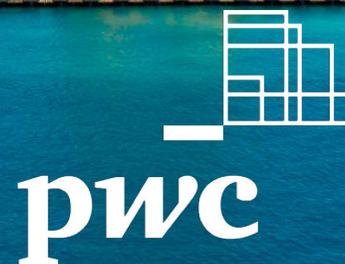
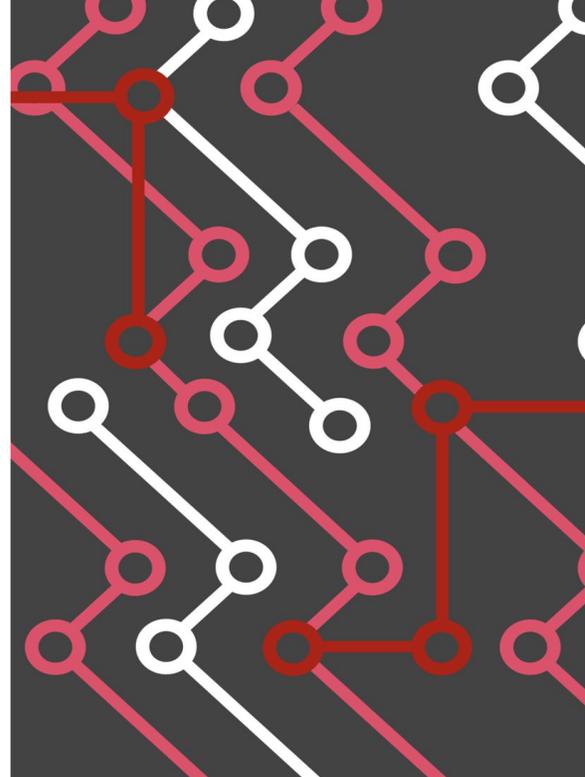
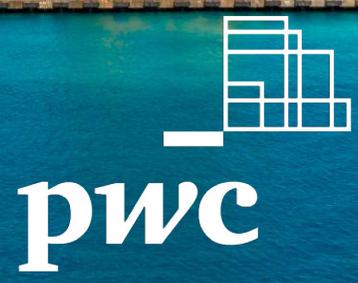
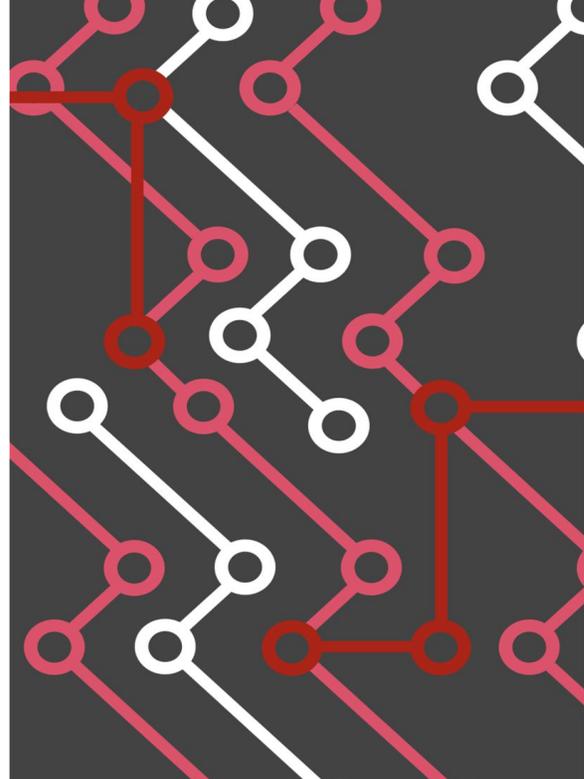


# 2022/23 Budget JAMAICA

8 March 2022



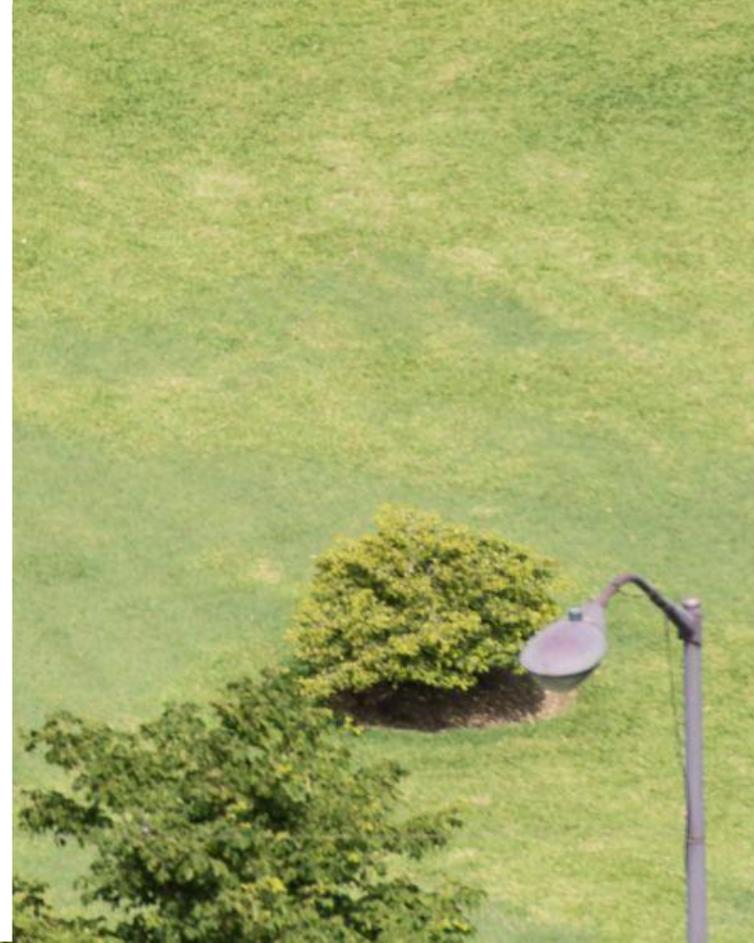
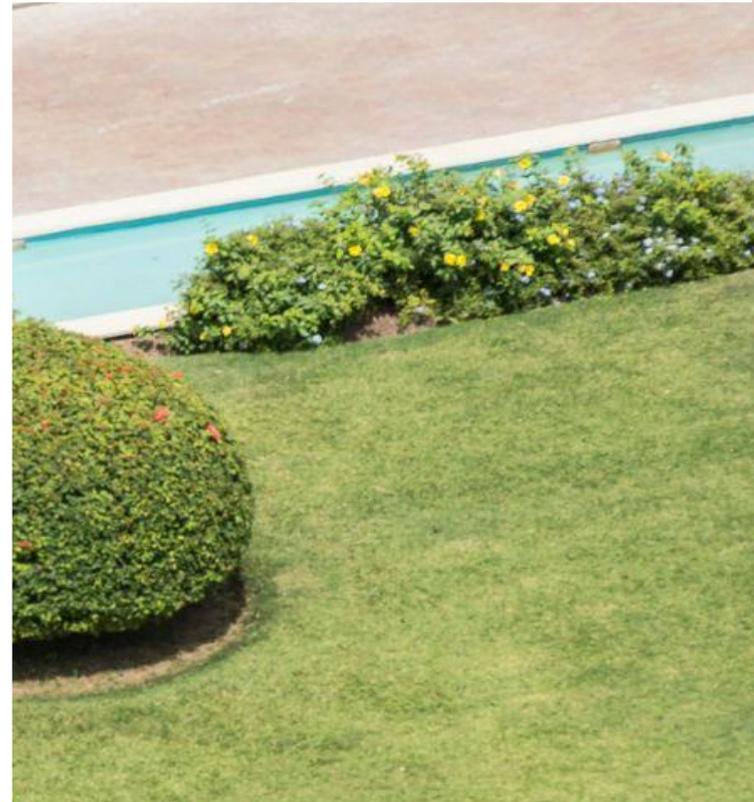
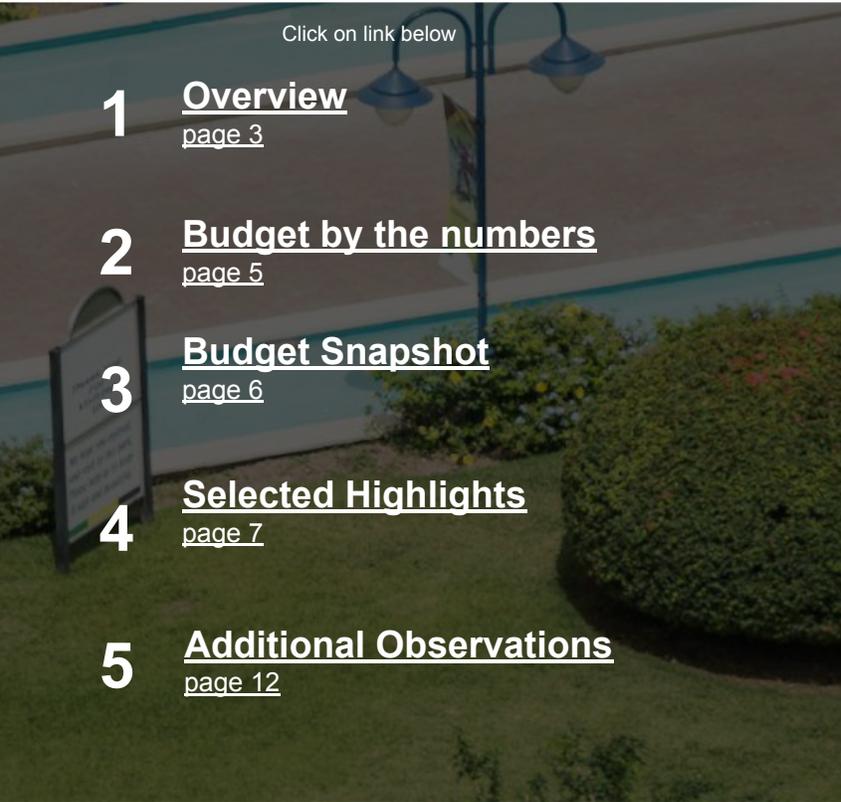


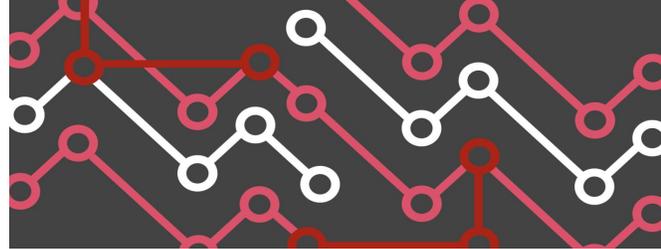
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## Jamaica Budget 2022/23 - An Overview

Today Dr. the Honourable Nigel Clarke, Minister of Finance and the Public Service delivered his opening Budget Presentation for the 2022/23 financial year.

In an animated speech, Minister Clarke outlined how the Government of Jamaica (GOJ) plans to fund the 2022/23 National Expenditure Budget of **JMD 912.0 billion**, which was previously tabled in Parliament last month.

Overall revenues are estimated at **JMD 906.4 billion** leaving a **JMD 5.6 billion** gap which the Government proposes to fund by utilising prior year cash balances. In light of this, Minister Clarke gleefully announced “No New Taxes” indicating that this is the fifth consecutive year where no new taxes are being levied and the seventh consecutive year when viewed on a net basis.



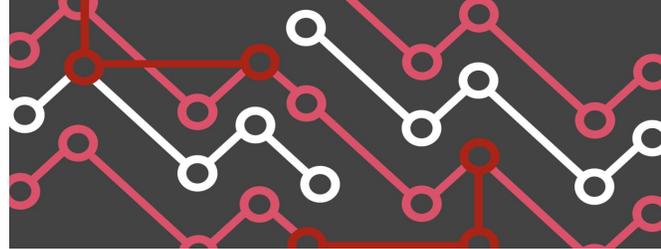
**Brian J. Denning**  
CARICOM Tax Leader

Fiscally speaking this is particularly commendable as we are only now starting to emerge from under the crushing burden of a global pandemic only to face further economic uncertainties consequent on the brutal war now being waged by Russia in Ukraine. If Jamaica had not so diligently walked the path of fiscal rectitude that it has done over the last 10-15 years, the country would have been a lot less resilient than it has been in the face of these external shocks. It is important to remember that it is not that long ago that Jamaica required new taxes annually to fund perennial fiscal shortfalls.

Tax revenues are projected to be **JMD 671.5 billion** for 2022/23 (2021/22 Budget Estimate: Original - JMD 572.4 billion / 3rd Supplementary - JMD606.2 billion). Post-pandemic economic recovery, inflation generally and dramatic increases in oil prices will all undoubtedly contribute to increased tax take. Taxation levied on automotive fuels, for example, has both a fixed tax component (that protects the base when oil prices fall) and an *ad valorem* tax component that increases tax take as oil prices rise. Capital revenues are projected to be **JMD 33 billion** for 2022/23 (compared to 2021/22 original budget estimates of JMD 4.4 billion) primarily due to extraordinary receipts described as miscellaneous receipts (JMD 17.8 billion) and proceeds from divestment (of JMD 14.1 billion). The Capital Development Fund will also provide a grant of **JMD 4.9 billion**.

Minister Clarke also announced a series of proposals to enhance our regulatory, fiscal and business framework including:

- Promulgation of a new Customs Act which will represent a major overhaul of the customs framework in Jamaica. The Customs Bill had previously been tabled in Parliament and its review has been completed by the Joint Select Committee.
- A wholesale review of the Income Tax Act to address areas in need of reform.
- Amendment of the Large Scale & Pioneer Industries tax framework to operationalise same. This regime has been on the statute books for some years but has not been utilised for any particular project.
- A consolidation of Jamaica’s various payroll taxes into a single payroll tax deduction.
- An implementation of a uniform sanctions code across Jamaica’s tax framework (with assistance from the World Bank).



## Jamaica Budget 2022/23 - An Overview - continued

- Full implementation of the Common Reporting Standard (CRS) which is a global automatic exchange of information protocol to which Jamaica is a signatory.
- Establishment of a Fiscal Commission and selection of a chairperson for same. This Commission will be established to act as a guardian for adherence to Jamaica's fiscal rules.
- Subject to fiscal space permitting, reduction of the Asset Tax on financial institutions, which had previously been announced in the 2021/22 Budget but subsequently deferred due to fiscal uncertainty brought on by the COVID-19 pandemic. No timeline was given for an implementation of this reduction.
- Amendment of the Proceeds of Crime Act (POCA) to facilitate the opening of small bank accounts with reduced Know-Your-Customer (KYC) requirements.
- Implementation of **JAMDEX** (Jamaica Digital Exchange), a digital currency backed by the Bank of Jamaica.
- Reform of public sector compensation arrangements and reduction of the myriad of pay scales and allowances currently existing.
- Redesign of Jamaica's paper currency, which will include incorporating the images of all of Jamaica's National Heroes and the issue of a new JMD 2,000 bank note which will exhibit the images of the late Most Hon. Edward Seaga and the late Most Hon. Michael Manley.
- Reduction in the rate of import customs duty (ICD) on the importation of electric vehicles from 30% to 10% for an initial five year period (up to 1,000 vehicles per annum). At current levels the duty forgone is limited due to very few all-electric cars being imported. It is hoped this reduction will drive an shift to electric cars and help to reduce the Island's dependence on oil imports.

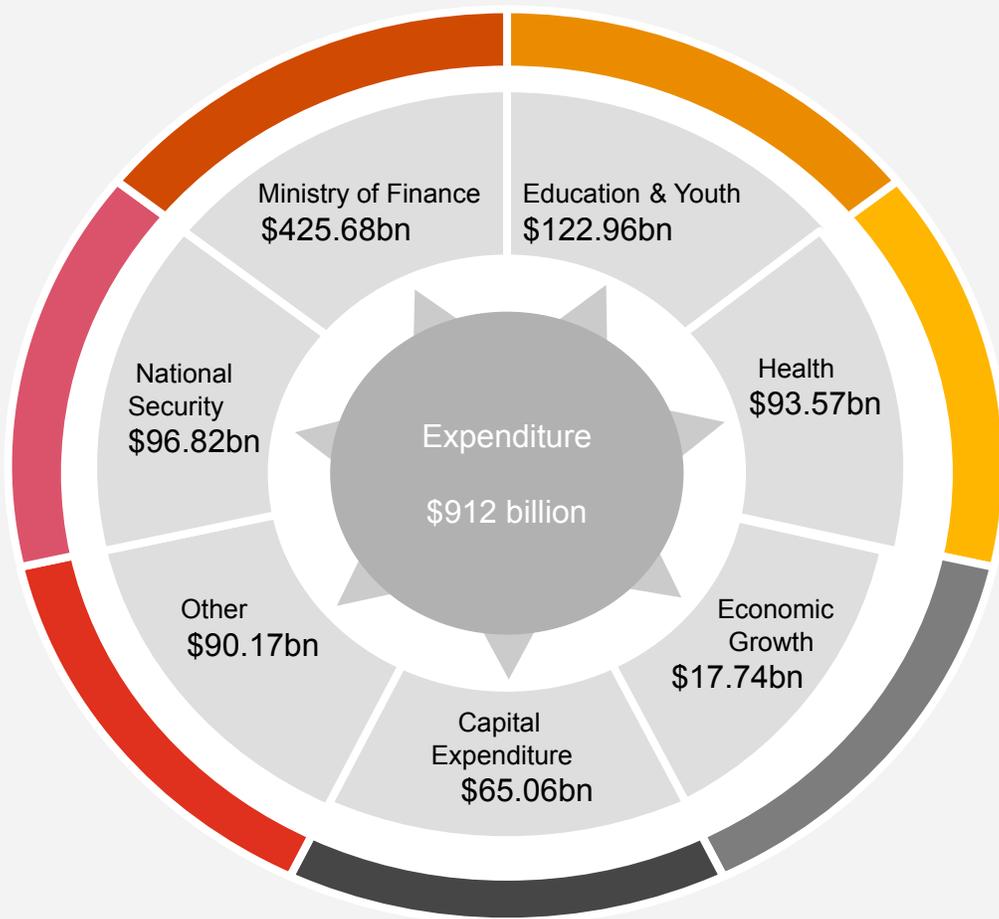
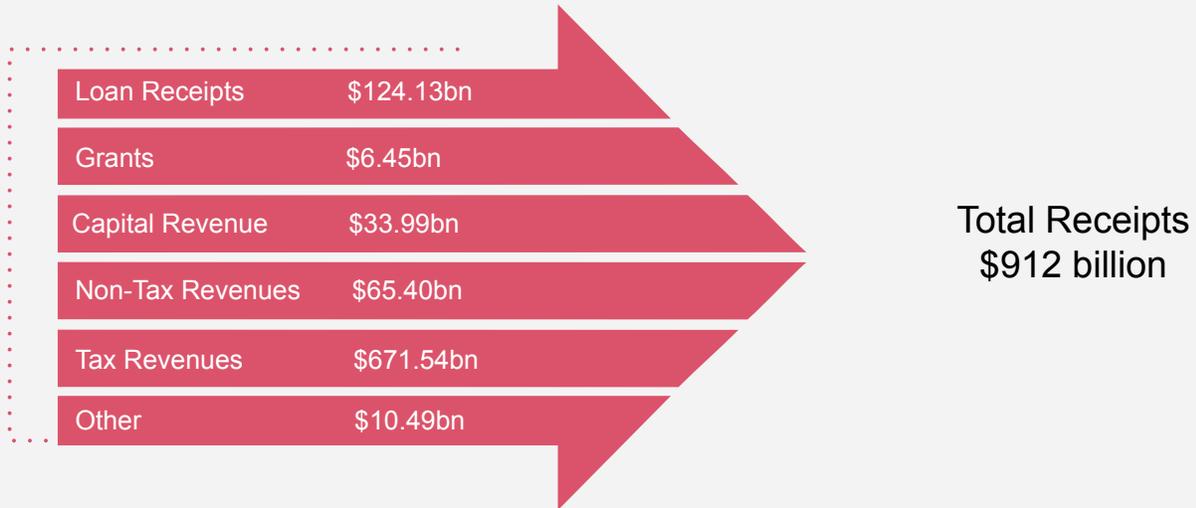
In light of what Jamaica has had to endure over the last two years as a result of the global pandemic and given the current war in Ukraine and its global impact, Minister Clarke has recognised that the Jamaican public is not in a position to bear the burden of new taxes. The public will bear more taxes due to increased prices, as inflation has been rising locally and internationally. This in turn feeds into higher import charges and General Consumption Tax borne by consumers as well as higher import duties and Special Consumption Tax on fuel purchases as oil prices reach record levels internationally.

The ability to meet the tax revenue projections will depend on how quickly our economy can rebound in 2022/23. The ongoing geopolitical and economic turmoil caused by Russia's invasion of Ukraine could constrain the anticipated rebound and impact projections as the year progresses, so time will tell as to whether a Supplemental Budget may be required.

# Jamaica - 2022/23

## Budget by the numbers

- and how it's being financed





## Budget touchpoints

## Budget in numbers



### Increase in Estimated Tax Revenue

	2021/2022 Budget Estimates	
	Original J\$m	3rd Supplementary J\$m
Income Tax	23,078.9	19,755.4
Customs Duty	12,045.6	7,023.1
GCT	34,269.7	26,672.5
SCT	8,085.0	5,195.5
Travel Tax	10,918.4	607.7
Education Tax	2,480.5	3,026.2
GART	1,931.6	230.8
Other	<u>6,265.0</u>	<u>2,785.3</u>
<b>Total</b>	<b>99,074.7*</b>	<b>65,296.5</b>

\* FY2022/23 Est. Tax Revenues (ETR) \$671,536.1bn - FY2021/22 Orig. Budget ETR \$572,461.3bn

\*\* FY2022/23 ETR \$671,536.1bn - FY2021/22 Third Supplementary Budget ETR \$606,239.6bn

Note: Table updated from Original Newsletter issued to incorporate additional comparison with 3rd Suppl. Budget

### Increase in Estimated Tax Revenue

While no new taxes were announced, a review of the Estimates of Revenue & Expenditure indicates that estimated tax revenue is projected to increase by \$99bn over original budget estimates for the previous fiscal year. This contrasts with an increase of \$65.3bn when compared to the FY2021/22 3rd Supplementary Budget estimated tax revenues. In light of the economic uncertainties currently being faced, it appears that Minister Clarke is confident that the projected increase in economic activity and prices will be sufficient to drive increased tax revenues for 2022.



### Increase in Estimated Capital Receipts

- External Receipts - \$28.17bn
  - Loan Receipts - \$ 1.38bn
- \$29.55bn**

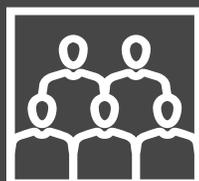
\* FY2022/23 Est. Capital Revenues \$33,991.6bn - FY2021/22 Budget Est. Capital Revenues \$4,445.1bn (including \$4,348.7bn in extraordinary receipts)

(Note: \$32,848.3bn increase in capital revenues - when compared to FY2021/22 Third Supplementary Budget Est. of Capital Revenues \$1,143.3bn)

### Increase in Estimated Capital Receipts

Capital receipts are projected to increase by \$29.55bn over the previous year's budget estimate. This is primarily due to Extraordinary Receipts, including a divestment, that is projected to raise \$14.10bn in revenue.

This contrasts with an projected increase of \$32.85bn when compared to the FY2021/22 3rd Supplementary Budget estimated capital revenues.



### Decrease in Estimated Loan Receipts

\* FY2022/23 Est. Loan Receipts \$124,130.1bn - FY2021/22 Original Budget Est. Loan Receipts \$130,305.6bn

(Note: \$14.4bn reduction in loan receipts - when compared to FY2021/22 Third Supplementary Budget Est. of loan receipts of \$138,575.6bn)

### Decrease in Estimated Loan Receipts

Government loan receipts are projected to decrease by \$6.2bn when compared to original budget estimates for the previous year.

This contrasts with an projected reduction of \$14.4bn when compared to the FY2021/22 3rd Supplementary Budget estimated loan receipts.



## Highlights



### Large Scale & Pioneer Industries Regime Reform

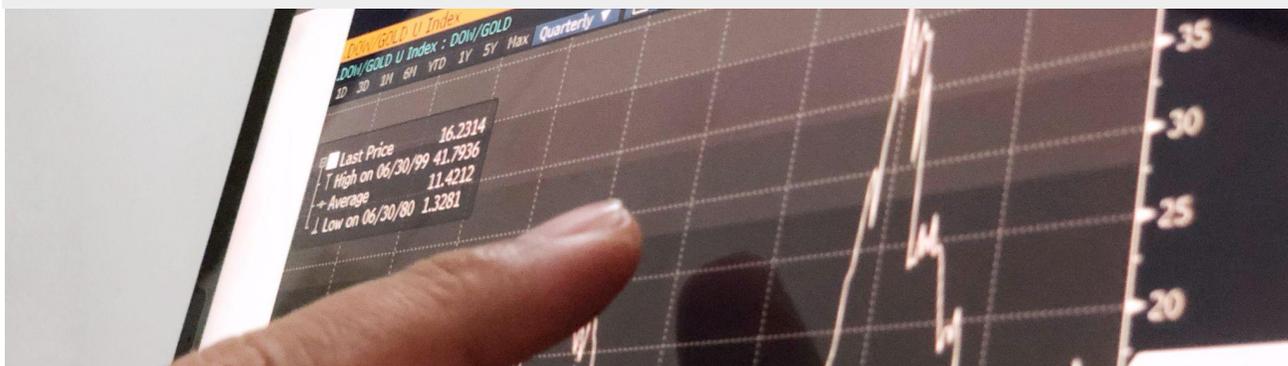
The Income Tax Relief (Large Scale Projects & Pioneer Industries) Act provides that a top-up income tax incentive may be granted to any project designated as a 'large scale project' or an economic activity designated as a 'pioneer industry'. The nature and extent of the income tax incentive shall be determined by the Minister but the Act caps the aggregate amount of tax relief granted to all projects in any one year to 0.25% of the Gross Domestic Product (GDP) in the year immediately preceding the financial year.

To date, no regulations have been issued to support implementation. Confining the incentive to income tax also limits its utility given that non-income taxes tend to be of greater concern in the initial investment/development phase of these mega projects. Minister Clarke announced the GOJ's intention to revisit and amend this framework to enhance its utility, where needed, in order to attract large-scale projects.

### Consolidation of Payroll Taxes

Jamaica imposes multiple statutory levies and contributions on employers, employees and the self-employed (NHT, NIS and HEART contributions as well as Education Tax). These currently accrue to four separate state agencies: the National Housing Trust, the NIS Office, TAJ and HEART Trust/NTA. The monthly payment/filing and annual filing of these amounts were consolidated some years ago but the underlying rules governing their imposition have remained unchanged. To reduce complexity and inequity in their application, the underlying base and manner in which they are imposed needs to be harmonised.

Minister Clarke announced the GOJ's intention to consolidate these into a single payroll deduction but no further information was provided as to how it is proposed to be done. This announcement is welcome as reform in this area is overdue. At a minimum, the tax base would need to be harmonised in order for a single calculation to be performed. It is unclear at this point if the Minister's intention is to go beyond base harmonisation (e.g. whether rates would also be modified etc.) so we await further details from the Ministry of Finance on this proposal.





## Highlights (cont'd)



### Proposed Reduction in Asset Tax

An *ad-valorem* Assets Tax is imposed on the value of the assets of 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. This tax is currently levied at a rate of 0.25% on the value of the 'taxable assets' of these institutions. Given the quantum of assets maintained by financial institutions, this can be a very material tax liability. This is further compounded by a prohibition on claiming an income tax deduction for asset tax.

In March 2020, Minister Clarke announced in his 2020/21 Budget Presentation that the rate would be reduced from 0.25% to 0.125%, effective for the year of assessment 2021. Given the economic uncertainties arising from the emerging COVID-19 pandemic, this reduction was postponed. In his presentation today, Minister Clarke acknowledged that this matter still needs to be addressed but no revised implementation date was announced.

This Asset Tax (and the manner in which it is imposed and calculated) places an excessive and inequitable tax burden on financial institutions, which are already much more highly taxed than the rest of the Jamaican business community. It acts as a disincentive for financial institutions to hold and maintain assets in their Jamaican entities. With calls being made for the unbanked to enter the formal banking system and participate in the economy, it is important that the financial institutions are allowed to operate efficiently to support this initiative and not subjected to taxation for the mere holding of investment assets.





## Highlights (cont'd)

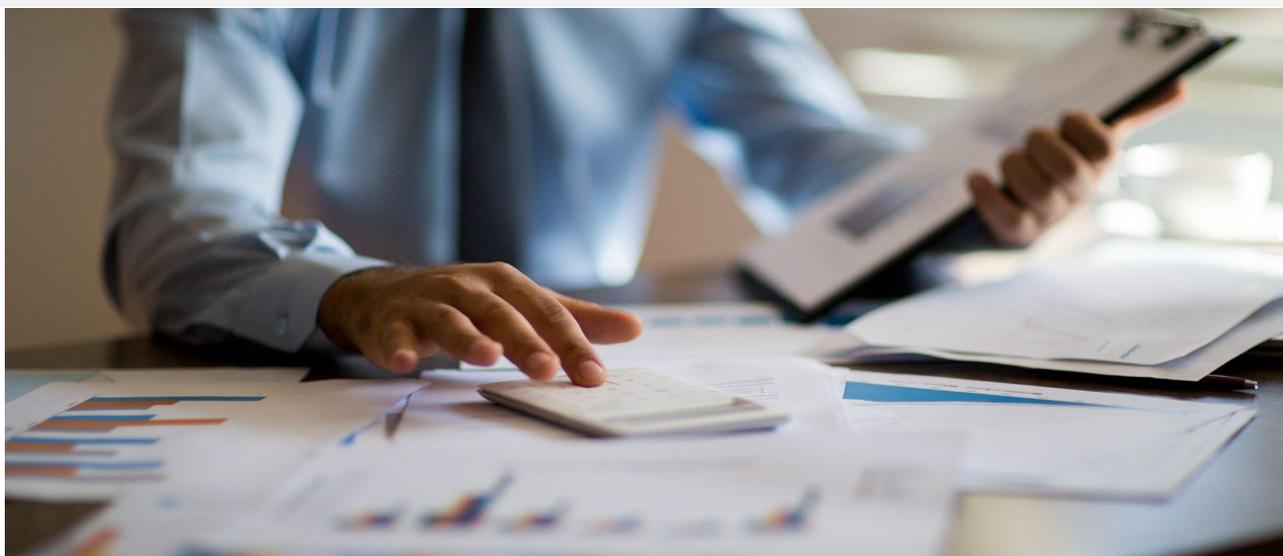


### Reduction in import duty on Electric Motor Vehicles

The following table summarises the import rates applicable to (1) hybrid and (2) electric vehicles:

	Hybrid	Electric
Customs Duty	20%	30%
Special Consumption Tax	0%	0%
Environmental Levy	0.5%	0.5%
General Consumption Tax	15%	0%
Customs Administrative Fee (CAF)	Yes	Yes

It was announced by Minister Clarke that the import customs duty (ICD) on the importation of electric vehicles will be reduced from 30% to 10% for an initial five year period (up to 1,000 vehicles per annum). It is hoped that this measure will encourage more Jamaicans to invest in renewable energy vehicles, especially in light of increasing efforts to protect the environment and the rising costs of gasoline.





## Highlights (cont'd)



### Roll-Out of JAMDEX Digital Currency

In his Budget Presentation, Minister Clarke announced the implementation of JAMDEX (Jamaica Digital Exchange), a digital currency backed by the Bank of Jamaica (BOJ) in the first quarter of financial year 2022/23.

Unlike crypto currency, this shall be a form of legal tender in Jamaica and shall be a fiat currency (i.e. it shall be backed by the BOJ) and may be freely exchanged for cash. The BOJ shall be the sole issuer of the JAMDEX digital currency.

Users will create an electronic JAMDEX wallet which may be accessed through a website or mobile app. The wallet may be topped up through authorised agents. The JAMDEX wallet will not attract any fees to conduct transactions. The Minister did not indicate whether a transaction or daily maximum cap will apply to JAMDEX transactions. As an incentive for the general public to register and create a JAMDEX electronic wallet, the GOJ will be offering to credit JMD 2,500 to the first 100,000 wallets opened.

Sporting a new haircut, Minister Clarke paid his barber, Paul via the JAMDEX app during his Presentation. It was a close shave ... but the funds went through.





## Highlights (cont'd)



### Common Reporting Standard Implementation

The Common Reporting Standard (CRS) is a global automatic exchange of information protocol to which Jamaica is a signatory. The CRS was incorporated into the Laws of Jamaica in 2021.

The local CRS framework requires financial institutions to report financial account information on non-residents to Tax Administration Jamaica (TAJ) and in turn TAJ shall exchange this information with other competent authorities overseas.

Correspondingly these overseas competent authorities will, under the CRS, submit financial account information in relation to financial accounts held by Jamaicans overseas to TAJ.

Minister Clarke indicated that financial institutions must first report under the CRS framework by May 2022 and that TAJ shall commence exchanging information under the CRS protocol by September 2022.



### Implementation of Low-KYC Bank Accounts

It is proposed to amend the Proceeds of Crime Act (POCA) to facilitate the opening of bank accounts with reduced Know-Your-Customer (KYC) requirements.

These 'low-KYC' accounts will require less burdensome KYC administrative requirements to open and maintain for both financial institutions and their customers. These 'low-KYC' bank accounts shall be targeted at holders of small account balances not exceeding prescribed balance thresholds. These accounts will also not attract bank charges.

As an incentive for the general public to open these accounts, the GOJ will be offering to credit JMD 2,500 to the first 100,000 accounts opened.



# Additional Observations



## Additional Observations

In his 2021/22 Budget Presentation last year, Minister Clarke announced the GOJ's intention to modify the annual filing deadline for Income Tax Returns from 15 March to 15 April. 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.

We continue to await details of how this will be implemented, including transition provisions. This reform is much needed as Jamaica's tax filing deadline is (1) very tight by international standards and (2) is not staggered (based on one's financial year end) like other jurisdictions. Most businesses prepare financial statements up to 31 December. This leaves just 10 weeks between their financial year end and tax filing obligation. Furthermore companies listed on the Jamaica Stock Exchange must also meet stringent JSE filing requirements during this same period. This puts undue pressure on taxpayers, their employees, external auditors, tax advisors and TAJ to complete their respective roles in such a compressed time period. We welcome receiving further information on this proposed reform.

In his 2021/22 Budget Presentation last year, Minister Clarke also indicated that he wished to encourage 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. We continue to await details of how this will be implemented, including transition provisions.

As previously noted, the Minister proposes to revisit the Asset Tax levied on financial institutions in light of the undue burden it places and the disincentive it creates to conduct economic activity in Jamaica involving the holding of financial assets by regulated entities. In addition to this, we would encourage the Minister to also revisit the significantly higher rate of corporate income tax imposed on financial institutions and other regulated entities relative to other business taxpayers. The higher rate of income tax was initially maintained for regulated entities as a temporary measure to provide the necessary fiscal space to permit income tax rate reductions for all other business sectors with the understanding that the income tax rates would be aligned for all businesses in due course, regardless of the type of activity conducted.

We also encourage the Minister to address the level of taxation currently imposed on dividends (as companies are subjected to undue double taxation on distributed profits). This discourages equity investment by Jamaican investors. We also suggest that this review includes re-evaluating the current prohibition on claiming an income tax deduction for expenses associated with earning dividend income. We believe this prohibition has a number of unintended consequences which adversely impacts the competitiveness and efficiency of the Jamaican tax system.

# Let's talk



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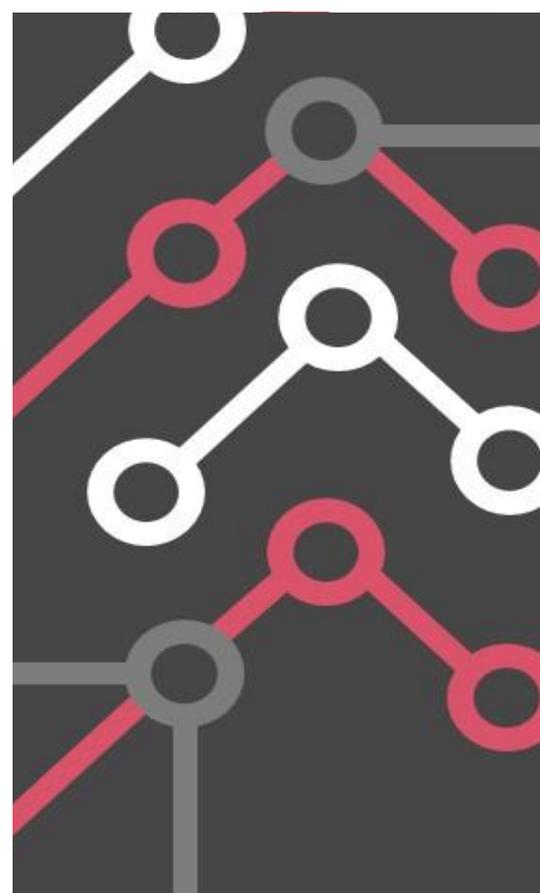
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