Analysis of Jamaica's Budget Revenue Measures over the Last 5 Years

Dr Andre Haughton
Department of Economics,
University of the West Indies, Mona

OUTLINE

Revenue Measures 2013/2014 FY

Revenue Measures 2014/2015 FY

Revenue Measures 2015/2016 FY

Revenue Measures 2016/2017 FY

Revenue Measures 2017/2018 FY

The Flow of Debt

The Stock of Debt

What is the role of the Exchange rate

What is in store for the future

REVENUE MEASURES 2013/2014 FY

New Fiscal Year more taxes

Government not fully complied with all the requirements of the IMF necessary to secure the new agreement.

Demonstrate that the country can achieve a Primary Balance (PB)of at least 7.5% of GDP.

The (PB) as of February 2013 was approximately 4.1% of GDP

Jamaica needed an increase of 3.4 percentage points to reach the 7.5% target.

INCOME TAX REVENUE MEASURES 2013/2014 FY

Imposition of a Surtax on the taxable income of large unregulated companies

Increase in the education tax rate by 0.5 percentage points for employers

0.25% for employees and self employed.

Customs Administration Fee (CAF) on all imports except for charitable organisations and the bauxite sector

Increase in stamp duty from 3 to 4 percent

REVENUE MEASURES 2013/2014 FY

Increase in transfer tax from 4 to 5 percent

Increase in lottery tax from 17 and 23 percent, 20 and 25% respectively

Reform the property tax rate; $1000 for unimproved value up to $100,000.

1.5% for unimproved value between $100,000 and a million, and 2% for everything over a million.

IMPLICATION FOR THE 2013/2014 FY

These tax measures raised $15.9 billion in tax revenues for the fiscal year.

This is expected to improve Jamaica's Fiscal Balance and Primary Balance,

In Jamaica the fiscal balance is negative since expenditure is more than revenue receipts due to high loan and interest payments.

Jamaica's fiscal balance as of February 2014 was negative J$62.639 billion.

REVENUE MEASURES 2014/2015 FY

For the financial year 2014/2015 the government has proposed spending of $540 billion

Taking inflation into consideration the real total budget expenditure has not changed significantly relative to the 2013/2014 FY.

Beers and stouts will attract the same tax rate as wines and spirits including white over proof rum.

Increasing the age limit of second sale vehicles from eight to ten years on which they will charge GCT.

REVENUE MEASURES 2014/2015 FY

Modification of the import duties on specific motor vehicles; including lower the customs duty on cars with engines 2 litres and above.

Increase in premium tax for regionalised and non regionalised life assurance companies.

Increase in investment tax for insurance companies

Increase in the Asset tax

Redirecting the SCT from road maintenance fund to the central government.

Increase in the general Personal Income Tax Threshold (PIT) from $507,312 to $557,232 per annum.

TAX ON BANK FEES

The most controversial of all is the introduction of a tax on bank and financial institution transactions and enactment from securities dealers.

The tax will be charged on withdrawals from banks and financial institutions whether inside the bank, from the ATM or on the internet.

Also, money transferred between persons will also be taxed, with the exception of transfers between the accounts of the same person at the same bank.

Tax will also be collected on any payments made by license Securities dealer to or on behalf of its account holders to a third party.

REVENUE MEASURES 2015/2016 FY

For the 2015/2016 FY, the Budget was read early

The first time expenditures and income are tables together under conditionality stipulated by the fiscal rule.

The government has propose to spend $641.5 billion

Expect to collect only $443 billion in tax revenue for the financial year 2015/2016;

leaving a gap of $198 billion,

REVENUE MEASURES 2015/2016 FY

A special consumption tax (SCT) increase of $7 on auto fuel per litre

Imposition of 16.5% GCT on residential electricity consumption greater than 350 kilo watt hours per month

The imposition of withholding tax of 3% on payments made by large entities for services obtained locally.

Replacing the 1% CES tax imposed on petro jam to a $2 per litre Special Consumption Tax

REVENUE MEASURES 2015/2016 FY

Increase in personal income tax threshold to $592, 800

To broaden the tax base and address WTO concerns, an environmental levy of 0.5% is to be applied to domestic supplies

$1.50 increase in the SCT on cigarettes from $10.50 to $12 dollars per stick

Overhaul of trade and business license fees, excise duty fines, fees and penalties, will generate $500 million.

HOW IS THE OVERALL TAX PACKAGE?
2015/2016FY

Considering the collective goals we want to achieve as a country, I did not expect any new taxes this fiscal year. We should be well aware that proposed increases in tax rates do not necessarily guarantee an increase in tax revenue as evident from the Jamaica's historical trend.

The Laffer curve illustrating the relationship between tax rates, tax revenue and taxable income suggests that total tax revenue will fall if the country tax rate is too high, which appears to be the case in Jamaica.

In this case, the tax revenue maximizing tax rate is different from the growth maximizing tax rate.

Then we wonder why GDP isn't growing. GDP increase when demand increases and the country increases production and more people are employed. If income levels are low and tax rates are high people have low disposable income which means very low demand.

Wise men do not do the same thing over and over and over again and expect the same results. Then again, who can expect wisdom from politics?

REVENUE MEASURES 2016/2017 FY

What was the PAYE reform?

The government announced that it will increase the income tax threshold to $1 million as of the 1st of July 2016 for everyone

Further increasing it to 1.5 million by the 1st of April 2017

REVENUE MEASURES 2016/2017 FY

The personal income tax rate for persons earning more than $6 million has been increased from 25 to 30 percent.

Other revenue measures to cover the remaining $12.5 billion dollar budget shortfall are:

Increase in SCT on automotive fuel by $7 per litre.

Introduction of SCT on liquefied Natural GAS (LNG) and revision of the Heavy Fuel oil rates $1.415 billion,

$2 increase in SCT on Cigarettes to fetch $0.574 billion and

Increase in the departure tax from approximately $15 to $35 to fetch $5.3 billion.

REVENUE MEASURES 2017/2018 FY

Promise to increase in the income tax threshold from $1 million to $1.5 million as of the 1st of April 2017.

To satisfy this promise

Gradually transition the nation's economy from direct to indirect taxes,

additional revenue measures; budget shortfall of 13.524 billion.

REVENUE MEASURES 2017/2018 FY

Increase Excise on Pure Alcohol (from $1,120 per litre to 1,230

Increase excise on Tobacco Products from $14 per stick to $17 per stick

Increase on Special SCT on fuel to raise 7.459 billion. This type of tax has become redundant.

REVENUE MEASURES 2017/2018 FY

They have also reduced the threshold for application of GCT on the consumption of residential electricity from 350 kWh per month 150 kwh

They have also decided to Increase motor vehicle License and Fees by 20%

Apply GCT on group health insurance of 16.5 percent

Re impose withholding tax on General Insurance Premium paid by Jamaica residents to non-residents at a rate of 15%

THE FLOW OF DEBT

Public Debt servicing for the 2017/2018 FY is 172.5 billion;

- $102.44 external while JM$70.1 is internal.
- Total Borrowing: Domestic, external and bilateral is $159.6 billion for the 2017/2018 FY
- Bilateral loans for the 2017/2018 FY is estimated JM$11.4 billion,
  - Almost double the $5.9 billion borrowed in 2016/2017FY.

Total external borrowings was JM$70.6 billion FY2016/2017.

Total Borrowing was $89.3 billion borrowed in the 2016/2017 FY.

THE STOCK OF DEBT

Jamaica total stock of public debt (current GOJ definition) stood at $2,150.0 billion (2.1 trillion)

- 3.9 percent or $81.3 billion greater than the $2,068.7 billion recorded at end-FY2015/16.

According to the strategy outlined by the government,

- $1,315.7 billion at end-December 2016 (61.2% of the total)
- Domestic debt of $834.3 billion (38.8% of total)

- The stock of debt is expected to increase further by end-March 2017 to $2,180.3 billion

The domestic and external portfolios grew by 2.3% and 5.0% 2016/17FY

WHY IS THE DEBT STOCK INCREASING ?

The increase in the domestic debt stock was mainly due to the issuance of additional investment instruments

While the increase in the external portfolio was due to the depreciation of the Jamaica dollar vis-à-vis the US dollar.

The depreciation of the nominal exchange rate increased the total domestic and external portfolios by $3.4 billion and $65.5 billion respectively.

WHAT IS THE ROLE OF THE EXCHANGE RATE?

The exchange rate accounts for more than 84.8% of the overall increase in the total debt stock.

1.0% depreciation of the Jamaica dollar vis-à-vis the US dollar would add $13.8 billion to the total debt stock

1.0% increase in both domestic and external interest rates would increase debt service costs by $7.4 billion.

WHAT IS IN STORE FOR THE FUTURE?

The country has the potential to generate enough foreign revenue

Must take the Medical Marijuana/Ganja Industry seriously.

Has brought significant revenue to states in North America and other countries to help alleviate their debt problems.

Jamaica's debt management strategy indicate that risks associated with foreign currency debt will remain high, but is expected to fall by 2020.

Projection: Foreign currency debt will fall to 60 percent of total by 2020 and

foreign currency domestic debt to 6 percent of total debt.

RISKS TO THE MACROECONOMIC FRAMEWORK

- Revenue and economic growth weaker than projected
- Fiscal risks—wage settlements, unbudgeted expenditures, judicial awards, public private partnerships
- Exogenous shocks causing fiscal slippage;
- Increases in international commodity prices that could drive the domestic inflation rate upwards, in particular, rebounding global oil prices that could adversely affect the cost of energy;
- Sustained reduction in the NIR;
- A deterioration in the international trade balance;
- Higher than projected depreciation of the local currency vis-à-vis major international currencies;
- Increase in unemployment; and
- Extended and severe drought conditions and poor farming practices