

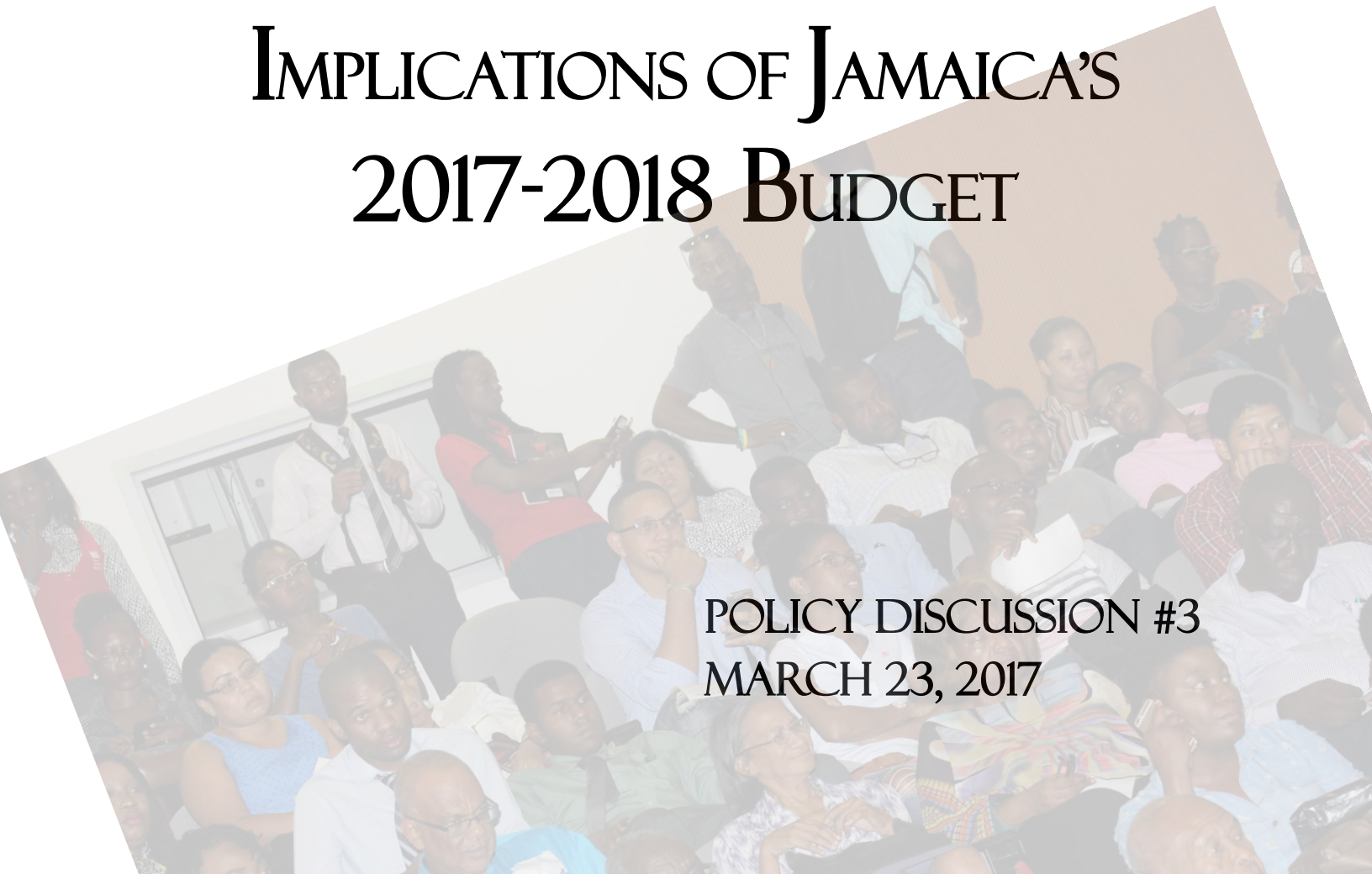


UWI **ECONOMICS**

Policy Discussion Series

IMPLICATIONS OF JAMAICA'S 2017-2018 BUDGET

POLICY DISCUSSION #3
MARCH 23, 2017



INTRODUCTION

The Appropriations Bill 2017, outlining the Government of Jamaica's (GOJ) planned expenditure for the fiscal year 2017-2018, was passed on the 24th of March, 2017. The estimates feature a \$710 billion budget. In nominal terms, this represents a 19.7 percent increase over the previous year's revised budget of \$593 billion.

The Minister of Finance and the Public Service, the Honourable Audley Shaw, noted that the "key macroeconomic targets upon which the budget was cast were real GDP growth between 2-3 percent, continued low inflation, and a relatively stable foreign exchange rate." This also forms part of key medium term targets as agreed by the GOJ and supported by the IMF. The government's priority growth promoting reforms, as outlined by the Minister, are legislating fiscal responsibility, human development, pension reform, financial services reform, tax compliance and re-establishment of the FINSAC commission of enquiry.

A key policy action in this year's fiscal plan is the implementation of the second phase of the income tax threshold from \$1.0 million to \$1.5 million. This is part of the GOJ's objective of moving away from direct taxation, towards indirect taxation.

The Department of Economics (DOE), University of the West Indies, Mona, hosted a post budget discussion forum on Thursday, 23rd March, 2017 at the Multi-function room of the University's main library as part of its policy discussion series. The aim of the forum was to facilitate public dialogue on the implications of the government's budgetary measures on households and the private sector, as well as the implications for the macro-economy, including inflation and government's 5' in 4' growth target.

The forum, 'Implications of Jamaica's 2017-18 Budget,' featured presentations from Mr. Collin Bullock, Former Director General of the Planning Institute of Jamaica (PIOJ); Mr. Jermaine Burrell, Senior Economist at Jamaica Money Market Brokers (JMMB); Dr. Andre Haugton, Lecturer at the Department of Economics, UWI; and Mr. Donovan Wignall, President of the Micro, Small and Medium-Sized Enterprises (MSME) alliance.



TOP (L-R): Bullock, Burrell, Eaton, Haughton and Wignall
Bottom (L-R): Kirton and Eaton

CHAIRPERSON

Ms. Shirley-Ann Eaton

Lecturer,
Mona School of Business & Management

PRESENTERS

Mr. Collin Bullock

Former Director,
Planning Institute of Jamaica

Mr. Jermaine Burrell

Snr. Economist, Sovereign Research Mngr.,
Jamaica Money Market Brokers

Dr. Andre Haughton

Lecturer,
Dept. of Economics, UWI, Mona

Mr. Donovan Wignall

President,
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VOTE OF THANKS

Prof. Claremont Kirton

Professor,
Dept. of Economics, UWI, Mona

NET TAX REVENUES

To offset the estimated \$13.5 billion deficit, created by the increase in the income tax threshold from \$1.0 million to \$1.5 million, the government has imposed new revenue measures. Together with modifications to the property tax structure and transfers from National Housing Trust (NHT), these new measures are projected to accumulate approximately \$29.0 billion for the fiscal year 2017-2018. This is approximately \$15.5 billion more than is needed to offset the estimated deficit.

IMPLICATIONS FOR REVENUES

Mr. Collin Bullock, former Director General of the PIOJ, in his analysis, expressed that the effects on revenue were not immediately clear especially given that the responsiveness to price changes are not constant for all goods, or are not known. He illustrated using the example of the “sin” taxes (on alcohol and tobacco), where the increased tax could either have little effect on revenue if demand is elastic or increased revenue if demand is inelastic.

UNEVEN IMPACTS ON HOUSEHOLDS

In relation to how the effects will be felt by the household, the panel was of the view that the results will be mixed. Mr. Bullock explained that the benefits will be uneven. He noted that the “reduction in the electricity zero rated threshold, and increases in special consumption taxes (SCT) on fuels and motor vehicle licences and rates, will have a disproportionate impact on people of relatively modest means.” These include pensioners and others earning less than \$1 million. The full benefit of Phase Two of the threshold adjustment will accrue to those earning \$1.5 million or above. Dr. Andre Haughton, lecture in the Department of Economics, UWI, was of the view that the increased threshold was likely to benefit public servants, such as teachers and police the most as it could ease the tax burden on their incomes.

Mr. Jermaine Burrell, Senior Economist (JMMB), expounded on this, pointing out that the new consumption



Clockwise: Bullock (top-right), Haughton, Burrell and Wignal

based tax system will ease the burden on persons who paid a disproportionate share of their income as taxes. He noted that a key implication of this budget was that a greater portion of persons who had been evading taxes in the past will be forced to accept a greater share of the tax burden. On this point, he highlighted that the informal economy, valued at more than 40 percent of GDP, was previously untaxed and will now contribute a fairer share to government revenue.

Mr. Burrell was cognizant of the fact, however, that the increase in consumption taxes will also affect the poor, many of whom the increase in the income tax threshold will not help. He noted that this included sugar workers, workers in the tourism industry, some workers in the BPO sector, as well as the unemployed who tend to pay a larger share of their incomes in the form of indirect taxes relative to higher income individuals. He referenced previous case studies on Jamaica’s tax system which found that the GCT was regressive for the lowest 30 percent of income earners. He noted, however, that government has increased allocations to social programmes such as the PATH in the current fiscal year.

HIGH OPERATIONAL COSTS FOR THE BUSINESS SECTOR

Mr. Donovan Wignal, the president of the MSME alliance and Mr. Collin Bullock spoke on the implications for the small business sector. The panellists were of the view that the taxes will, in many instances, lead to higher operational costs for small businesses which is very likely to be passed on to consumers.

Mr. Wignal, who spoke on behalf of the small business sector, explained that the fuel tax increase will directly affect the operations of entities like the Jamaica Gasoline Retailers Association (JGRA). The tax increase will have an immediate effect on their working capital as dealers, and result in a proportional increase in costs to their customers. Further, the manufacturing, retail trade and public transportation sectors will all be adversely affected; both by the fuel tax, and the increases in motor vehicle licensing fees. The increased costs will be channelled through transportation and delivery costs, and the cost of raw materials, leading to higher consumer prices.

In relation to the tax on group insurance premiums, Mr. Bullock noted that it was a tax on both employers and employees and was likely to result in reduced benefits and/or higher costs, especially for relatively small companies. Mr. Wignal lamented, similarly, that it was a retrograde tax.

CONSIDERATIONS FOR THE MACROECONOMY

Dr. Haughton focused on the implications of the budget for the macro-economy. In his analysis, he pointed out the risks associated with the debt stock and foreign exchange fluctuations.

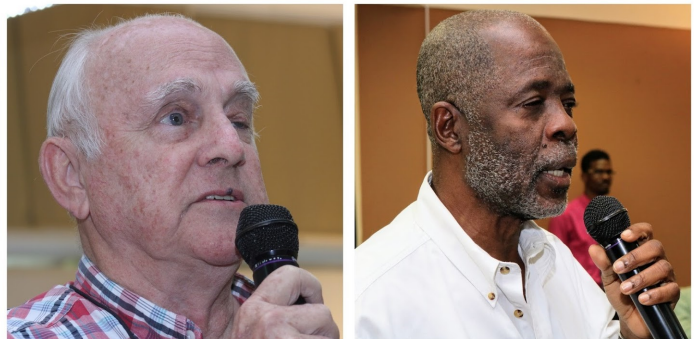
He noted that the stock of debt was expected to increase by the end of the fiscal year 2017-2018. The increase in the domestic debt stock was mainly due to the issuance of additional investment instruments while the increase in the external portfolio was due to the depreciation of the Jamaica dollar vis-à-vis the US dollar. By his calculations, the exchange rate accounted for more than 84.8 percent of the overall increase in the total debt stock.



A section of the audience.

He highlighted that this was a significant risk to the macro-economic framework and that Jamaica's stabilisation strategy should not only include tax measures but also consider the risks associated with foreign exchange fluctuations.

When asked about the budget's implications for the government's 5 percent growth in 4 years target, Dr. Haughton noted that this was a difficult target. He explained that simulations ran by the Department of Economics suggested that all sectors would have to grow at rates significantly above their average growth rates achieved over the last two decades. He predicted that growth is likely to be more modest over the short term.



Questions and Answers Segment.



A section of the audience.

RECOMMENDATIONS: THE WAY FORWARD

The forum ended with some interesting policy proposals.

Mr. Bullock noted that it is imperative to treat taxation as a means to facilitate socio-economic objectives in health, education, security and employment as opposed to facilitating the belief in “free lunches.” He highlighted the need for tax policy to be treated as a social contract, above “partisan opportunism.” In that regard, he recommended utilizing the Parliamentary Committee on Taxation.

Dr. Haughton stated that the country had the potential to generate adequate foreign revenue. He recommended that the medical marijuana industry be taken seriously, noting that it has brought significant revenue to States in North America and other countries to help alleviate their debt problems.

Mr. Wignal recommended simplifications to government bureaucracy to encourage entrepreneurs in the informal sector to enter the formal sector. He cited the counterproductive burden required to enter the formal sector as one of the main reasons for many small businesses remaining in the “shade.” Specifically, he asked that the process to register a business and the process to open a bank account be reviewed. Although improvements were made, he claimed that the processes were still onerous and intrusive. He made an additional plea to address the issue of the capricious nature of bank fees and charges. All the panellists agreed that there was a serious need to measure the

impact of the rebalancing tax measures on lower income families including pensioners. They agreed that it was imperative for government to provide adequate social safety nets for these vulnerable groups.

CONCLUSION

The 2017-18 budget features measures to target macroeconomic stability within the medium-term framework agreement with the IMF. It also features significant rebalancing tax measures as the government continues to transition the economy from a direct taxation system to an indirect taxation system. The view is that while this strategy will increase the tax base and generate revenue for the government, it is likely to exert inflationary pressures on the economy. This could incur significant costs to households (particularly lower income households) and small businesses over the short term. Growth projections are modest at best. Policy recommendations include more objective and transparent tax implementation, exploring new industries for growth, specifically, medical marijuana and improving the ease and cost associated with doing business domestically.

Overall, the DOE is quite pleased with the outcome of the forum. Indeed, the panellists provided stimulating and informed presentations, which generated lively questions and commentary from the attentive audience. The DOE is encouraged and will continue to host forums of interest to the public.

The Department of Economics (DoE) wishes to express its appreciation to the audience and the experienced and respected panel. We eagerly look forward to hosting more forums of public interest. Feel free to contact us.

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