Implementing outstanding Casino Gaming legislative amendments in an effort to support material investments in the pipeline.
- Implementation of a digital currency backed by the Bank of Jamaica.



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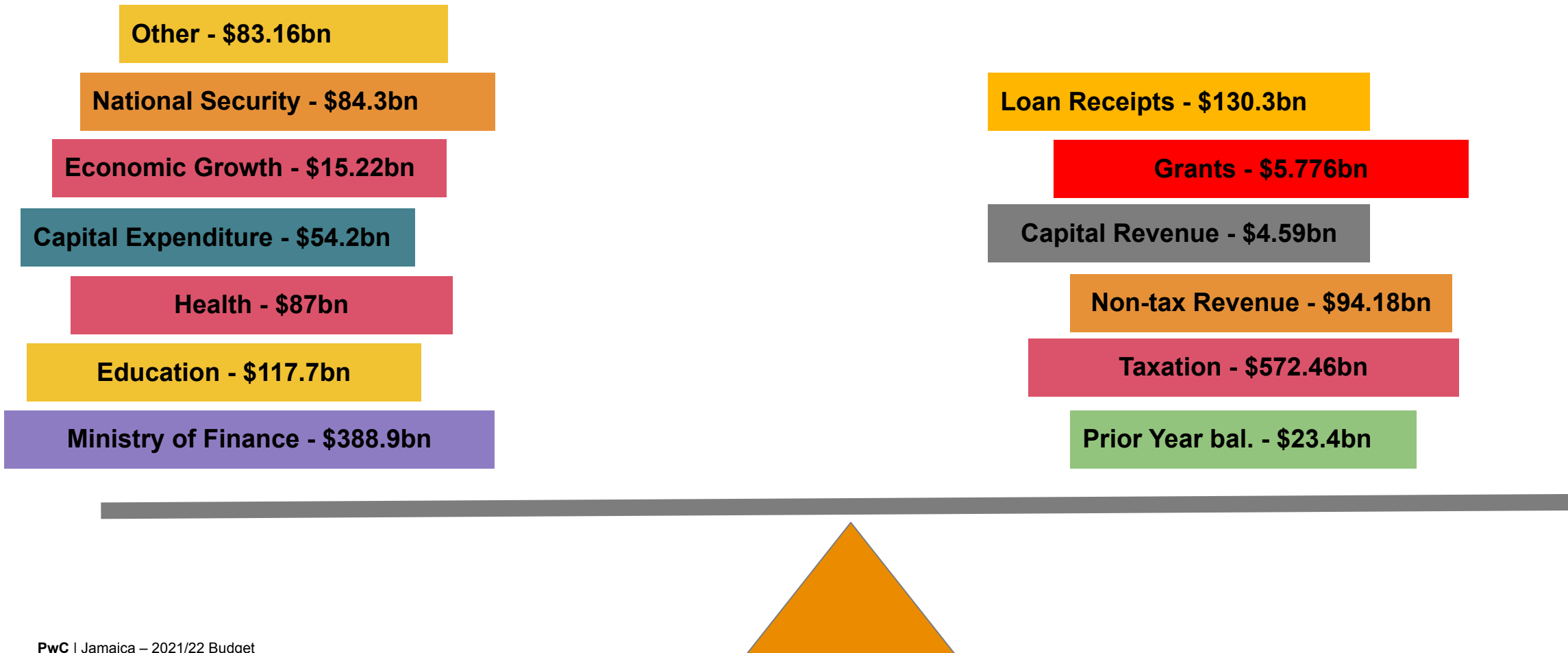


- Bringing micro-lending agencies under the purview of the Bank of Jamaica.
- Establishing a Fund to facilitate the raising of equity financing by Micro, Small and Medium Enterprises (MSMEs).
- Modifying the annual filing deadline for Income Tax Returns from 15 March to 15 April (we await details of how this will be implemented including transition provisions). At present most annual income tax is collected two weeks before the end of the fiscal year. This adversely impacts the ability to conduct fiscal planning during the year.
- Modernising the taxation regime through a suite of legislative reforms (implementation of a new Customs Act, overhaul of the Income Tax Act etc.).
- Increasing the capital expenditure budget by 20%.
- Encouraging businesses conducting activities and reporting income overseas to relocate same in Jamaica in light of recent changes to international tax rules and pressures being applied to offshore jurisdictions. In this regard it is proposed that a committee will review the matter and make recommendations to the Minister on the way forward.
- Undertaking public sector compensation reform to standardise job scales and rates as well as eliminating the proliferation of allowances.

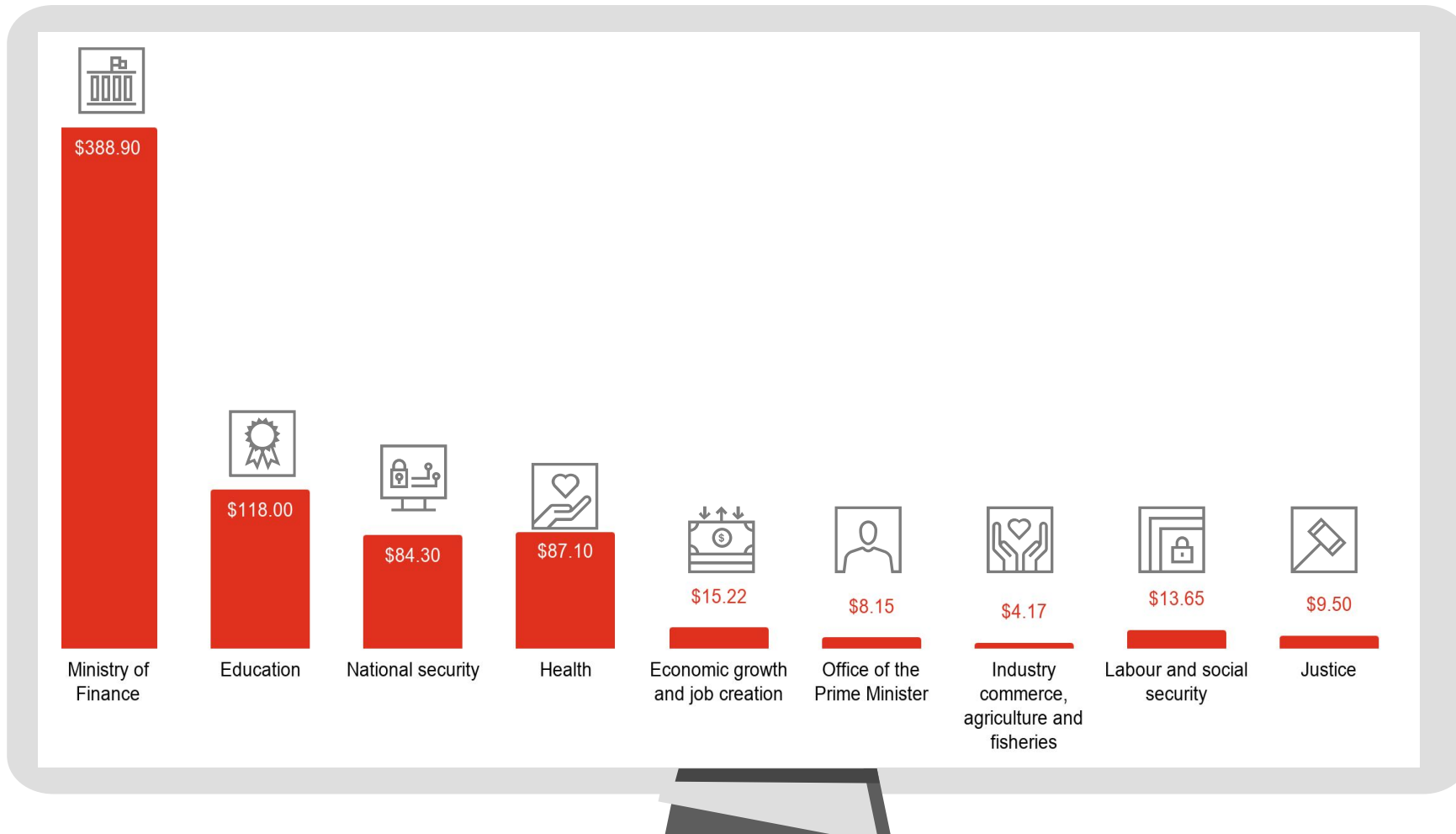
In conclusion, it is to be welcomed that the Minister appears to have found sufficient fiscal space for 2021/22 to avoid having to find additional taxes to fund the Budget notwithstanding the significant fiscal downturn. Given that this inflow is expected to be a one-off, the Government will therefore need to find replacement revenues next year and this will depend on the ability of our economy to rebound in 2022/23. This in turn will depend on how quickly Jamaica can get the pandemic under control, secure sufficient vaccines and distribute same and be ready to participate in the anticipated rebound in the global economy in due course. If we are unable to do this, Supplemental Budgets could be required later in the year.

Jamaica – 2021/22 expenditure budget

- how it is being financed



Jamaica – 2020/21 estimates of expenditure



	JA\$ billion
Recurring Expenses	247.8
Employee compensation	239.2
Capital Projects	54.2
Debt service	272.2
Loan to public bodies	17.3
Total	830.8

Removal of CAF on certain exports



Overview of Measure

Historically a Customs Administration Fee (CAF) of JMD 3,000 has been imposed on each Export Declaration filed with the Jamaica Customs Agency (JCA). This has created a significant cost for exporters, particularly manufacturers of crafts and other artisan products who export in low volumes on a retail basis via online sales.

Minister Clarke noted that of 43,000 export declarations filed, 73% related to export by air freight but represented only 6% of exports by value whereas 27% of the declarations (sea freight) represented 94% of export value.

The Minister announced that CAF shall no longer be levied with effect from 1 April 2021 on export declarations with an export value less than USD 500. Export Declarations for exports valued at more than USD 500 will continue to attract the CAF.

This measure is expected to result in a loss of tax revenue of **JMD 70 million** for 2021/22.

PwC commentary:

This CAF on export declarations has been a significant deterrent for Micro, Small and Medium Enterprises exporting small value items in low volume. In some cases the CAF can cost nearly as much as the item being exported. Of the 43,000 declarations noted by the Minister, 11,000 were for export values below USD 50. In these circumstances, MSMEs are often forced to absorb the CAF charged unless they can pass it on to the purchaser of the goods (which in turn may make the price uncompetitive).

We welcome the introduction of the *de minimis* value of USD 500 on exports which will allow small businesses to be more competitive, particularly when trading on online shopping platforms.

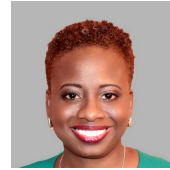


Let's Talk!

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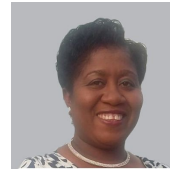
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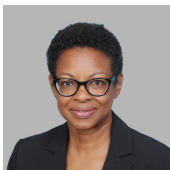
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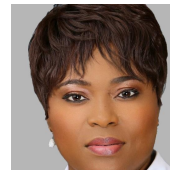
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