

13 March 2017

Tax Alert

Jamaica Budget 2017

The Journey to Prosperity

Highlights of the Revenue Measures announced on March 9, 2017

The Government of Jamaica tabled its Estimates of Expenditure in the House of Representatives on March 9, 2017. In his Budget Presentation, the Minister of Finance & the Public Service, the Honourable Audley Shaw, projected gross expenditure of J\$715.6 billion for the 2017/18 fiscal year comprising:

- Non Debt Expenditure net of Appropriations of J\$405.2 billion; and
- Public Debt Service of J\$310.4 billion, including Amortization of J\$172.5 billion and Interest of J\$137.85 billion.

The Minister announced that the J\$715.6 billion budget would be financed through a mix of revenue, grants, loan resources and inflows from the PetroCaribe Development Fund.



Highlights of the revenue measures announced on March 9, 2017 (Continued)

The Minister estimated revenue and grants inflows for the year at J\$526.5 billion, comprising the following:

1. Tax Revenue of J\$478.9 billion
2. Non-tax Revenue of J\$40.87 billion;
3. Bauxite Levy of J\$0.13 billion;
4. Capital Revenue of J\$2.2 billion; and
5. Grants of J\$4.4 billion

The Minister also indicated that loan inflows from both domestic and external sources will be J\$159.6 billion, with J\$89.0 billion to be raised from the domestic market and J\$70.6 billion from external sources. In addition, the PetroCaribe Development Fund will contribute J\$11.7 billion and the National Housing Trust (“NHT”) will contribute J\$11.4 billion to the inflows.

In October 2016, the Government of Jamaica cancelled the IMF Extended Fund Facility Arrangement and signed a new three year US\$1.64 billion Precautionary Standby Arrangement with the IMF. The Minister indicated that under the new arrangement, the IMF continues to support reforms aimed at sustaining macroeconomic stability in addition to:

- Boosting employment and GDP growth;
- Raising the living standards of the Jamaican people;
- Progressively reducing a poverty level that remains too high;
- Strengthening the social safety net for the poor;
- Improving public sector efficiency;
- Reallocating public resources to growth-enhancing capital spending;
- Rebalancing our taxes from direct to indirect taxes;
- Bolstering the resilience of the financial system;
- Modernizing the monetary policy framework and building the foundation for an eventual move to inflation targeting;
- Maintaining exchange rate flexibility;
- Continuing to build precautionary foreign reserves;

- Reducing public debt to 60 percent of GDP by 2025/26 and
- Maintaining a primary surplus at 7% of GDP for the duration of the new arrangement.

The Minister of Finance stated that GDP growth was 2% for the September 2016 quarter and estimated to be 1.3% for the December 2016 quarter and estimated to be between 1.6% and 2% for the Government’s 2017/2018 fiscal year. He also stated and the Consumer Price Index rose by 1.7% in 2016 and the target of the primary surplus balance of 7% of GDP is expected to be met by March 31, 2017. He indicated that based on the IMF definition of public debt under the new IMF Standby Arrangement the public debt is expected to now be 115% of GDP for fiscal year 2016/17 instead of 124.1% and projected to be 108.6% of GDP at the end of fiscal year 2017/18.

The macroeconomic assumptions upon which the fiscal year 2017/18 Budget was cast are Real GDP growth of between 2% and 3%, a continued low inflation rate and a relatively stable foreign exchange rate.

The Minister also announced several reform initiatives that the Government will be implementing to promote growth including:

- Lowering the interest rates charged by the Students’ Loan Bureau on loans for selected areas such as “Pay as You Study” loans, Maritime & Logistics, Agriculture, Engineering and ICT areas of study loans from 9.5% to 6%; and interest rates on Post-graduate loans down to 9.5% from 13%.
- The HEART Trust Upskilling Programme to train and enhance the on-the-job skills of parents and professionals and the HEART training programme for unattached young people in all 63 constituencies in Jamaica.
- Private Sector Pension Reform to address issues of vesting, portability and indexation.
- Legislation to accelerate financial inclusion and expand the range of financial services in Jamaica.
- Analyzing the issue of Banking Fees and Dormant Accounts which includes instructing



the Bank of Jamaica (“BOJ”) to strengthen the Code of Conduct to ensure a common definition and standards on the treatment of dormant accounts and establishing a dedicated financial services consumer protection agency.

- BOJ Reforms to adopt stricter lending limits to the Government and to modernize arrangements for paying dividends and the appointments to the BOJ Board.
- Stepping up tax compliance especially at Customs by continuing to improve the administrative capacity of the staff and broaden the tax base while fully rolling out the new tax information systems namely the Revenue Administration Information System (“RAiS”) at Tax Administration Jamaica (“TAJ”) and AYCUDA and new scanning devices at Customs as well implementing a new project to collect outstanding property taxes.
- Public Sector Pension Reform which will include adopting new legislation to improve the actuarial sustainability of the scheme and strengthen governance and the new bill will seek to:
 - Make it mandatory for all pensionable officers to contribute 5% of their basic salary to their pension
 - Gradually increase the retirement age by 5 years to 65; and
 - Harmonize the legislation governing public sector pensions into a single statute.
- The FINSAC Commission Enquiry will be re-established to complete its report on the collapse of the financial sector.

The Minister also announced improved benefits under the PATH program which he indicated was the programme that targets some of the most vulnerable segments of the population in Jamaica.

Executive Summary of the announced Tax Measures

- Confirmation of the previously announced increase in the annual personal income tax threshold to J\$1,500,000 from J\$1,000,272 as of April 1, 2017
- Re-imposition of the withholding tax on general insurance premiums paid by Jamaican residents

to non-residents at a rate of 15% for year of assessment ending December 2017

- Increase in the Special Consumption Tax (“SCT”) on fuels reflected in the prices at the pumps as of March 15, 2017
- Increase in the SCT on tobacco products (from \$14 per stick to J\$17 per stick) as of March 13, 2017
- Increase in the SCT on pure alcohol (from J\$1,120 per litre to J\$1,230 per litre) as of March 13, 2017
- Application of General Consumption Tax (“GCT”) at 16.5% to Group Health Insurance as of April 3, 2017
- Reduction in the threshold for the application of GCT on the consumption of residential electricity from 350 kWh per month to 150kWh per month as of April 3, 2017
- Increase in motor vehicle licence and fees by 20% as of March 13, 2017
- Changes to the property tax regime

The following is a description of the tax measures that were announced.

Tax Measures 2017/2018

Income Tax Measures

Increase in Personal Income Tax Threshold

During the 2016/2017 Budget the Minister announced an increase in the personal income tax threshold to J\$1,500,000, for all individuals, whether employed (and subject to PAYE) and/or self-employed. He confirmed during 2017/2018 Budget the increase in the income tax-free threshold from J\$1,000,272 to J\$1,500,000 effective April 1, 2017.

Commentary

During its pre-election campaign, the Government committed to a reform of the Jamaican tax system and promised to lower taxes, create a business friendly tax system, and remove the Personal Income Tax Threshold for persons earning a gross salary of J\$1.5 million or less by April 1, 2016.



The confirmation of the increase in Personal Income Tax Threshold for 2017 is aimed at fulfilling an election promise and it is estimated to cost the Government approximately J\$14.2 billion.

Re-imposition of the Withholding Tax on General Insurance Premiums paid by Jamaican Residents to Non-residents

The Minister announced the re-imposition of the withholding tax on General Insurance Premiums paid by Jamaican Residents to non-residents at a rate of 15% for year of assessment ending December 2017.

Commentary

One of the Revenue measures in the Government's 2013/2014 fiscal year that was published on July 23, 2015 in the Gazette levied a 15% withholding tax on the insurance premiums paid to a person who is not resident in Jamaica by a person who is resident in Jamaica, except where certain conditions are met and the insurance premiums are paid by:

- An insurance company resident in Jamaica that is registered with the Financial Services Commission under Part II of the *Insurance Act* or the insured;
- An insurance broker resident in the Jamaica that is registered with the Financial Services Commission under Part IV of the *Insurance Tax*;
- An insurance agent resident in Jamaica that is registered with the Financial Services Commission under Part IV of the *Insurance Act*.

This exemption for General Insurance Companies, Insurance Brokers and Agents has now been removed so it is now a statutory requirement for all residents in Jamaica to withhold taxes on premium paid to non-nationals at a rate of 15%.

This measure will yield approximately J\$0.99 billion.

SCT Measures

Increase in the SCT on Fuel

The Minister announced an increase in the SCT on fuel. The increases range from J\$0.43 to J\$7.36 as set out below:

Proposed Increase in SCT on Fuel	
Type of Fuel	Increase per litre/MMBtu (one million British Thermal Units) for the different fuel types
Liquefied Natural Gas (LNG)(JPS)	\$0.43
Ultra-Low Sulphur Diesel (LPG) butane	\$1.07
(LPG) propane	\$3.90
Gasoline Unleaded 87	\$5.67
Gasoline Unleaded 90	\$5.67
Automotive Diesel	\$6.70
Heavy Fuel Oil (HFO)(JPS)(IPPs)	\$1.52
Heavy Fuel Oil (HFO) (others)	\$7.36

Commentary

In the 2015/2016 Budget, the Government introduced a J\$7.00 increase in SCT on the fuel and indicated that it would be used as a hedge against fuel prices. In the 2016/2017 Budget, the Minister announced a new SCT regime for LNG, and the revision of the SCT regime for all fuel oils that was expected to yield J\$1.415 billion. During last year's Budget speech the Minister of Finance indicated that against the backdrop of continued depressed world oil prices relative to the peak levels of 2014, it was prudent for the Government to introduce the additional increase, in order to preserve the integrity of its revenues. For the current increase in the 2017/2018 Budget, the Minister indicated that it was proposed in recognition of the need to protect the environment from increased carbon emissions.

This measure is expected to yield J\$7.459 billion in tax revenue and is expected to affect the price at the pumps on March 15, 2017.



Increase in SCT on Cigarettes

The Minister announced an increase in SCT on cigarettes, cigars, cigarillos, cheroots from J\$14.00 per stick to J\$17.00 per stick effective March 13, 2017.

Commentary

The SCT on cigarettes was increased in the 2015/2016 Budget from J\$10.50 per stick to J\$12.00 per stick; in the 2016/2017 Budget it was increased to J\$14.00 per stick and now it will be increased to J\$17.00 per stick. The Minister once again indicated that Jamaica is seeking to reduce tobacco consumption locally in conformity with the World Health Organization's *Framework Convention on Tobacco Control* and balance the imperatives of revenue *vis-a-vis* public health. However, there is an underground economy in the cigarette trade so each increase in the tax will likely increase the sales in that informal economy and undermine the collection of this tax. The Minister has also indicated his commitment to increased compliance to reduce the infiltration of illegal tobacco items.

This measure is expected to yield J\$0.826 billion in taxes for the current fiscal year.

Increase in the SCT on pure alcohol

The Minister announced an increase to J\$1,230 per litre of pure alcohol as of March 13, 2017.

Commentary

In the 2014/2015 fiscal year the regime for alcoholic beverages was changed and a single rate of J\$1,120 per litre was applied to alcoholic beverages. This SCT increase along with the SCT on the tobacco is an increase in what is called "Sin" taxes because they are levied on goods deemed harmful to society and is an area that the Government consistently taxes because an increase in a sin tax is usually more popular than increasing other taxes. However, these taxes have been criticized for burdening the poor and continually increasing taxes in this area could have an impact on investments in the beer and rum

industries in Jamaica. This measure is expected to yield an estimated J\$0.403 billion in taxes.

GCT Measures

Application of GCT at 16.5% to Group Health Insurance

The Minister proposed an imposition of GCT of 16.5% on premiums in relation to the provision of group health insurance as of April 3, 2017.

Commentary

Currently, some employers provide group health insurance to their employees and there was no GCT on these group health insurance premiums. Some plans have a portion of the group health premiums paid by employees and another portion paid by the employer. A technical specialist from the Ministry of Finance initially indicated that both the employee and employer premiums for the group health premiums will be subject to the 16.5% GCT and the GCT cannot be claimed back on the GCT returns so it would be an additional cost to the employer and employee. However, in a press conference on March 13, 2017 the Minister implied that the employer would bear the entire cost of the GCT levied on the Group health premium. Therefore, clarity is needed regarding the treatment of this GCT measure.

This measure is expected to yield approximately J\$1.88 billion in taxes.

Reduction in the threshold for the application of GCT on the consumption of residential electricity

GCT will be applied to the residential use of electricity that exceeds 150kWh per month as of April 3, 2017.

Commentary

The GCT on electricity on residential customers was initially announced as a budget item on March 24, 2012 but it was subsequently withdrawn on July 1, 2012. However, the GCT on residential consumption



of GCT was reintroduced in April 2015 and at that time the Minister indicated that the measure was recommended on the grounds that it would widen the tax net and reduce distortions, whilst not adversely impacting a wide cross section of individuals, as only those in the higher usage category (above the 350 kWh threshold) would have had GCT applied to their bills. The Minister also indicated in April 2015 that the reduction in oil prices and the resultant reduction in electricity costs would help to mitigate any adverse impact on those consumers that would be affected by the re-introduction of this measure. The Minister indicated that the additional reduction in 2016 in the threshold for the application of GCT on the residential consumption of GCT to 150kWh per month from the 350 kWh threshold was expected to widen the tax base and reduce distortions and was part of the strategy to encourage energy conservationism and the use of alternative sources of energy.

This measure is expected to yield J\$1.498 billion.

Other Tax Measures

Increase in Motor Vehicle Licence and Fees by 20%

Motor Vehicle licence and fees will be increased by 20% effective March 13, 2017. (See Appendix 1 for the specific increases).

Commentary

Motor vehicle licences and fees were previously increased by 50% in the fiscal 2012/2013 Budget but the Minister has indicated that the current cost to provide motor vehicle licence plates and related paraphernalia has increased significantly and he stated that this increase provided a means to recover some cost to provide goods and services to the motoring public.

This measure is expected to yield J\$0.464 billion.

Changes to Property Taxes

The Minister announced changes in the Property Tax Regime such that the current property tax rate range of 1.5% to 2% is to be reduced as at April 1, 2017 but the 2013 Property Valuation would be used. He also stated that there would be an increase from 3 bands to 9 bands and the elderly and pensioners would receive discretionary relief. Also, strata corporations will see changes in their property tax computation.

Commentary

In a March 9, 2017 Press Release the Ministry of Finance indicated that:

“Come April 1, 2017 Property Tax rate is to be reduced from the current range of 1.5% to 2% down to 0.8% with a cap at 1.3%. The reduced rate will see over 272,000 property owners benefitting from a reduction in property tax paid, or experience no change in the amount charged in 2016. A flat fee of J\$1,000.00, will remain in effect for properties valued at J\$400,000.00 and all property owners will now benefit from that prior to the computation of the property tax for properties valued in excess of J\$400,000.00.”

The Press Release also stated that:

“Strata Corporations will also see a significant reduction in property tax liabilities under the new property tax regime, with the application of a Special Tax Treatment which is based on the Unit Entitlement basis. Under the old system residents within Strata managed complexes would be required to pay based on the total property tax payable for the entire floor space of the complex. The Special Tax Treatment is expected to come in effect sometime in May of the new fiscal year. Owners of Strata properties will therefore see a delay in their assessment for the 2017-18 fiscal year.



The new property tax regime is based on a horizontal equity approach and creates more equity within the system, as property owners will benefit from a graduating application of the rates. Property owners will continue paying based on the unimproved value of the land regardless of the improvement to the building located on that land, should there be one.”

The Minister announced during his speech that there is currently approximately J\$13.5 billion in outstanding property taxes so he will also launch a new project to collect outstanding property taxes.

The exact details of the property tax changes were not included in the budget documents so we await the gazzetted law to determine all the nuances of these property tax changes.

Appendix I: Proposed Motor Vehicle & Driver's Licence Related Fee Increase

DESCRIPTION	EXISTING FEES	PROPOSED NEW FEES
MOTOR VEHICLE LICENCE FEES		
Taxis		
Motor Cars (taxis)	\$7,700.00	\$9,240.00
Motor Cars		
Motor Cars (not exceeding 1199cc)	\$7,700.00	\$9,240.00
Motor Cars (exceeding 1199cc but not exceeding 2999cc)	\$10,500.00	\$12,600.00
Motor Cars (exceeding 2999cc but not exceeding 3999cc)	\$24,000.00	\$28,800.00
Motor Cars (exceeding 3999cc)	\$36,375.00	\$43,650.00
Motor Cycles		
Motor Cycles (not exceeding 125cc)	\$3,075.00	\$3,690.00
Motor Cycles (exceeding 125cc but not exceeding 500cc)	\$4,650.00	\$5,580.00
Motor Cycles (exceeding 500cc)	\$7,125.00	\$8,550.00
Truck and Tractors (petrol/diesel)		
Trucks and Tractors (not exceeding 60 cwt./2540.115 kg)	\$10,500.00	\$12,600.00
Trucks and Tractors (exceeding 60 cwt./2540.115 kg) but not exceeding 120 cwt./6109.09 kg)	\$18,000.00	\$21,600.00
Trucks and Tractors (exceeding 120 cwt./6109.09 kg)	\$18,000.00 plus \$100 per 50.91 kg(1cwt)	\$21,600.00
Trailers		
Trailers (per cwt./50.91 kgs)		
0-20 cwt.	\$3,375.00	\$4,050.00
20 cwt. - 30 cwt.	\$5,063.00	\$6,075.60
30 cwt. - 40 cwt.	\$6,750.00	\$8,100.00
40 cwt. - 50 cwt.	\$8,438.00	\$10,125.60
50 cwt. - 60 cwt.	\$10,125.00	\$12,150.00
60 cwt. - 75 cwt.	\$12,656.00	\$15,187.20
75 cwt. - 120 cwt.	\$20,250.00	\$24,300.00
120 cwt. and over	\$20,419.00	\$24,502.80

DESCRIPTION		EXISTING FEES	PROPOSED NEW FEES
LICENCE PLATES FEES			
PP and CC Plates		\$2,250.00	\$2,700.00
Motor Cycle Plates		\$1,875.00	\$2,250.00
Private		\$2,250.00	\$2,700.00
Trailers (private)		\$2,250.00	\$2,700.00
Substitute Motor Car Plates (private)		\$3,750.00	\$4,500.00
Substitute Motor Cycle Plates & Trailers		\$3,750.00	\$4,500.00
Substitute PP/CC Plates		\$3,750.00	\$4,500.00
Demonstration Plates		\$7,500.00	\$9,000.00
Personalised Plates		\$30,000.00	\$36,000.00
Application for Renewal of Demonstration Plate	Cars	\$1,000.00	\$1,200.00
	Trucks	\$2,000.00	\$2,400.00
Demonstration Plate Replaced		\$7,500.00	\$9,000.00
DRIVERS LICENCE FEES			
Private Driver's Licence		\$4,500.00	\$5,400.00
General Driver's Licence		\$6,000.00	\$7,200.00
Motor Cycle Driver's Licence		\$3,450.00	\$4,140.00
Provisional Driver's Licence (Learner's) for one		\$1,500.00	\$1,800.00
Substitute Driver's Licence		\$3,450.00	\$4,140.00
CERTIFICATE OF FITNESS			
Motor Vehicle Certificate of Fitness Fee (Private/Car)		\$3,750.00	\$4,500.00
Motor Cycle Fitness Fee		\$3,750.00	\$4,500.00
Trailer and Tractor Fitness Fee		\$4,500.00	\$5,400.00
Motor Vehicle Certificate of Fitness Fee PPV (L-Form)		\$2,700.00	\$3,240.00
Motor Vehicle Certificate of Fitness Fee - M/V were remedied		\$5,250.00	\$6,300.00
Motor Vehicle Certificate of Fitness Fee - PP & CC		\$4,500.00	\$5,400.00
MOTOR VEHICLE TITLE FEES			
Application for Motor Vehicle Title		\$1,350.00	\$1,620.00
Application for Motor Vehicle Title (Substitute)		\$1,500.00	\$1,800.00

DESCRIPTION		EXISTING FEES	
Driver's Licence Examination		\$2,700.00	\$3,240.00
Motor Vehicle Transfer		\$750.00	\$900.00
Substitute Registration Certificate/Replacement Disc Fee		\$750.00	\$900.00
Motor Vehicle Licence Duty (Fee)		varies according to cc rates & cwt.	
Motor Vehicle Second Sales			
<i>Cars:</i>			
0-1999		\$10,000	\$12,000
2000 cc - 2999 cc		\$15,000	\$18,000
3000 cc -up		\$20,000	\$24,000
<i>Trucks & Buses:</i>			
0-30		\$10,000	\$12,000
31-60		\$10,000	\$12,000
61 - Up		\$15,000	\$18,000
Motor Vehicle arrears		Varies with period of arrears	
Lien Information Form		\$5.00	\$6.00
Traffic Ticket Collections		varies according to breaches	

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